



Mending the missing middle

Thought leadership mapping the growth potential of medium enterprises in India

mazars

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Mending the missing middle

Overview

MSMEs are the lifeblood of India, whether it be running our GDP, our vibrant export profile or facilitating employment across the country.

Be it micro, small or medium sized firms, each type of enterprise has played a pivotal role in shaping the sector's growth story till date.

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly to the economic and social development of the country by fostering entrepreneurship and generating large scale employment opportunities across both the rural and urban fronts.

The definition criteria for MSMEs went through a substantial revision in the Aatma Nirbhar Bharat package of 2020, in which the investment and turnover brackets were significantly increased. This has made the definition more inclusive, bringing much more enterprises into the ambit of being classified as micro-small-medium.

Within this, medium enterprises – which were earlier a rather negligible part of MSMEs – recorded a considerable jump in eligibility from larger enterprises. While they still constitute the lowest share among the MSME sphere, it is fair to say that, as per natural succession, today's micro enterprises should very well grow to

become tomorrow's medium ones. In this view, the growth prospects of medium enterprises cannot be overlooked.

At the same time, it is also important to note that regardless of being classified as micro or small or medium, the path is not simple for any kind of enterprise, and each has its own set of challenges and scalability pitfalls to address.

In view of this, the government has taken out a number of flagship initiatives over the years to help disseminate technological advancement among MSMEs and provide them with the needed support across all areas of operations.

However, do these programmes cover the unique needs of enterprises across *all* developmental stages? Or are they more concentrated toward micro and smaller ones?

The micro-small-medium journey itself consists of a substantial difference in size and scope. Will the needs of these enterprises supposedly then stay uniform across this cycle – i.e., will medium enterprises require the same support as micro enterprises do? Or will there need to be a revamp in measures and policies? What is the current scenario with regards to the placement within the MSME (micro-small-medium) sphere?

Mending the missing middle

Overview

Mazars in India aims to answer these questions in this thought leadership, touching upon the growth trajectory of MSMEs till date, and specifically zeroing in on the situation of medium enterprises – in other words, what they constitute, what they contribute, what they struggle with and what they need for holistic development going forward.

How do we go about facilitating the growth of medium enterprises on a micro level, as well as capitalizing upon the opportunities they bring on a macro level?

Mending the “missing middle support gap” ultimately requires undertaking initiatives as per the **U-D-I-I, four-pronged approach**:

- U**nderstanding enterprises' basic needs and providing them with curated support
- D**igitizing core businesses operations to help build an e-competitive and sustainable edge
- I**dentifying international potential and facilitating outreach
- I**ntegrating enterprises as core pillars in the national value chain for employment-led growth

Having said that, it is important to understand that the aforesaid framework is just a rough blueprint for how medium enterprises can be supported on an overall level, and how their growth can in turn spearhead the economic development of India at large. There are many more factors that would need to be considered within each leg of the four-pronged approach and these areas can vary based on each enterprise's size, sector and scale of expansion wanting to be pursued.

In totality, the key remains for both public and private stakeholders to come together to not just address pressing pain points but also help enterprises design a roadmap for growth.

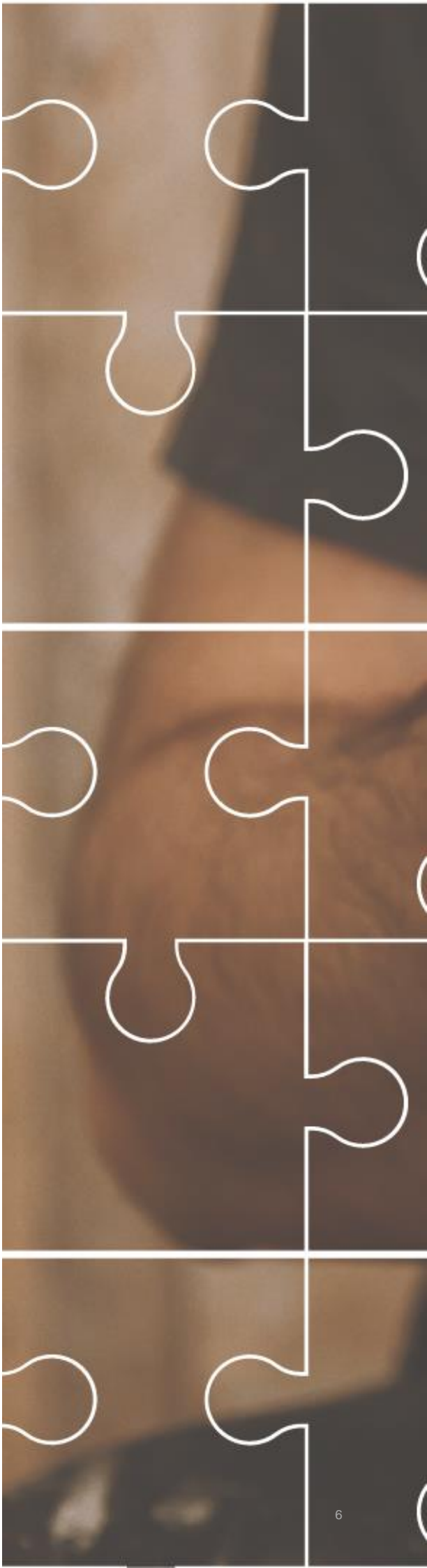
This encouragement will be critical for healthy economic development, as the success of medium firms can also help smaller firms to follow suit in a similar manner.

