



MSME: Challenges of significant contributor and policy initiatives

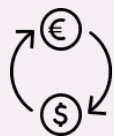
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MSME: Challenges of significant contributor and policy initiatives

The MSME sector accounts for over 80% of businesses and contributes to more than half of the employee share. The share of the formal MSME sector in the GDP is up to 40% in emerging economies. The importance of the sector in India's economic growth cannot be over-emphasized. With the presence of over 63 million MSMEs employing over 110 million people staggered across services, the manufacturing sector contributes nearly 30% to GDP.

As of 7th January 2022, the MSME portal has a total registration count of 1.32 crore, of which 1.27 crore has been classified as micro-enterprises. Enterprises registered on the portal employ 9.6 crore people, of which 2.3 crore are women. There are 1.5 lakh exporting units, which have contributed a cumulative ₹ 9.7 lakh crore worth of exports. MSME growth has been tremendous in India in the past few years and its growth potential is enormous. However, despite their potential, these businesses are facing challenges. A few of the critical challenges are –



Access to finance



Lack of infrastructure



Limited access to market



Limited access to technology



Difficulty in complying with government regulation

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Access to finance

A lot of MSMEs tend to be stuck in a growth trap despite their potential because of the inadequacy of funds. They do not have the assets and property that can be used as collateral to secure a loan.

Poor credit history stands against creditworthiness for banks and financial institutions to give them benefits of an established system of regulated credit. Many MSMEs rely on informal resources which can be expensive credit on the absorptive interest rate. Stringent documentation and complex application process can be another deterrent to the growth of MSMEs. Many MSMEs often face difficulty in providing the necessary documents required by banks and financial institutions for availing of timely credit facilities. They are rarely aware of the different types of credit products available to them or how to access them, which can further hinder their ability to obtain credit.

Lack of infrastructure

Many MSMEs, especially in rural areas, face frequent power outages or have limited access to electricity. Poor road and transportation facilities to transport goods and raw materials create hurdles to growth, increase cost and reduce efficiency. They also have to struggle for access to industrial parks and clusters which can provide them with infrastructure and services such as power, water, and waste management, and access to markets. Access to a logistic facility like warehouses and distribution centres is another factor that can increase the cost and the time it takes to get goods to market.

Nowadays access to high-speed internet has become integral to any economic activity, however, network coverage is not uniform and most MSMEs do not have such a facility which in turn can cause hindrances for them looking to expand their operations, develop new products or sell goods and services online.

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Limited access to market

Often MSMEs have limited market knowledge about how to perform branding, and marketing activities and create a new horizon for their product and services, as a result, remain uninformed about different markets for their products and services, which can make it difficult for them to reach potential customers, surviving in the existing established market and attract customers to increase sales. Even many MSMEs have little information regarding digital platforms which can limit their potential market size. Intense competition from larger firms, both domestic and foreign can make it difficult for them to compete on price and quality as goods produced on a larger scale always be an economical proposition as compared to the smaller scale.

Limited access to technology

Lack of technological know-how is a significant challenge for MSMEs in India. Some of the specific issues like limited access to the technologies and equipment, lack of skill in how to use technology effectively to take advantage of new opportunities and improve their operations and limited access to digital platforms, such as e-commerce websites, which can make it difficult for them to reach customers and expand their market. Another threat for many MSMEs is cybersecurity, they cannot be well equipped for cyber-attacks which can be again detrimental to their business operations.

Difficulty in complying with government regulation

Government regulations can be complex and time-straining and can make many entrepreneurs deterring to initiate the registration process. Complying with various labour laws related to wages, working conditions, environmental regulations related to pollution and waste management and various tax laws related to VAT, GST, and income tax can increase costs and create legal risks.

Many times, Government policies especially trade incentives more inclined to larger firms, including tax breaks and subsidies, can make it difficult for MSMEs to compete with larger firms.

Government initiatives to facilitate MSMEs

Finance - The government of India has launched several schemes and initiatives to provide easier access to credit for MSMEs, such as the Pradhan Mantri MUDRA Yojana, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and the National Small Industries Corporation (NSIC) scheme, among others.

Infrastructure - The Government of India has launched several schemes and initiatives such as the Pradhan Mantri Gram Sadak Yojana (PMGSY) for rural road connectivity, Deen Dayal Upadhyaya Grameen Kaushalya Yojana for skill development in rural areas. Additionally, various state governments have also set up industrial parks and clusters specifically for MSMEs, and the government has implemented policies and schemes to encourage private sector investment in infrastructure development to support MSMEs.

Market Development - Government of India has taken several initiatives for domestic and international market development for MSME including International Cooperation Scheme (support for exhibitions and trade fair etc.), Procurement and Marketing Support Scheme, National Small Industries Corporation (NSIC) scheme for E-Marketing / Digital Service Facilitation for MSME, the Trade Facilitation Agreement under the World Trade Organization (WTO) which helps MSMEs to access the global market and schemes like the "Make in India" campaign, which aims to promote the manufacturing sector in India and make it more attractive to investors, including MSMEs.

Technology - The Digital India program aims to increase access to technology for MSMEs and the National Small Industries Corporation (NSIC) scheme, which provides MSMEs with training and assistance in using technology effectively. The government also provides grants and subsidies for MSMEs to invest in technology and digital platforms and set up training and awareness programs to help MSMEs understand and adopt new technologies. The government also launched the National Cyber Security Policy to help MSMEs to be more equipped to handle cybersecurity issues.

Compliance facilitation - The government of India has launched several schemes and initiatives such as the MSME registration and self-certification system, which allows MSMEs to self-certify their compliance with certain regulations, and the National Small Industries Corporation (NSIC) scheme, which provides MSMEs with assistance in complying with various regulations.

Additionally, the government also provides training and awareness programs to help MSMEs understand and comply with various regulations and has set up dedicated agencies and departments to assist MSMEs with compliance. The spectrum of MSME is very large and spread across the country. Further about 95% of Micro Enterprises. It is very well recognized that MSME is the spine of all the economic activities of the country and the government is continuously committed to creating an enabling environment for MSME but there is a need for adequate provisions supported by mass awareness and simplifies and transparent procedures to address the challenges being phased by the sector and entrepreneurs across the geographical spread of the country.

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