Designing a digi-ready docket for MSMEs

Empowering enterprises through digitalisation

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Content

Designing a digi-ready docket for MSMEs
Overview

MSMEs are the lifeblood of India, being core innovative powerhouses that propel production, employment and export year-on-year. Meanwhile, digitalisation has become the sine qua non for business resilience and sustenance worldwide. How do we piece the two together?

The question of synchronising digitalisation in MSMEs has been a coveted topic, generating a significant amount of discourse from scholars, public bodies and industry experts across the world. Overarchingly, digitisation has become a cardinal part of our daily lives and is expected to become even more widespread in the near future. Similarly, it has revamped business models across industries far and wide, bringing even the most rudimentary of processes on the cyber realm. The impact on MSMEs has been no different and many enterprises have seen a shift in their business models over the last four years, especially with the frenzy brought about by stringent lockdowns during COVID-19. Going online has been the only way to stay "in-line".

Having said that, the journey of MSME digitalisation is far from complete. The pandemic has simply catapulted the leap, but a lot remains to be done to get enterprises fully aligned with a digital model of working. Concurrently, there are still many firms harbouring outdated practices that keep business processes largely manual, inefficient, and unscalable in nature. How do we go about the arduous task of ushering everyone with a digital agenda?

To answer this question, it becomes critical to prima facie identify the difference between "digitisation" and "digitalisation". Simply put, "digitisation" refers to turning an analogue data/process into a digital form while digitalisation involves transforming the business and operational model altogether to align with contemporary technological practices. The shift from the former to the latter is what MSMEs should strive to achieve, at a pace that is suitable for them.

Accordingly, the government of India has laid out a number of initiatives to support the digitalisation of MSMEs. These include, amongst others, the Digital MSME scheme, MSME Champions Scheme, Government e-Marketplace (GeM), MSME Sambandh, MSME Samadhan, etc. The goal has been to strive for a perfect balance of collaboration between the private sector, state, and local governments, which can in turn help these initiatives meet their long-run purposes.

Nonetheless, this transition into digitalisation is still fraught with significant challenges, stemming from inadequate awareness and digital literacy, limited capital resources, and insufficient infrastructure to name a few. Upgrading existing systems or creating new ones is inherently complex and enterprises either jump "too quickly" out of a fear of missing out to fall flat afterwards or give up on the technology altogether.

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How do we go about addressing these impending gaps and ensuring MSMEs digitalise for the opportunities it holds and not merely out of compulsion or tokenism?

How do we increase the impact of these initiatives at the grassroots level? What can we learn from global best practices?

Forvis Mazars in India endeavours to answer these questions in this thought leadership, Designing a digi-ready docket for MSMEs. We seek to align theoretical arguments with the ground reality in India and across the globe, in order to provide recommendations for both the public and private sector.

In a nutshell, our recommendations are mapped upon the following key areas.

1 Set education as a priority	**4** Build comprehensive regulatory understanding
2 Encourage targeted investment	**5** Foster greater inclusivity of medium units
3 Channelise Lendtech innovation into MSMEs	**6** Keep digitalisation a gradual not binary process

These factors, supported by policy interventions from the government and innovative practices from private players, can create an ecosystem that facilitates the digital transformation of MSMEs. Nevertheless, this is just putting up a couple of bones in the structure of something as intricate as digitalisation. Many of these parameters are industry-, size- and scope-specific, requiring a large degree of customisation to cater to the actual set of enterprises in question.

Our goal is not only to help MSMEs in digitalisation but also do it in a way that focuses on reskilling and upskilling the economy as a whole.

We hope the paper presents pertinent insights for shaping up a digital trajectory for MSMEs in India and we welcome your feedback.

Dr. Sanjay Bhardwaj
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Forvis Mazars in India

01

The big picture

Designing a digi-ready docket for MSMEs

The big picture

Micro, small and medium enterprises (MSMEs) have a very special place within the Indian economy. They are versatile, innovative and pliable accelerators that have the power to catalyse production, employment and growth in new-age sectors. Meanwhile, their diverse and niche portfolio of products and services make them highly proficient to meet the demands of both domestic and global markets.

Classification of MSMEs

	Micro	Small	Medium
Investment in plant and machinery or equipment	Does not exceed ₹1 cr.	Does not exceed ₹10 cr.	Does not exceed ₹50 cr.
Turnover	Does not exceed ₹5 cr.	Does not exceed ₹50 cr.	Does not exceed ₹250 cr.

As per government estimates, there are over 633.9 lakh MSMEs across India of which more than 99% fall under the micro category. This is then followed by small and medium categories, accounting for roughly 3.31 lakh and 0.05 lakh enterprises, respectively.

In spite of this, their size does not determine their scale of contribution. MSMEs' share of Gross Value Added (GVA) in all India Gross Domestic Product (GDP) ballparked around 30% consecutively from FY20-FY22, while the share of MSME manufacturing in all India Manufacturing Output stood around 36%. In addition, the share of exports hovered around 45% from FY21-FY23.

As per the Udyam Registration Portal, the total number of persons employed in MSMEs – which were registered from 01.07.2020 to 01.08.2023 – equated at around 12.4 crore.

The MSME share in the Indian economic footprint (%)

	MSME GVA in all India GDP	MSME manufacturing output in all India manufacturing output
FY20	30.5	36.6
FY21	27.2	36.9
FY22	29.2	36.2

Source: Ministry of Statistics & Programme Implementation

The MSME share in the Indian economic footprint (%)

	Export of MSME specified products in all India exports
FY21	49.4
FY22	45.0
FY23	43.6

Source: Directorate General of Commercial Intelligence and Statistics (DGCIS)

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The big picture

Technological transformation has become a key catalyst for macro development across the world and MSMEs in India, given their substantial economic footprint, cannot stay behind. There is plenty of discourse on exactly why these enterprises must become more "tech-savvy" and how their future competitiveness depends on how fast they are able to integrate digital practices. Note that this expectation is not merely about undertaking "digitisation", which refers to a relatively simplified step of turning an analogue data/process into a digital form.   Rather it is about fast-tracking digitalisation, which means transforming the business and operational model altogether to align with contemporary technological practices. While the former is a change in processes, the latter is a leap of faith; a leap that cannot happen overnight.