We hope the paper presents pertinent insights for shaping up a new growth trajectory for medium enterprises in India and we welcome your feedback.



Bharat Dhawan
Managing Partner
Mazars in India

The big picture





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The big picture

MSMEs are the lifeblood of India, accounting for around 30% of the national GDP

And over 45% of national exports

The Micro, Small, and Medium Enterprises (MSME) sector is the backbone of the Indian economy that provides employment to over 110 million people across the country, making it the second-largest employer after agriculture. It includes a wide range of businesses, from small grocery stores and tailoring shops to manufacturing units and software development firms.

The sector accounts for around 30% of the national GDP and over 45% of national exports.

As per the Ministry of Statistics & Program Implementation and Directorate General of Commercial Intelligence & Statistics, MSMEs have had the following share in economic activity over the years:

The MSME share in the Indian economic footprint (%)

	MSME GVA in all India GDP	Manufacturing MSME GVA in all India manufacturing GVA	Export of MSME related products in all India export
2018-19	30.50	40.60	48.10
2019-20	30.50	40.67	49.77
2020-21	26.83	38.47	49.35

*As per latest estimates, MSMEs' share in exports stood at 45.03% in 2021-22, and 42.67% in 2022-23 (as of August 2022).

Source: Press Information Bureau, Ministry of MSME

In August 2021, the Ministry of MSME announced a target to boost MSMEs' contribution to GDP to 50% by 2025. In line with this, the government has been

planning to strengthen the manufacturing base in the country and augment enterprise competitiveness.

Mending the missing middle

The big picture

A core part of this strategy requires addressing common obstacles and pitfalls MSMEs face during development.

Despite their sizable economic contribution, MSMEs face several obstacles as they grow and try to scale up. Some core challenges they face from their inherent structure and state of affairs include, among others:



Physical infrastructure constraints



Lack of formalisation



Hesitancy and/or inability to adapt to new technologies



Inadequate capacity building



Gaps in backward and forward linkages



Lack of access to credit



Persistent issues of delayed payment

In view of this, the government has taken out a number of flagship initiatives over the years to help disseminate technological advancement among MSMEs and provide them with the needed support across all areas of operations. Some recent initiatives here include, among many others, the Prime Minister's Employment Generation Program (PMEGP), Credit Guarantee Fund

Trust for Micro and Small Enterprises (CGTMSE), and the Technology Upgradation and Quality Certification (TUSQC) scheme.

However, this is just the tip of the iceberg. A slew of other programmes and friendlier guidelines follow suit to help MSMEs establish themselves in the market.

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The big picture

While all these programmes instil sound development support for smaller enterprises, what happens as these enterprises naturally grow larger? Does the level of support stay the same?

The micro-small-medium journey itself consists of a substantial difference in size and scope. Will the needs of these enterprises supposedly then stay uniform across this cycle – i.e., will medium enterprises require the same support as micro enterprises do? Or will there need to be a revamp in measures and policies?

What is the current scenario with regards to the placement within the MSME (micro-small-medium) sphere?

These questions must be understood at a granular level, in order to ensure that the MSME sector shapes itself as a means to more growth, as opposed to becoming an end within itself.



Will medium enterprises require the same support as micro enterprises do?



The trajectory of medium enterprises





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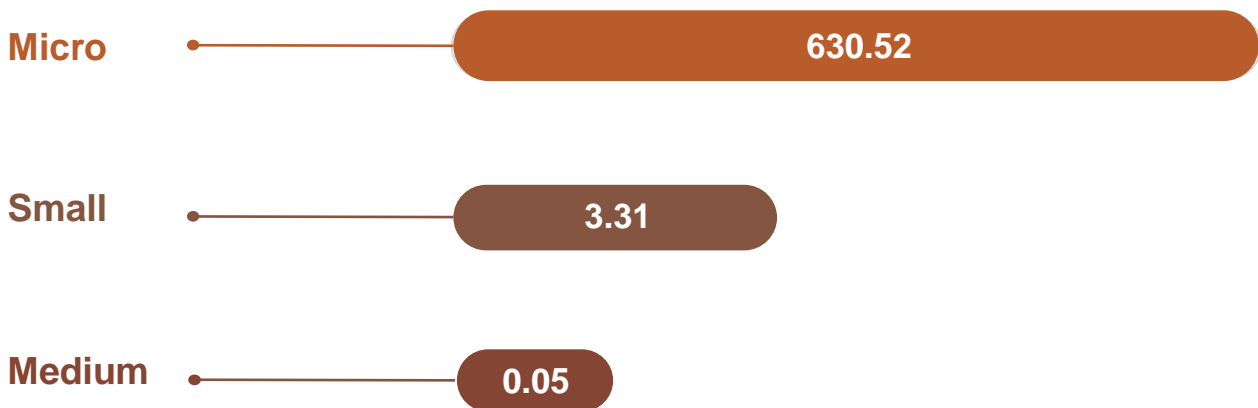
The trajectory of medium enterprises

The MSME sector in numbers

According to the NSS 73rd round survey conducted during 2015-16, the total number of MSMEs in India was estimated to be around 633.88 lakh and the sector employed around 1,109.89 lakh people.