In this sense, the timing and scope of digitalisation becomes critical as MSMEs that try to bring in much more technology than they are ready for risk falling into a "tech-trap." This means, investing excessive resources at one time that exacerbate working capital pressures, creating functional silos where digital processes are unaligned with larger business objectives, breeding in a skills-gap where there is a lack of proficient personnel to manage platforms, or designing inadequate cybersecurity mechanisms that become a recipe for disaster.

While there are a considerable number of MSME-specific tools that vouch to govern digital implementation, they often fail to yield results that are commensurate with the extent of investment required – both monetary and non-monetary. Such hinders enterprises' confidence even more and often results in them becoming more digitally-behind than they were in the first place.

This also explains why, despite the countless arguments for and initiatives taken towards digitalisation so far, many MSMEs are still grappling with outdated practices. As per a recent Vi Business survey, Unlocking MSME Growth Insights Study, the digital maturity of MSMEs in India lies at just between 55% to 60% across industries. While enterprises in sectors such as logistics, media and manufacturing fare higher on the Digital Maturity Index, those in retail, education and hospitality lie on the lower end of the spectrum.

> **How do we go about increasing this digital readiness level and facilitating enterprises to pioneer digitalisation in a way that is feasible, sustainable and yields measurable results?**

Fundamentally, given the skewed micro-small-medium breakdown, the route of technological integration cannot be uniform for each and every enterprise.

In order to deduce this optimal digitalisation path, it is important to reinstate exactly what opportunities it holds for MSMEs in the first place and what initiatives there are to forward this digi-potential in the long run. It is also important to then identify particular pitfalls that may be hindering progress.

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The digi-opportunity for MSMEs

Designing a digi-ready docket for MSMEs
The digi-opportunity for MSMEs

As a big picture, digitalisation has carved out a range of opportunities for MSMEs, helping them address challenges related to financial access, infrastructure upgradation, skill development, as well as marketing and technical assistance. Many enterprises have seen a shift in operational efficiency, which has allowed them to broaden product portfolios and expand across international markets. Consequently, it has refined the strategic direction of many players with more data-driven decisions, which in turn helps them remain agile to global volatility, alongside tackle contemporary issues such as climate change and ethicality in an effective manner.

The digi-leap of COVID-19

Stringent lockdowns radically transformed the business ecosystem from 2020-2021, where even the most authentic brick-and-mortar businesses had to plunge online for sustenance. In this sense, COVID-19 played a crucial role in accelerating the digitalisation of MSMEs (specifically the utilisation of e-commerce services), which otherwise would have taken longer to establish.

Predominantly, the pandemic-led pivot spearheaded the following evolution:

1 There was a **massive surge in MSMEs' share of online sales** during the pandemic, which **sprung from 12% in 2018-19 to 27% in 2020-21.** Seller registration within large e-commerce companies propelled by 80-90% in the second half of 2020, almost all of which were MSMEs hailing from smaller cities and remote areas.

2 From May 2020 to May 2021, there was a notable surge in activity on the Government eMarketplace (GeM), with the **number of sellers soaring from 3.76 lakh to 17.86 lakh** and the MSME count escalating from 1 lakh to 6.91 lakh during the same period.

3 According to a World Bank report, in 2014, merely 2.5% of family-run Indian businesses with five or more employees utilised **online sales** channels. However, by 2020, this figure **surged to 11%**.

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The digi-opportunity for MSMEs

As per a survey* capturing 1,537 MSMEs across India by ICRIER...
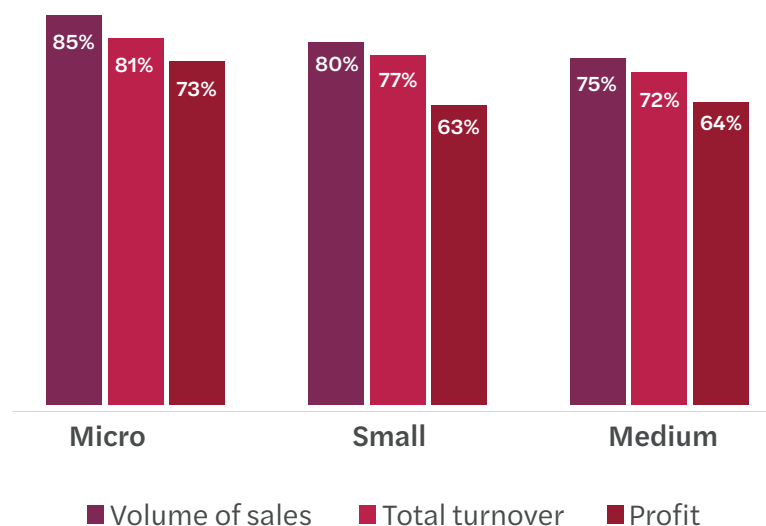
E-commerce integration is a recent phenomenon. Most of the enterprises surveyed (~63%) have integrated with e-commerce platforms in the last three years itself, even though more than 50% of them have been in operation for more than 10 years.

Respondents' timeframe of integration with e-commerce platforms (in % share)

Less than a year	1-2 years	>2-3 years	>3-4 years		More than 5 years
4%	27%	32%	18%	9%	10%
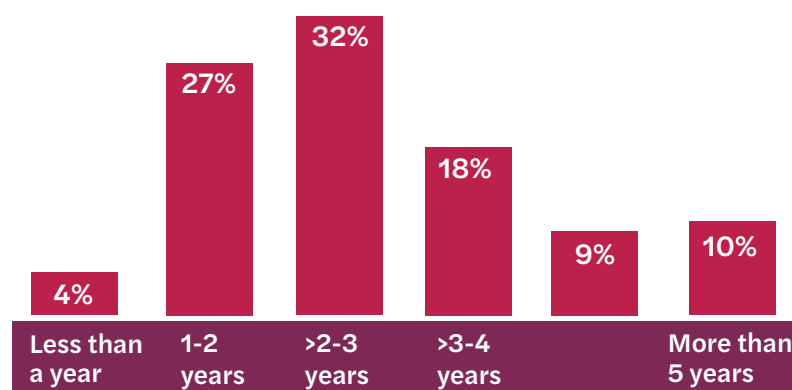
Majority of **MSMEs are dependent on e-commerce platforms for online sales.** This is because only 12% of the enterprises surveyed have their own e-store, and even out of these most are medium units (44%) while only 2% are micro units. For those that use both online channels (e-commerce platforms and own e-store), a majority (53%) would like to sell completely through third party platforms, while some would like to sell through both (27%). The scope in tangible business growth that e-commerce brings (especially for micro units) is driving demand for these platforms.