Surprisingly, of the total 633.88 lakh enterprises, micro, small and medium accounted for 630.52 lakh, 3.31 lakh, and 0.05 lakh, respectively. These figures indicate that medium enterprises were largely negligible within the MSME mix.

Number of micro, small and medium enterprises, 2015-16 (lakh)



Source: Press Information Bureau, Ministry of MSME

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The trajectory of medium enterprises

Restructuring of enterprises after a change in definition

The number and proportion of MSMEs substantially moved when a change in MSME definition was announced at the Aatma Nirbhar Bharat package on 13th May 2020. The investment and turnover brackets were significantly increased, while the distinction between the manufacturing and services sector was removed.

The rationale behind this substantial move has been to make the definition more inclusive and broad-based, providing greater avenues for MSMEs to harness their potential, as well as ramping up the ease of doing business. The bracket hikes also account for inflation and enable firms to secure economies of scale in production, as well as avoid “splitting” enterprises to remain “small” to continue availing official assistance.

Bracket changes in the definition criteria of MSMEs

	Old definition		New definition	
Category	Investment in plant and machinery or equipment	Turnover	Investment in plant and machinery or equipment	Turnover
Micro	25 lakh	10 lakh	1 crore	5 crore
Small	5 crore	2 crore	10 crore	50 crore
Medium	10 crore	5 crore	50 crore	250 crore

Source: Ministry of MSME

Further, export turnover is not counted in the limits of turnover for any category of MSME units whether micro, small, or medium.

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The trajectory of medium enterprises

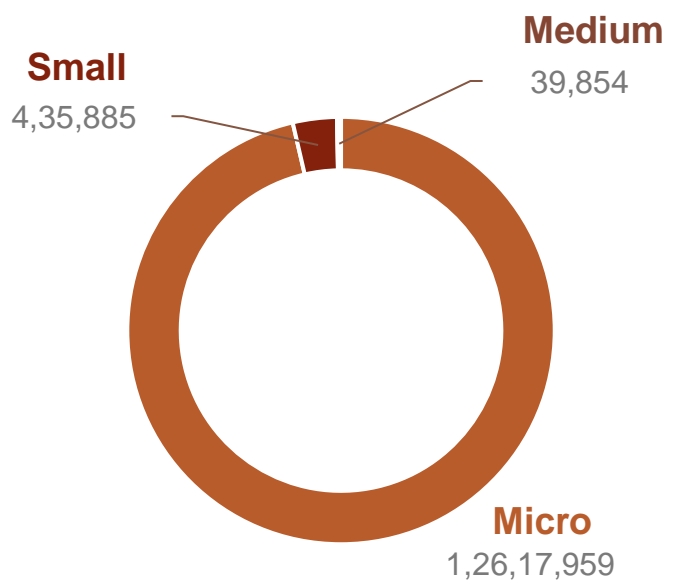


Changes in eligibility and proportions

With the nature of the definition change, it is likely that many of the enterprises earlier classified as large have also come under the ambit of medium-sized enterprises, thereby making medium-sized enterprises a more significant proportion of total enterprises.

The jump in the number of registrations helps shed some light on such changes in proportion, which is recorded in the Ministry of MSME's new filing process - Udyam registration - on its own developed portal.

Distribution of MSMEs as per Udyam Registrations, 31 December 2022



Source: Ministry of MSME

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The trajectory of medium enterprises

As per the distribution of Udyam Registrations by Micro, Small, and Medium enterprises as on 31 Dec 2022, it can be seen that while micro players still constitute the vast majority of enterprises followed by small enterprises, the share of medium enterprises is growing from what it was before in The NSS 73rd round.

Moreover, in absolute terms, MSMEs in total have witnessed a huge growth in registration numbers. Even the smallest category of medium enterprises has a total of 39,854 Udyam registrations as of 2022 year-end, signalling that the number of medium enterprises has considerably increased from that of 5,000-6,000 enterprises in the NSS 73rd round.

However, this dynamism is not only driven by external dynamics. The M-S-M sphere is itself a dynamic process where, as per natural succession, enterprises ideally grow and transition from micro to small to medium. In this sense, the bustling number of micro-enterprises at present should very well move to become small and then medium in the near future.

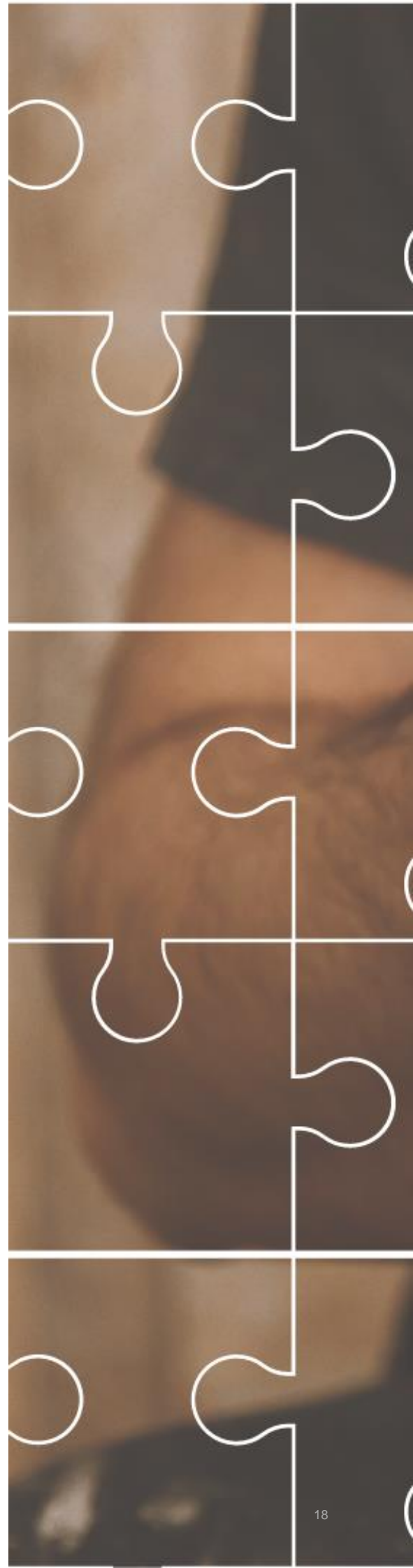
This accentuates the need to address scalability challenges even more, in order to ensure a seamless transition for MSMEs to grow and thrive in.

Core areas MSMEs require support in as they grow



Ideally, there should be a targeted policy net in each category to ensure there is adequate support for the growth and development of enterprises within the M-S-M sphere. Otherwise, it can lead enterprises into a vicious cycle where they start small, stay small, and fail to scale up into larger companies.

Support gap– “the Missing Middle”





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Support gap – “the Missing Middle”

On the surface level, a lot is in place for MSMEs as a whole. The government runs numerous schemes targeted at providing credit and financial assistance, skill development training, and infrastructure development, as well as technological upgradation for MSMEs across the country to help them grow from their existing levels.

However, a majority of these programs are directed at micro and small enterprises, as opposed to medium ones. Support seems to dwindle away as soon as enterprises become “medium.” This may, unintentionally, incentivize small-size enterprises to remain small and not grow and expand to their full potential.

Scheme/Programme		Applicability as per enterprise size			
Description		Micro	Small	Medium	Large
Assistance policies					
National Manufacturing Competitiveness Program	The National Manufacturing Competitiveness Program (NMCP) has been put in place by the Central Government with the intention of helping Indian MSMEs reach global levels and increasing the manufacturing industry to about 25% of the GDP.	Y	Y	Y	N
Public procurement policy	The policy's goal is to help micro and small businesses grow by assisting them with the marketing of the goods and services they create.	Y	Y	N	N
Credit linked schemes					
Credit-linked Capital subsidy scheme for technology upgrade	The objective of the credit-linked capital subsidy scheme is to facilitate technological upgradation by providing a capital subsidy of 15%.	Y	Y	N	N
Credit Guarantee Fund Scheme for Micro and small enterprises	The guarantee cover available under the scheme is to the extent of 50%, 75%, 80% & 85% of the sanctioned amount of the credit facility. The extent of guaranteed cover is 85% for micro-enterprises, for credit up to INR 5 lakh (USD 0.007 million).	Y	Y	N	N
Pradhan Mantri MUDRA Yojana (PMMY)	The program enables income-generating micro-enterprises working in the non-farm field of manufacturing, processing, trading, or services to access microcredit or loans of up to INR 10 lakh.	Y	Y	N	N

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Support gap – “the Missing Middle”

Scheme/Programme		Applicability as per enterprise size			
Description		Micro	Small	Medium	Large
Infrastructure					
Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP)	The Ministry of MSME has adopted the cluster development approach as a key strategy for enhancing productivity and competitiveness, as well as capacity building, of Micro and Small Enterprises (MSEs) in the country.	Y	Y	N	N
SFURTI	An infrastructural scheme that ensures all traditional clusters and artisans spread across the country receive amenities and benefits that help them become more competitive in the industry and step up to the scale above.	Y	N	N	N
Training and development schemes					
A scheme for the promotion of innovation, rural industry, and entrepreneurship (ASPIRE)	The objective of the scheme is to provide job opportunities, promote entrepreneurship culture in the country, and promote innovation in the MSME sector.	Y	Y	N	N
Entrepreneurship and Skill Development Programmes (ESDP)	Under Entrepreneurship and Skill Development Programmes (ESDP), the Ministry of MSME has been organising several programs that focus on improving the skills and knowledge of entrepreneurs and enhancing their capacity to develop, manage and organize a business venture.	Y	Y	N	N

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Support gap – “the Missing Middle”

It can be deduced that majority of government incentives in India focus on micro or smaller-sized enterprises; hence, these enterprises believe that if they grow and become medium-sized, they will lose on all the incentives and benefits that they are receiving under the same. In other words, they are *dis-incentivised* to grow.