Business growth parameters that respondents have noted after integrating with e-commerce (in % share)

	Micro	Small	Medium
Volume of sales	85%	80%	75%
Total turnover	81%	77%	72%
Profit	73%	63%	64%

■ Volume of sales ■ Total turnover ■ Profit

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Top reasons for selling online (as reported by % of respondents)

73% To improve sales

64% For better market/ supply chain linkages

63% Helps scaling up

50% Low investments required

43% Helps maintain transparency

*Survey was carried out between June to August 2021 and covers 1,537 manufacturing units in India across six product categories, namely: sports goods, toys, furniture, readymade garments, handicrafts, and processed and preserved food sectors. All the units covered in this survey are enterprises that sell through e-commerce platforms.

Source: ICRIER

Notwithstanding this, the e-commerce spree fueled by COVID-19 is just part of the digitalisation agenda. Holistically, the shift to a digital way of "doing things" brings multifaceted possibilities for MSMEs to enrich productivity, elevate value and extend into new markets/offerings. It opens new financing pathways to lower costs of capital, while, at the same time, fosters greater avenues for strategic alliances/collaborations.

Opportunities brought about by digitalisation for MSMEs

1 Increased integration into global markets and interactivity

2 Accessibility to a wider customer base

3 Enriched customer engagement

4 Efficient delivery channels

5 Lower transaction costs

6 Reduced operational and marketing costs

7 Shift from man-power to mind-power

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Digital platforms are empowered to create a skillfully-rich environment for MSMEs, which in turn helps them become operationally efficient. However, this requires firms to be as equally dedicated towards investing in the right skillsets, where employees are encouraged to not only learn how to optimise these platforms but also leverage the data they produce across a range of key business functions.

As an example, the integration of software solutions such as Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Task Management System (TMS), and Project Management Systems (PMS) have the potential to enhance decision-making and ensure proactive preparedness in risk management. At the same time, keeping a tab on information security, data protection and cybersecurity can cut out vulnerability related to digital failures. Nevertheless, none of this can be achieved without conducting comprehensive digital literacy across all levels of the organisation.

To ensure such digitalisation within MSMEs, it is integral to build upon the digital capacities of entrepreneurs and employees on an individual level. Such a process can be mapped out in three separate stages: the beginner level where people require support to enter the digital world, the intermediate level where they are comfortable and ready to explore more and the advanced level where they become accustomed in spirit and can start reaping optimal benefits from the technology.

Phased steps to ensure the digitalisation of individuals across the beginner-intermediate-advanced stages

1. In-person training

Short and at teachable moments used to deliver catalytic education, perhaps delivered by agents as they are typically opinion influencers.

2. Tab-based animated videos

These are immensely valuable for ensuring the appropriateness and consistency of the messaging from opinion influencers.

3. Online portal for self-paced learning

These need to be gamified to be effective but can also ensure the appropriateness and consistency of the message.

4. SMS-based learning systems

This needs to be a two-way conversation, not a torrent of push-spam, to be effective.

5. Mobile applications for learning and advice or encouragement

These are typical extensions of SMS-based learning systems yet offer a richer and engaging learning environment.

6. Use of IVR for learning sessions

This can be valuable but is difficult in environments with ambient noise.

Source: Invest India

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The digi-opportunity for MSMEs

Effective collaboration between the private sector, state, and local governments is essential for undertaking such initiatives. Training serves as a stepping-stone, especially for micro and small businesses, to embark on their technological shift.

In light of this, there have been a host of initiatives, assistance programmes and financing pathways put forward for the overall development of MSMEs, which includes making them digitally -adept. Nevertheless, given the substantial digital maturity gap, it can be inferred that the accessibility and impact of these support channels are yet to reach their intended potential.

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Digi-friendly policies and initiatives

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

The MSME sector receives considerable government support through various policy initiatives covering financial assistance, marketing support, infrastructure development, skill enhancement, and technical aid. On the digitalisation front, the Ministry of MSME has introduced a range of umbrella programmes and standalone schemes over the years that specifically cater to the growth of technology within young and small-scaled enterprises. These programmes aim to digitally streamline at least one operational process – be it enterprises' initial registration to further expansion – with the objective that this move will help them become more digitally proficient.

Key exemplars of such developments, along with their conscious purposes, include the following:

Development	Objective
E-governance	Enhance operational efficiency and facilitate prompt compliance.
Digitalisation in financial assistance	Promote the use of digital payment methods.
Information exchange portals	Enhance transparency and facilitate easy access to data.
Online selling and buying portals	Broaden enterprises' customer base.

Source: IUP Publications

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

Udyam Portal

The new registration process called 'Udyam', which has replaced the previous method of filing Udyog Aadhaar Memorandum on 1st July 2020, uses a composite criteria for the classification of MSMEs. Both current and potential entrepreneurs are now able to submit their 'Udyam' registration electronically via the website. This development has streamlined the regulatory framework, as evidenced by the increasing number of registered enterprises on the system. It is purported to have further benefits, such as disseminating comprehensive sectoral trend data to policy makers, as well as enhancing access to enterprise schemes.

On 15th March 2024, the total number of registered enterprises on Udyam and Udyam Assist Platform (UAP) crossed 4 crore, which marks a key milestone towards the formalisation of the MSME sector.

Digital MSME

The Ministry of MSME launched the Digital MSME scheme on 27th June 2017 to encourage the integration and utilisation of Information and Communication Technology (ICT) within the MSME sector. The primary objective has been to boost the digital capabilities of MSMEs by helping them incorporate ICT tools and applications in their production and business processes. The scheme was introduced with the aim of providing financial support for the implementation of cloud computing across various areas, including Enterprise Resource Planning (ERP), Accounting, Manufacturing Design and Regulatory Compliance, which encompasses Goods and Services Tax (GST) compliance.

The scheme underwent modifications in 2019, outlining awareness programmes and workshops to educate MSMEs about the benefits of ICT. This includes, amongst others, the development of an e-platform, creation of software and apps, the promotion of digital literacy, training for MSME officials, and assistance for IT infrastructure to agencies.

At present, Digital MSME has been infused as a constituent within the Champions Scheme, being interlinked with all its other components.

MSME Champions Scheme

The MSME Champions scheme has been formulated through the Standing Finance Committee (SFC) by merging all six components of the former Technology Upgradation Scheme (TUS) for a five-year period from 2021-22 to 2025-26. It represents a holistic approach aimed at consolidating and aligning various schemes and interventions within a shared purpose. The ultimate goal is to identify clusters and enterprises and modernise their processes, cut down wastage, enhance business competitiveness, and facilitate their national and global outreach.