Does this create a distorted incentive structure for enterprises to remain small? What is the potential loss caused by this distortion to the economy?

While it is understandable that enterprises require lesser hand-holding as they grow bigger in size and in-house capabilities, medium enterprises do not have the same resources as fully large organisations. They are inherently in the “middle” where while they do not require complete support as their smaller counterparts do, they cannot essentially be left alone as fully large companies.

Enabling medium enterprises with an easy and equitable distribution of credit to uplift their manufacturing and investment facilities, the right measures of policies, a supporting ecosystem, as well as technological upgradation pathways is key to supporting enterprises to grow and transition. After all, they have their own set of pain points that must be addressed and catered to.

What is the potential loss caused by this distortion to the economy?





Challenges and opportunities on the table





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Challenges and opportunities on the table

While MSMEs as a whole face some common critical issues given their size and scope, the exact nature of these obstacles is not completely uniform across micro-to-small-to-medium.

The specificity of pain points and support areas required by medium enterprises differs, as can be seen across various core challenges.



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Challenges and opportunities on the table

Lack of capital due to inadequate access to finance and credit

- Capital availability and accession is a pressing challenge across MSMEs. Within this, medium enterprises face even greater difficulty in accessing capital as they are not large enough to qualify for big-ticket loans and not small enough to receive benefits from government schemes. This makes it difficult for them to invest in growth and expansion.
- In addition, they do not just require a simple capital injection but rather targeted capital investment. They may include requiring a larger credit line to fund initial burns and working capital deficiencies as they scale up, marketing investment to improve current market reach, or targeted investment in technology upgradation, new machinery, and capacity expansion.
- There is also a need for education and good facilitation in helping medium enterprises get credit access through various financing mechanisms, as well as teaching them how to access private investment routes, create sound pitches, reach investors and get financed internationally.

Inadequate infrastructure and utilities, resulting in low production capacity

- MSMEs often operate in areas with inadequate infrastructure, including poor transportation, electricity, and internet connectivity. This becomes an even bigger challenge as enterprises try to scale up and increase their operational reach.
- For medium enterprises, inadequate infrastructure, such as limited access to a production plant or machinery, severely limits their potential to grow their market reach or expand their product portfolios.
- Without proper resources, medium enterprises may be forced to forego opportunities for expansion and growth. For example, many a times enterprises pass out on certain bulk orders or restrain themselves from capturing international opportunities as they just do not have the resources to get themselves there.
- Providing access to a larger production plant or more advanced machinery can increase efficiency and output, lead to economies of scale, greater profitability, and success.
- Understanding the type of infrastructural support needed – i.e., larger scale factories, more machinery, or even machinery of a certain kind to foray into value-added products/services - is very important. It is not just the *quantity* but the *quality* of infrastructural support that matters.

Mending the missing middle

Challenges and opportunities on the table

Lack of innovation and technology

- MSMEs in general struggle to innovate and keep pace with changing market trends, due to limited resources and a risk-averse mindset. This can make it difficult for them to stay competitive and grow in the long term, especially as they become bigger and want to compete with larger counterparts.
- Medium enterprises often have a huge desire to expand – be it into new products and/or markets – but do not understand how to get there. They keep on repeating age-old, inefficient practices that put operational pliability and growth into huge jeopardy.
- However, the solution for helping out medium enterprises here is not just about putting in a hard piece of machinery. Rather, it is about understanding what each enterprise wishes to do, what its long-term objectives are and then bringing in the requisite technology or new operational practices that enable it to streamline operations, improve efficiency, amp up quality and reduce wastage.

Inability to attract talented and tech-savvy manpower

- Despite India's promising demographic dividend, MSMEs struggle to find skilled people, particularly in technical and specialised fields. It can be challenging to attract and retain top talent due to the limited resources and visibility of such enterprises. They may not be able to offer the same benefits and opportunities as larger corporations, making attrition and vulnerability a pressing problem.
- As businesses grow from micro to medium, the requirement for value-added skills increases, which creates a need for employees who are tech-savvy and possess the ability to tackle complex challenges.
- In this sense, it is fair to say that as enterprises grow from micro to medium, the requirement for "*man-power*" changes more into "*mind-power*" where the game is not just about labor-intensive production but superior delivery as well.
- Without skilled labor, enterprises risk falling behind and losing their edge. Thus, medium-sized enterprises need help in hiring and developing talent that can handle the demands of the industry necessary for expansion and growth.

Mending the missing middle

Challenges and opportunities on the table

Lack of knowledge in marketing and branding

- While for many micro- and small- sized enterprises, the desire to widen operational reach and production, even in white-label goods and outsourcing services, may be attractive, the need for branding becomes important as enterprises try to scale up. Having an own identity is imperative to gain a competitive edge in the larger market sphere.
- Medium-sized enterprises in India struggle with marketing and branding, as they do not have complete resources or expertise to create effective marketing campaigns or build a strong brand identity.
- In today's digital age, a strong online presence and well-designed marketing materials can make all the difference in attracting and retaining customers.
- Hence, for medium enterprises, having more participation in trade fairs and exhibitions for greater market connect may not be the kind of help they are looking for. For them, getting targeted support in building a brand – i.e., through good brochures, complete social media presence, customer interaction etc. - is crucial.