The three components under this umbrella programme include:

1. MSME-Sustainable (ZED)
2. MSME-Competitive (Lean)
3. MSME-Innovative (covering Incubation, IPR, Design, and Digital MSME)

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Government e-Marketplace (GeM)

GeM is an e-commerce platform that facilitates the digital procurement of goods and services by public sector entities such as ministries, departments, and public undertakings. It was launched in August 2016 with the objective of enhancing efficacy, lucidity and expeditiousness in procurement, as well as providing buyers with the opportunity to exclusively choose MSMEs as their sellers.

For MSMEs, this platform is not only a promising medium to expand sales but also a gateway that can align them with public sector operations.

As per official data, GeM closed 2023-24 on a high note, crossing a milestone of ₹4 lakh crore in gross merchandise value. Of this, nearly 50% of orders have "been awarded to the marginalised seller segment such as artisans, weavers, craftsmen, MSEs, especially women-led and SC/STs, SHGs, FPOs and startups" (~P.K. Singh, CEO GeM).

Direct Benefit Transfer (DBT)

The DBT system was launched in January 2013 with the objective of digitising all welfare and subsidy programmes. This would help provide benefits – in either cash or non-cash items – to eligible recipients directly through the use of electronic mediums such as the public financial management system (PFMS). By digitalising these programmes and their beneficiaries, the DBT promises accelerating delivery, streamlining procedures, and reducing instances of fraudulent activities.

MSME Global Mart

The National Small Industries Corporation (NSIC) introduced the MSME Global Mart in 2020-21, which is an e-commerce platform functioning on a B2B model. Through an annual membership, MSMEs gain access to services that allow them to create a digital presence for their businesses. This platform not only facilitates MSMEs to exhibit their offerings, but also interact with buyers and sellers worldwide and expand their network.

MSME Sambandh

The Ministry of MSME launched the information portal, MSME Sambandh, in 2017 with the aim of monitoring the public procurement process and elevating the role of micro and small enterprises (MSEs) in the same. It strives to closely track the performance of ministries/departments and central public sector enterprises (CPSEs), as well as oversee the implementation of the public procurement policy. Specifically, this policy mandates that 25% of the total annual purchase of products and services must be sourced from MSEs.

For 2023-24, the amount of procurement reported on the MSME Sambandh portal stood at ₹2,10,931.53 crore. Meanwhile, ₹3,478.08 crore has been reported so far for the current 2024-25 year (as of 21st May 2024).

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MSME Samadhan

The Ministry of MSME launched the MSME Samadhan portal in 2017 to address concerns pertaining to delayed payments to MSEs. The digital portal enables MSEs to lodge grievances and have greater certainty on their settlement, which includes receiving requisite interest. Such alleviates a major problem of bad debt that often hinders working capital for smaller firms.

As per the data on the Samadhan portal, a total of 1,90,776 complaint applications have been submitted as of May 2024, while 75,408 cases have been filed in the MSE Facilitation Council.

MSME Sampark

The Ministry of MSME introduced the MSME Sampark job portal in 2018 with the aim of acting as a digital intermediary that connects job seekers with relevant employment opportunities, as well as helps recruiters identify suitable candidates for their vacancies. The portal facilitates the registration of both MSME technology centre trainees who have finished their training and recruiters from national and multinational companies.

As of May 2024, the portal houses a database of 4,96,557 jobseekers and 6,699 recruiters, with 37,867 candidates being successfully placed.

My MSME

The Office of Development Commissioner MSME has recently rolled out a web-based application module known as My MSME. This module aims to facilitate enterprises in accessing different schemes and leveraging their benefits. Additionally, the feature is accessible via a mobile application, which enhances its ease and usage.

Source: IUP Publications; Press Articles

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

Select institutional setups and platforms that ease the digitalisation pivot

National Payments Corporation of India (NPCI)'s interoperable Unified Payments Interface (UPI) system

- Has been a game-changer in mobile-based digital payments, with person-to-merchant (P2M) transactions constituting a large chunk of the overall volume.
- Recognising that microenterprise proprietors need targeted support for digital-onboarding, the NPCI created a separate category of P2M-M, under which such enterprises are not charged the Merchant Discount Rate.

Account Aggregator (AA) model institutionalised by the RBI

- Helps eradicate hassles related to fragmented data (especially for small-scale businesses wishing to avail loans) by providing a robust system that democratises credit access to microenterprises.
- Creates avenues for cash-flow based working capital lending using the digital trails of thin-filed microenterprise proprietors.

Trade Receivables Discounting System (TReDS) launched by the RBI

- Electronic platform for facilitating the financing/discounting of trade receivables of MSMEs through multiple financiers. These receivables can be due from corporates and other buyers, including government departments and public sector undertakings (PSUs).
- Enables easy access to credit for small businesses that are vendors to large corporations.

Open Network for Digital Commerce (ONDC)

- Holds the power to lead a market disruption in e-commerce by making the relationship between the buyer and seller platform agnostic.
- Foundation is based on having open protocols for the entire e-commerce value chain, which establish public digital infrastructure in the form of open registries and open network gateways to enable information exchange between providers and consumers.
- By standardising operations like cataloguing, inventory management, order management and order fulfilment, small businesses would be able to use any compatible applications instead of being governed by specific platform centric policies. This will in turn encourage easier digitisation for those currently not on digital commerce networks.

Source: Institute for Financial Management and Research; Press Articles

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

These initiatives provide an overview of how integral digitalisation has become for MSMEs and the steps the government is taking to help simplify their pivot.

Notwithstanding this, while these developments stand at the forefront as they are specifically geared towards digital transformation, they do not make up an exhaustive list. Rather, a component of digitisation – whether it be in the form of subsidising digi-friendly technologies (for production, distribution and other operational processes), rendering skill development, or facilitating third party support – lies in many umbrella programmes that aim to streamline MSMEs holistically.

As an example, the Self Reliant India Fund has been set up to especially help those MSMEs that have the viability to grow into larger enterprises but get "stuck in the middle" due to a lack of capital and investor support. A core component of this funding can help such enterprises adopt digital technologies (the actual hardware, software and infrastructure), while also carry out capacity building for the same. Obtaining capital support for integration of largescale platforms such as the ERP and CRM can be a game changer for these firms to catapult in size, scale and scope. Concurrently, this capital and guidance can also help them access more channels of support through a wider variety of stakeholders, which ultimately widens their reach and technological prowess.