Competition from large corporations

- Be it micro- or small- or medium- sized enterprises, competition is inevitable at every stage. However, within this domain, medium-sized enterprises face even more intense competition as their growth may be hinged upon competing with large, well-established corporations with greater resources, brand recognition, and economies of scale, making it difficult for them to compete on price, quality, innovation, and customer acquisition.
- Addressing this challenge would require support on all the other parameters discussed beforehand – be it access to greater capital, infrastructure, technology, innovative practices, talented employees, as well as brand development. By receiving targeted guidance and resources here, enterprises can differentiate themselves from their larger competitors and attract customers who value their unique and specialised products. Many a times, these enterprises may already be possessing a special exclusive edge, but they are unable to identify it themselves.

Mending the missing middle

Challenges and opportunities on the table

Facilitating the growth of medium enterprises in India and helping them overcome challenges can unlock many opportunities for economic development, social growth, and environmental sustainability. After all, they have a unique size and capability that can be leveraged upon where they are neither “too small” to lead, nor “too large” to follow.



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Challenges and opportunities on the table

The potential opportunities medium enterprises can bring

Local economic development

Medium enterprises can contribute toward the economic development of local communities by generating income, promoting local production, and providing access to goods and services that may not be available otherwise.

Employment

Medium enterprises are significant job creators in India and generate employment opportunities in both rural and urban areas. They can tackle the soaring issue of *unemployment* and *underemployment*, particularly among the youth and women of the country.

Technology transfer

Medium enterprises can help transfer technology and knowledge to smaller companies and startups, helping them grow and become more competitive in the market. They can in fact become mentors for their smaller counterparts, given that they understand the challenges of MSMEs at ground zero and can actively partner for lending support in this regard.

Export promotion

Medium enterprises can play an important role in exports and spreading into foreign markets. They can also contribute toward India's trade goals by exporting exclusive goods that are in demand globally.

Social responsibility

All micro, small, medium, and large enterprises carry the potential to make a positive impact on society and the environment through their social responsibility efforts, but the scale of their operations and available resources can influence the initiatives they undertake. Medium enterprises may focus on more local initiatives that can have a significant impact on immediate communities.

Innovation and entrepreneurship

Medium enterprises are often more agile and flexible than larger companies, making them better suited to innovate and keep up with changing market trends. They can also foster entrepreneurship and provide a platform for budding entrepreneurs to launch their own businesses.

Global standpoint





Mending the missing middle

Global standpoint

An estimated 332.99 million SMEs were found to operate globally as of 2021, which is a slight increase from 328.50 million in 2019. Together, these enterprises make a substantial contribution to GDP, export, employment, and livelihood, in both developed and developing countries.

The criticality of medium enterprises is not just limited to the Indian economy. Small and medium-sized enterprises (SMEs) are indispensable factors in economies worldwide.

A number of studies reveal that while SMEs need to internationalize to grow further, they often struggle to expand even outside their home markets. Many also lack the strategic direction to carry out such expansion. This hinderance has been prevalent even prior to COVID-19. A number of high-potential SMEs that have found success domestically, have had their growth capped by the size of their local markets.

To top this up, the uncertainty in overseas markets brought about by the pandemic has made internationalisation more difficult. Global supply chain issues have hit SMEs hard and have set back export growth. For example, over 45% of small businesses reported experiencing disruptions in supply chains from the first wave of COVID-19 itself, as per a June 2020 survey conducted in the US. Additionally, in many more cases, larger firms handed their risks down the supply chain to vulnerable SMEs in developing countries, causing job losses and even bankruptcies. The name of the game boiled down to survival for these smaller firms, where they were required to pivot their business models to remain globally competitive, as well as update themselves to meet changes in technology, changes in demand, emergence of new markets, etc.

However, the pressing factor still remains that these enterprises are not growing to their full potential and with the right support and direction, they can cross this hurdle of internationalisation.



Mending the missing middle

Global standpoint

Success

National Champion Programmes

A Canadian study has shown that the most effective way to support SMEs is by linking financial support with advisory services. One way to provide this duplex support is through National Champion programmes.

Such programmes typically work to identify SMEs with high growth potential and provide them with one-on-one support. This support can include helping them build capabilities such as in digital, marketing, and leadership skills, providing advice from experts on how to helm the market, guiding transformation efforts, and networking opportunities.

These programmes have proved to be an effective way for governments and other interested institutions to assist SMEs worldwide.



In Malaysia, a national champion programme has helped facilitate an **export increase of 4.9 billion ringgit** (approximately USD 1.16 billion) across 275 companies.



In Singapore, the first participants of a national champion program expect to achieve **20% year-over-year growth** over the next three years.



In Canada, midsize companies account for **1.6%** of all firms, yet they make up...

12%
of GDP

16%
of employment

11%
of all exporters

17%
of export value



Special focus on mid-sized companies

The present mapping of national champion programmes has gone to show that the most impact can be achieved by paying special attention to mid-sized companies (i.e., the “M” of SMEs). These players have already had a track-record of success in managing operations, hold a disproportionate impact on economic outcomes, as well as have a strong willingness to grow and make the most of advisory support.