Meanwhile, the Raising and Accelerating MSME Performance (RAMP) scheme aims at strengthening institutions and governance of MSMEs (at both the Centre and State levels), as well as increasing the sector's access to credit and market. This includes encouraging enterprises in the adoption of advanced technology through requisite knowledge transfers, R&D, skill development and the creation of bespoke market intelligence.

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Digi-friendly policies and initiatives

Moreover, the large-scale Cluster Development programme (MSE-CDP) and Scheme of Fund for Regeneration of Traditional Industries (SFURTI) also have their digital thrust. Specifically, the CDP concept targets collating the growth of enterprises together as geographical clusters, where their digitisation is led by common facility centres (CFCs) housing latest machinery at affordable rates, an impetus on e-branding, technological upgradation (including integration of supply chain management software, automation, resource planning etc.) and skill development.

On the other spectrum, SFURTI aims to organise and leapfrog traditional artisans into clusters that ultimately equip them with contemporary competitiveness and sustenance. This includes, amongst others, fostering the development of common digital infrastructure, conducting capacity building, assisting with the shift to digital payments, as well as facilitating artisans to build a digital commerce presence.

In this sense, digitalisation does not stand in a silo but can be pioneered through a range of steps that forward enterprises in the domain of digitising core processes and plaiting them together under a shared purpose and strategy. The harmony within which each of these digital domains react with one another is what leads to universal digitalisation.
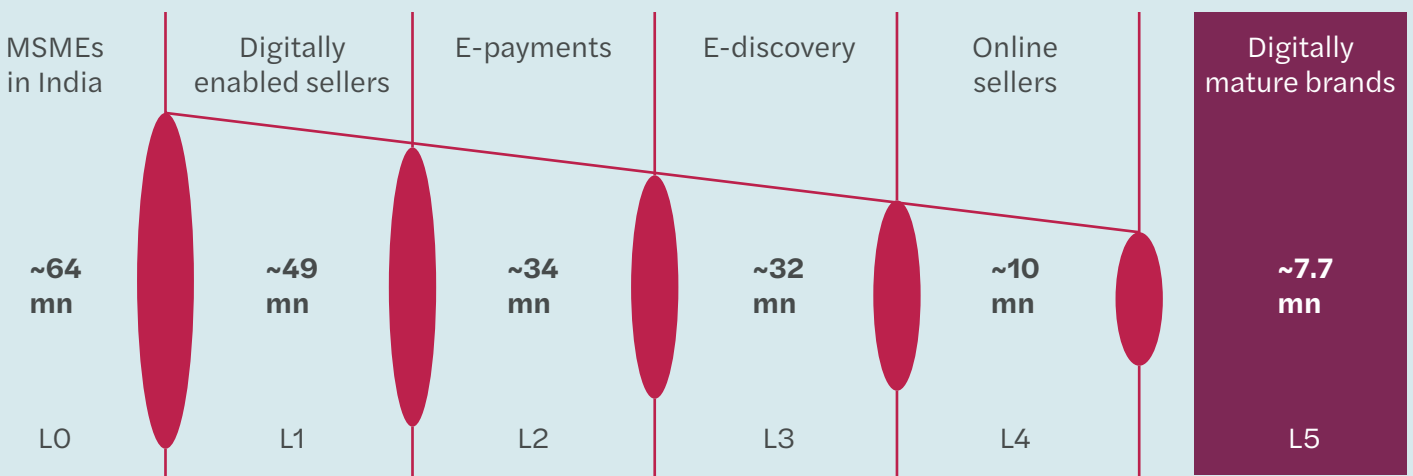
04

Inherent pain
points

Designing a digi-ready docket for MSMEs
Inherent pain points

Despite the gravity and criticality of digitalisation in the contemporary business ecosystem, its pace of adoption amidst Indian MSMEs continues to linger behind. Rather, digitisation is viewed as an isolated concept that precariously hinges over fragmented operations. The strategic embedment is questionable as many of these electronic processes have simply been rubber-stamped as an act of tokenism and hold little alignment with overall business objectives.

The MSME digitisation funnel

As per a study by Redseer and GetVantage, MSMEs in India are considerably under-digitised, with only around 12% of the lot (~7.7 million) turning into digitally mature brands. The rest are staggering across different stages of the digital journey.

MSMEs in India	Digitally enabled sellers	E-payments	E-discovery	Online sellers	Digitally mature brands
~64 mn	~49 mn	~34 mn	~32 mn	~10 mn	~7.7 mn
L0	L1	L2	L3	L4	L5

Source: Redseer and GetVantage

Designing a digi-ready docket for MSMEs
Inherent pain points

Even in the presence of multiple government initiatives and institutional setups, what are the factors contributing to a persistent digi-gap?

The term "MSMEs" refers to a very diverse set of enterprises that differ in their size, scope and operations. It can encompass those firms that are considerably established and functional, as well as those micro-proprietors that are predominantly unseasoned. In this sense, their route towards digitalisation is not linear and they often run into different degrees of pain points when attempting to leapfrog at artificially high speeds.

Some of the core challenges MSMEs face can be grouped as follows—

Inadequate awareness and literacy

Despite the widespread integration of electronic processes, awareness amongst smaller players is not up to the mark. A large number of MSMEs view technology as a cost centre due to a lack of understanding on its concrete objectives. For those that are aware, the knowledge gap stunts progress given the shift in technicalities required.

Such educational deficiency can pose additional entry barriers for firms given that digitalisation is a field where there is a lack of standardised practices to guide MSMEs in their journey, as well as inadequate access to specialised partners who can mentor them and keep them abreast with latest updates. A majority of the skill development process needs to happen in-house.

Digital integration is capital intensive, given a substantial upfront investment in hard technology and soft management. Many smaller scale organisations do not have enough working capital to meet this expenditure. For example, for a small-scaled player, even the additional cost of renting a Point-of-Sales machine or signing up with a payments gateway provider can be daunting. On the other spectrum, those MSMEs that are aware and capable (both financially and skill   wise) are quite open in revamping processes. The integration of digital systems in areas such as security & surveillance, accounting, web presence, virtual meetings etc. shows that MSME are not digitally averse. However, a lack of clarity on the return on investment (ROI) often slumps adoption. Firms are unable to spell out concrete benefits a technological system will generate for them due to a lack of data and understanding.