In Malaysia, midsize companies represent **2%** of all firms, yet they make up...

40%
of GDP

16%
of the workforce

The highest-performing companies, including mid-sized companies, contribute even more, achieving **20%** year-over-year growth and accounting for **50%** of new jobs and sales, particularly in the manufacturing and services sectors.



Mending the missing middle

Global standpoint

5 key success factors of National Champion Programmes

Employing a rigorous selection process

as those with the highest potential tend to have the greatest chance of delivering upon desired economic metrics. This selection process should ideally make use of both quantitative and qualitative data to ensure a proper selection on totality of factors.

Understanding enterprises' unique needs

as this is critical and needs a personalised approach and outreach mechanism. This is especially relevant for midsized enterprises that lie at unique ends of the growth spectrum and have varied ambitions on exactly how and to what extent they aim to grow further.

Targeting a specific group of enterprises with curated solutions


allows for maximisation of gains. Homogeneity in basic factors such as sector, scale, and size allows for the identification of common challenges and concerns. However, at the same time it is important to recognize that not all enterprises within the same homogenous cluster have the same needs, and neither are they all aware of their own needs clearly. They need curated identification, diagnosis and support.

Incentivising commitment and impact

can help align programme support with delivery and performance. Setting key milestones and smaller goals will ensure enterprises have a clear path to make the change they want.

Recognising that enterprise support is a public-private partnership

as ultimately both domains are needed to help these enterprises grow and align within large value chains.



What makes the success of national champion programmes possible for such enterprises?

In short, it is the deployment of such programmes that consists of an inclusive yet focused methodology that is very enterprise-centric.



Mending the gap with UDII & beyond





Mending the missing middle

Mending the gap with UDII & beyond

In a nutshell, while the importance of micro, small and medium enterprises is understood on a worldwide level, there is still a need to increase the degree of limelight and support shed upon medium enterprises in India.

This is because, for the Indian periphery, being “medium” now means having a turnover from INR 50 crore to INR 250 crore, which is a huge ambit. Medium enterprises actively trade with larger firms and serve as a connection in the economy. They produce, supply, distribute, and provide services at the bottom of the value chain, frequently in symbiotic relationships with larger corporations.

These enterprises create a number of opportunities in terms of employment, growth, and development. Paying attention at the right time and on the right set of areas has become essential to help them reach their full potential.

How do we go about facilitating the growth of medium enterprises on a micro level, as well as capitalising upon the opportunities they bring on a macro level?

U-D-I-I approach

- 1 **Understanding enterprises' basic needs and providing them with curated support.**
- 2 **Digitising core businesses operations to help build an e-competitive and sustainable edge.**
- 3 **Identifying international potential and facilitating outreach.**
- 4 **Integrating enterprises as core pillars in the national value chain for employment-led growth.**

Mending the missing middle

Mending the gap with UDII & beyond

1

Understanding enterprises' basic needs and providing them with curated support.

Facilitating public-private financing routes

Many studies have identified financial accessibility as being one of the most crucial factors for promoting the growth of medium enterprises in developing economies. Scaling requires both time and capital and cannot happen on a single source of funding. However, many a times, medium enterprises lack awareness on the diverse set of financing mechanisms available out there and/or do not have the capability to obtain them.

Medium enterprises also have difficulties in getting subsidies and payment protection because the medium sector is not entitled to Priority sector lending (PSL); major grants are for micro and small firms.

To tackle this issue, the government can create initiatives that enable simpler access to financing routes. This may include:

- Providing targeted subsidies or capital injections to help enterprises maintain a healthy working cycle and get past initial cash burns incurred in scaling.
- Facilitating accession of private financing routes by providing enterprises with financial literacy – i.e., how to network with investors, build investment pitches, proposals etc.
- Conducting workshops and seminars, as well as “capital networking fairs”, to help enterprises access the financing market.
- Ensuring that all size-based incentives with the necessary exemption of regulation have an upper limit of fewer than ten years.
- Keeping lower service fees for loan requests, helping in the provision of collateral or guarantee, lowering the rate of interest, as well as enabling an easy documentation process.

Further, financial institutions on their part can change their perspective from just being a lender to that of being a strategic business partner. They can try to establish long-term relationships with medium enterprises and lend their necessary support at critical times. This added guidance is not just beneficial for enterprises but even banks, holding the potential to transform non-performing loans into “good debt” and thus being a win-win situation for all.

By implementing these initiatives, governments can help businesses access the financing they require to grow and thrive while promoting financial literacy and skill development in their communities.

Mending the missing middle

Mending the gap with UDII & beyond

2

Digitising core businesses operations to help build an e-competitive and sustainable edge

Driving digitisation

Despite their larger scale of operations than micro and small counterparts, many medium enterprises are not able to integrate digitisation across all parts of the business. This limits their ability to scale further and breeds inefficiencies within the business model. To counter the same, a greater level of “digital integration” needs to be promoted across all parts of business operations such as in:

People management

Usually, medium enterprises employ around more than 200 employees, which makes people management tasks very difficult. Implementing project management software and tools can ensure an organised workflow with utmost productivity. Many vendors offer such tools that have been recognised to help with team management, project workflow management, and much more.

Marketing and marketplaces

E-commerce is an indispensable habit in the current sphere of life and medium enterprises need to be on e-marketplaces to make the most of online demand. It is a low cost and high potential alternative to brick-and-mortar presence, and hence can help medium enterprises grow more efficiently. Further, social media platforms have become an essential tool for marketing as they have the power of the “network effect” to create exponential brand awareness and direct new sales.

Payment systems

Going cashless with digital payment systems can help medium enterprises reduce costs, increase efficiency, expand their customer base, as well as gain valuable insights into their customers' behaviour. By embracing the adoption of technology, medium enterprises can position themselves for growth and success in today's digital economy.

Financing routes

Innovation in financing has grown substantially, with the integration of digital platforms cutting down the cost of capital and borrowing. With mobile gateways, funding platforms such as crowdfunding, peer-to-peer lending, and other forms of e-finance have become an important source of capital for entrepreneurs. Facilitating medium enterprises to make use of these channels has become imperative.

Mending the missing middle

Mending the gap with UDII & beyond

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E-centric mind-power – a key enabler for digitisation

Digitisation in business operations cannot happen in a silo and as a stationary move. It is a dynamic and strategic move that requires a change in mindset and execution across employees. In short, digitisation cannot happen without digitally-equipped people (*mind-power*).

Medium enterprises employing brick-and-mortar models require specialists and digital technologists to assist them in transforming their fundamental business operations, including supply chain management, analytics, marketing, and accounting. However, hiring such people is difficult for these enterprises because it is both expensive and time-consuming.

In order to counter the same, there is a need for both public and private stakeholders to continue to push partnerships with industry players and launch upskilling programmes, where rural tech talent can be trained and their services made available at affordable costs.

Digitising sustainability

Digitisation for medium enterprises need not be just about changing the face of operations but also about encouraging more sustainable operations. Environmental, Social, and Governance (ESG) factors have taken center stage in today's time and the need to control negative externalities is as crucial as ever. With digital processes, enterprises will have the ability to start monitoring their operational risks, as well set an ESG strategy early on. They will be able to identify gaps and re-engineer inefficient processes, which will not only curb environmental damage but also help them save upon unnecessary costs and wastage.

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Identifying international potential and facilitating outreach

Bridging the internationalisation gap

Internationalisation is a core mission that needs to be achieved by SMEs worldwide. Firms need to be able to grow outside their home markets, which requires them to have access to the 3Cs: *capital, capacity and coordination*.

For Indian enterprises, the ability to internationalise can help open doors to countless markets and provide a more export-oriented road map for growth. Issues such as changing regulations, policies, and cost often hinder medium enterprises' decision to go international, even when they might have a core competitive edge or exclusivity in their products.

Providing capital as well as advisory support can help bridge the gap here – similar to the national champion programme initiative worldwide – where a team of experts can help design an export strategy for select high-potential medium enterprises. This includes assessing the possible product(s) that can be exported, what markets to target, the requisite licenses needed to be obtained for the same, the change in packaging or re-packaging needed, as well as transit arrangements and troubleshooting protocols. Often times, even bringing in a local support contact from a new market can go a long way in bridging these gaps and giving enterprises the confidence they require to internationalise.



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4

Integrating enterprises as core pillars in the national value chain for employment-led growth

Employing growth with employment

Supporting medium enterprises is not just about helping them on a micro level – whether it be in capital, human resources, technology or partnerships – but also taking their support for overall development at the macro level.

For India, an ecosystem where “growth by employment” is promoted is the need of the hour. “Jobless growth” has become one of the most pressing problems in the current time, where the macro environment is increasing without a commensurate increase in employment. Medium enterprises present a key opportunity here, given that they hold the potential to generate considerable amount of employment, especially in the rural sector. Fostering the growth of medium enterprises can in turn lead to fostering the growth of employment for the whole country.

How do we go about doing this? One way can be by offering financial incentives to medium enterprises that undertake the following: employ youth from across the country, provide on-the-job training, as well as ensure they have a healthy working environment to work and sustain for the long run. Industry players can be encouraged to help out those enterprises looking to upgrade their current employees and make them more technologically inclined, and these players can render skill development seminars and computer literacy training to even the remotest of areas. This will increase the overall job profile in the country and help the youth move from volume to value-added work.

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On the whole, the aforesaid framework is just a rough blueprint for how medium enterprises can be supported on an overall level, and how their growth can in turn spearhead the economic development of India at large. There are many more factors that would need to be considered within each leg of the four-pronged approach and these areas can vary based on each enterprise's size, sector and scale of expansion wanting to be pursued.

However, the overall objective remains to provide the necessary resources to a diverse set of medium enterprises – whether it be in capital, connections, coordination, capacity or anything else – so that they do not miss upon growing to their full potential.

With India making steady progress in improving its ease of doing business, the growth of medium-sized enterprises will be critical to building momentum in the entire business ecosystem. They are not too established or too raw, and just right for building technological maturity, and resources to compete on a global level.

By fostering an environment that supports the growth of these enterprises, India can further boost its economic growth and create more opportunities for job creation and innovation.



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