Constrained capital and resources

Designing a digi-ready docket for MSMEs
Inherent pain points

Limited infrastructure

While, in recent years, MSMEs have seen greater access to internet connectivity, electricity and basic computing systems, a digitally powered enterprise needs more than just the fundamental "hard" infrastructure. Electronic processes and mechanisms hold the power to transform infrastructural progress, given they are integrated intricately into the business model. Unfortunately, many businesses, having inadequate IT infrastructure and incomplete integration with platform service providers, encounter hesitancy in this shift due to the risk of transaction failure. Gaps in data confidentiality, integrity and high service costs keep complete digi-transformation at bay.

Meanwhile, an enterprise's success with digital infrastructure is further dependent upon how well it has been adopted by its upstream and downstream partners. Studies suggest that while digital adoption is steadily increasing on the retail side, it is still persistently low in the management of supply side processes. This causes heavy dependence on cash and credit-based low value transactions, posing further hurdles for small players to progress up the digi-ladder.

Digital systems require a proactive governance structure and MSMEs do not have comprehensive resources to help them navigate through complex, changing regulations. In addition, the proliferation of data privacy concerns over the last few years has ramped up the need to design responsive oversight mechanisms. The introduction of the Digital Personal Data Protection Act of 2023 has been a landmark development in this regard that aims to streamline data protection. Nevertheless, MSMEs need to understand their compliance obligations under this to avoid penalties and legal liability, as well as maintain a credible repute amidst stakeholders. Concurrently, they must also become aware of implications arising from cross border data transfers and stay well-versed with all latest developments. In the absence of specific guidance, this can become an onerous task to handle.

Compliance hurdles

Asymmetric power and platform dominancy

There is a fair degree of literature that suggests an underserved dependence in the Indian e-commerce landscape, where a majority of sellers are required to make fundamental changes to their business practices to accommodate/optimise operations on existing digi-platforms. As a result, many sellers feel "locked in" the e-commerce system where they cannot grow to their full potential. Open and user-friendly practices are needed that allow small-scale entrepreneurs more freedom when expanding upon digital platforms, which will ultimately govern their long-run success and sustainability in this domain.

Given that the pandemic has actualised digital platforms as the sine qua non for business continuity, there are many enterprises that are jumping onto the digi-bandwagon at premature speeds. Therehas been a consistent rise in the fear of missing out (FOMO) attitude, which has exacerbated the core challenges even further.

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

What is the digitalisation FOMO amongst MSMEs?

It is an irrational attitude. While COVID-19 put forward a need-based-opportunity that leapfrogged MSMEs into new market channels, it also caused some enterprises (especially the smaller-scale ones) to move at a pace that they were not able to handle. Alternatively, those who could not adopt a fully digital model as their counterparts at that time have an ever-strong urge to go digital now.

The constant chatter about the benefits of digitalisation also adds to the pressure, leading to a fear of missing out (FOMO), especially amongst the small and mid-sized players. However, just because a practice is beneficial, it does not mean it can be administered as an overnight pill.

Key questions that businesses must ask before they embark upon digital transformation are:

1	How well can our products or services be rendered digitally?

2	How digitally-savvy are our prime customers?

3	What areas may we need to invest in to meet their needs and bring them added value through technology?

4	How conducive are our own operational processes towards digitalisation?

Source: Press Articles; Mazars' Analysis:

Designing a digi-ready docket for MSMEs
Digi-friendly policies and initiatives

If the answer to any one of these questions is difficult to acertain, then it is imperative the company integrates digital platforms in a gradual manner.

Sprinting too fast into the journey without proper preparation, merely out of FOMO, risks running into additional obstructions such as:

Resistance to change

A digitally savvy culture takes time to nurture, given the need to replace conventional practices with contemporary norms. People and processes that are not thoroughly aware, nor equipped, to embrace digital governance will be reluctant to evolve, presenting undesirable friction.

Security loopholes

Ensuring sound cybersecurity comes hand-in-hand with the adoption of digital practices, given the need to manage electronic data repositories with appropriate risk mitigation strategies. According to research by cybersecurity firm Trellix, small and medium businesses in India face an average of 37 cybersecurity incidents per day, which directly eat into a considerable portion of their revenue. Nevertheless, industry surveys highlight that 60% of such businesses are oblivious to the risk that cyberattacks pose for them and about 40% do not consider cybersecurity as a priority. The risks of expanding the digital domain faster than commensurate security protocols can do more harm than good.

Cyber Trauma

Unsuccessful digital integration – whether it stems from an unaligned enterprise culture, nascent people and processes or exiguous cybersecurity mechanisms – can lead to adverse operational consequences that lower morale and detract novice MSMEs from the technology altogether.
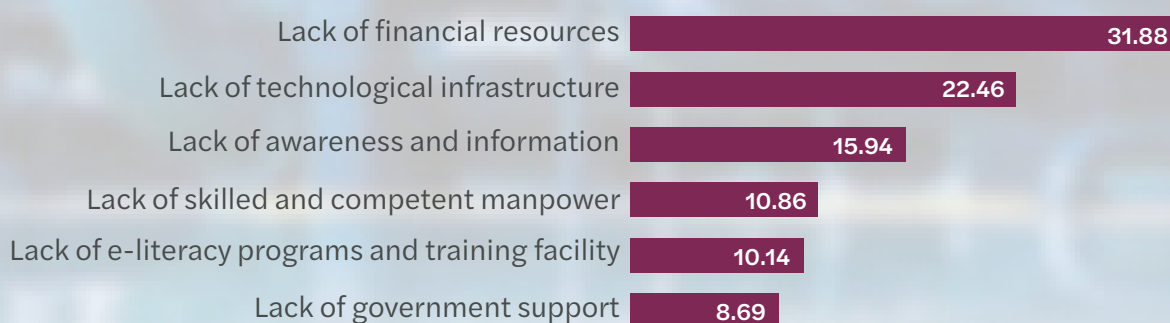
Designing a digi-ready docket for MSMEs
Inherent pain points

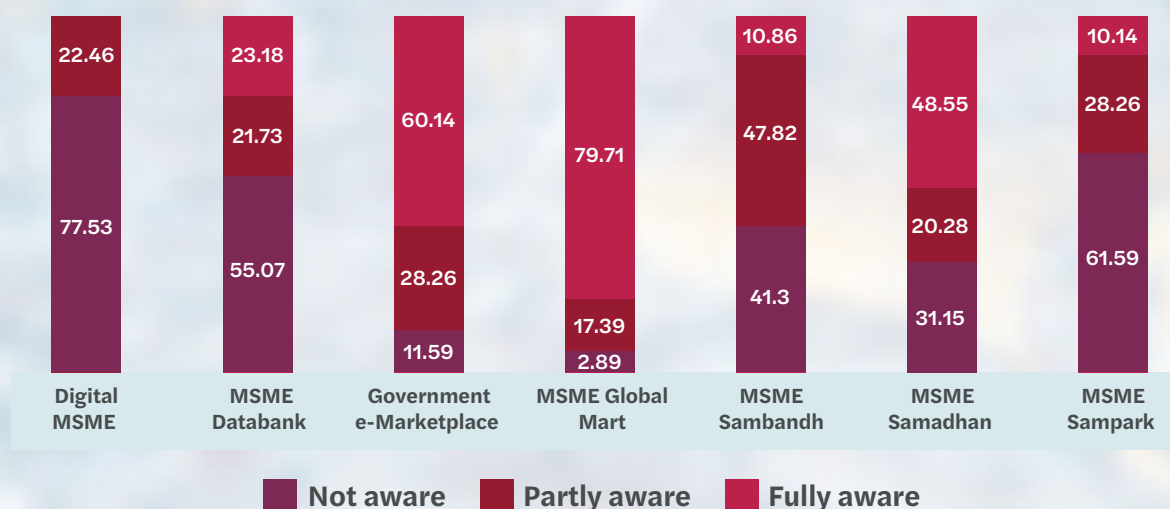**Capital and policy awareness gaps press pain points even more**

Despite the number of policies initiated thus far to support MSMEs in their digitalisation path, there is still a substantial awareness gap on their existence. Many enterprises are either not familiar with the routes of support available for them or cannot avail them due to procedural limitations.

As per a survey study carried out by scholars from the Indira Gandhi National Open University, a significant proportion of MSMEs report a lack of financial resources as a primary obstacle to digitalisation; they simply do not have the means to setup the required technological infrastructure or conduct the training needed to transform into this space. Meanwhile, limited knowledge regarding government initiatives and policies hinders them from obtaining timely support.

Key challenges impeding digital development – MSME survey* response (%)

Challenge	%
Lack of financial resources	31.88
Lack of technological infrastructure	22.46
Lack of awareness and information	15.94
Lack of skilled and competent manpower	10.86
Lack of e-literacy programs and training facility	10.14
Lack of government support	8.69

Awareness of digitalisation policy initiatives – MSME survey* response (%)

	Digital MSME	MSME Databank	Government e-Marketplace	MSME Global Mart	MSME Sambandh	MSME Samadhan	MSME Sampark
Fully aware	22.46	23.18	60.14	79.71	10.86	48.55	10.14
Partly aware		21.73	28.26	17.39	47.82	20.28	28.26
Not aware	77.53	55.07	11.59	2.89	41.3	31.15	61.59

■ Not aware   ■ Partly aware   ■ Fully aware

*Based on a random sample of 138 entrepreneurs from the MSME sector in Delhi. The study was conducted in November 2022.
Source: IUP Publications – Research by Indira Gandhi National Open University

Designing a digi-ready docket for MSMEs
Inherent pain points

Many of these challenges are self-perpetuating in nature, as well as aggravate other obstacles for MSMEs. For example, a lack of financial resources means that enterprises do not only face a lack of infrastructural development but also have difficulty in conducting sound e-literacy programmes. This puts them all the more behind in their technological pivot.

Similarly, a lack of knowledge means they do not understand what the current policies are that may help them in gaining some level of support, especially if these programmes and/or subsidies are loosely fragmented across different parts of the digitalisation journey.

Which policies would be the best ones to pursue in the initial stage? How would they need to be leveraged to complete digital transformation?

These are some of the inexplicable questions MSMEs become entangled in.

05

Global best practices

Designing a digi-ready docket for MSMEs
Global best practices

The challenge of digitalising MSMEs is not simply limited to India. Rather, it is a global issue that triggers multifaceted research and initiatives every year.

What is surprising to learn is that this matter is equally prevalent in technologically advanced countries that, within themselves, host highly sophisticated digital ecosystems. This instils the fact that the environment is not enough to guarantee the willingness and preparedness of smaller enterprises to optimise digital platforms and that a tailor-made approach needs to be integrated either way.

As pure exemplars, some of the key initiatives certain countries have taken to encourage the digitalisation of smaller enterprises are as follows…

Designing a digi-ready docket for MSMEs
Global best practices

The concept of digitalising productivity within small and medium sized enterprises (SMEs) has been well-rooted in the UK landscape and a number of steps (featuring public -private collaboration) have been taken to create requisite awareness building.

In 2018, the UK's Department for Business, Energy and Industrial Strategy (BEIS), together with Innovate UK and the Innovation Growth Lab at Nesta (IGL), launched the **Business Basics Programme** – an innovative approach consisting of a series of experiments to boost the productivity of SMEs (including digital integration).

▪ A **total of 32 projects were funded between 2018 and 2022**, involving a large number of delivery partners and a participation of more than 3,500 SMEs.

▪ 17 of the projects were designed **as randomised controlled trials (RCTs)**, with the aim of generating sound evidence about the impact of interventions. Meanwhile, 15 were **pilots or 'proof of concept',** which were intended to test the feasibility of innovative inventions and examine their potential for larger experiments.

What were some of the learnings?

▪ Start and Grow UK's Business Boost programme, which consisted of a series of workshops directed at young microbusinesses with high growth potential, was found to have been effective in businesses' adoption of modern management tools – i.e., SWOT analysis and a business canvas. It helped players spell out a positive vision and strategy.

▪ Notion's training programme on Operational Coaching for SME managers was found to result in SME managers approximately doubling the time they spend coaching junior employees, and a corresponding decrease in the time they spend on day-to-day management. The link between coaching behaviours and business productivity, as inferred from the success of larger organisations, is quite plausible.

▪ The training on scientific entrepreneurship provided by researchers at City, University of London was successful in helping business owners adopt a more scientific approach in decision making. Doing so helps strategise better, which includes being able to make more feasible pivots during times of change.

▪ The Evolve Digital programme, led in collaboration with Start and Grow UK and Lancaster University Management School, put forward a of a series of peer-based workshops for small family-owned firms. This programme instilled participants to build confidence in their ability to use digital technologies. Hence, post this learning, many businesses cited their intention to adopt such technologies within the next 6 months than did a control group that had access to self-guide materials only.

▪ Edge Hill University's Manufacturing Connect Lancashire project showcased that SMEs that attended two online events – in which they had the opportunity to interact with existing technology users and application experts – were more likely to complete the programme than businesses that were given access to the content only in the form of self-guided online materials.

Source: Department for Business, Energy and Industrial Strategy (BEIS), Government of UK
(Business Basics Programme); Press Articles
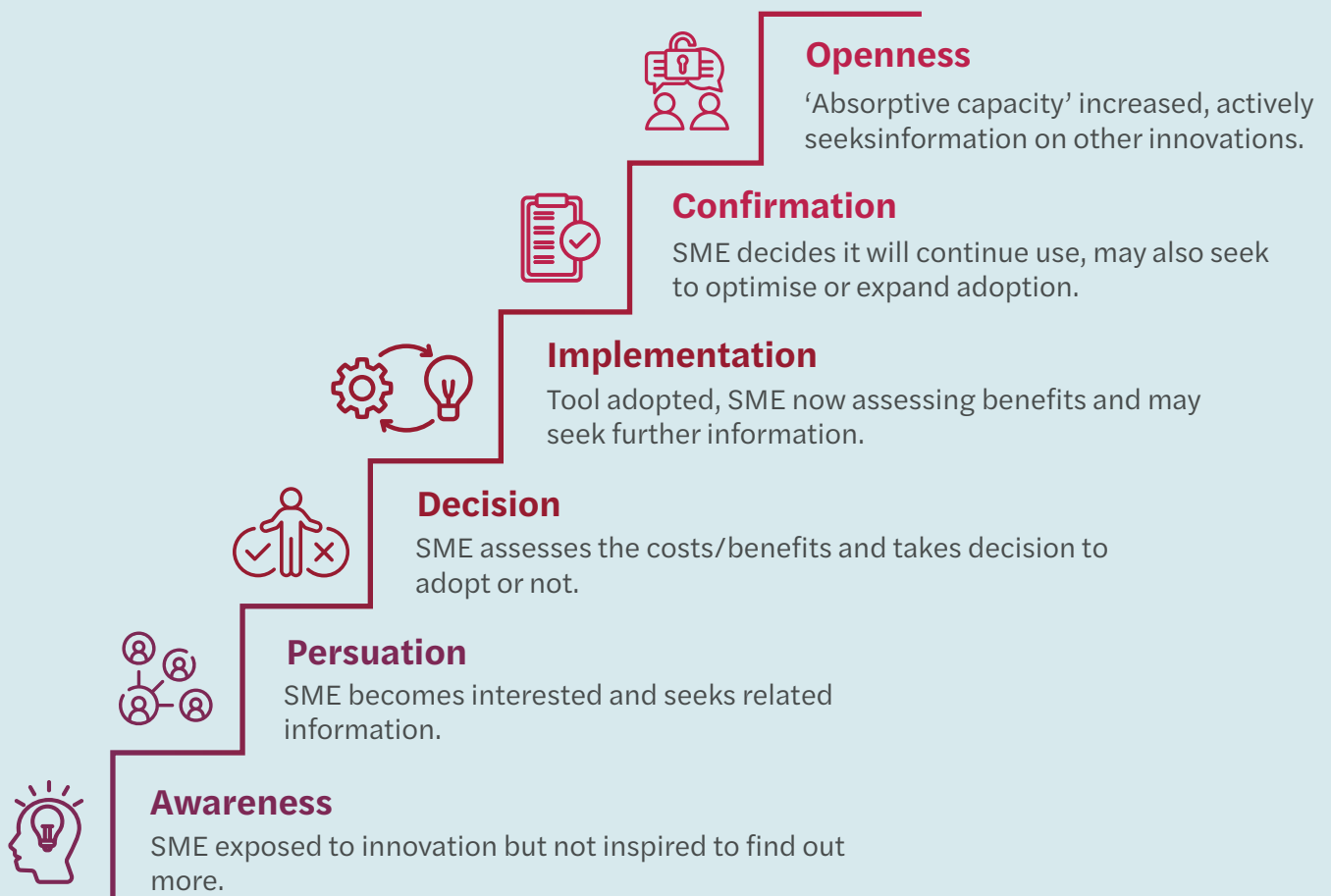
Designing a digi-ready docket for MSMEs
Global best practices

The study further emphasised that adoption is not a one-step leap but a series of stages that require overcoming and progressing through barriers at each stage.

Adoption process as characterised by the Business Basics Programme

Openness
'Absorptive capacity' increased, actively seeks information on other innovations.

Confirmation
SME decides it will continue use, may also seek to optimise or expand adoption.

Implementation
Tool adopted, SME now assessing benefits and may seek further information.

Decision
SME assesses the costs/benefits and takes decision to adopt or not.

Persuation
SME becomes interested and seeks related information.

Awareness
SME exposed to innovation but not inspired to find out more.

Source: Department for Business, Energy and Industrial Strategy (BEIS), Government of UK (Business Basics Programme); Press Articles

Designing a digi-ready docket for MSMEs
Global best practices

SME digitisation is an equally pressing issue in Japan, given a large degree of hesitancy smaller players have towards using contemporary platforms.
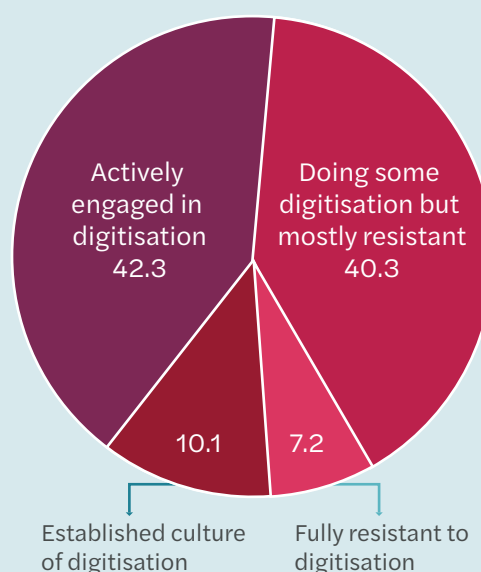
As per a survey conducted by the Ministry of Economy, Trade and Industry (METI) spanning 4,756 SMEs, **about 50% of respondents are resistant to digitisation.**

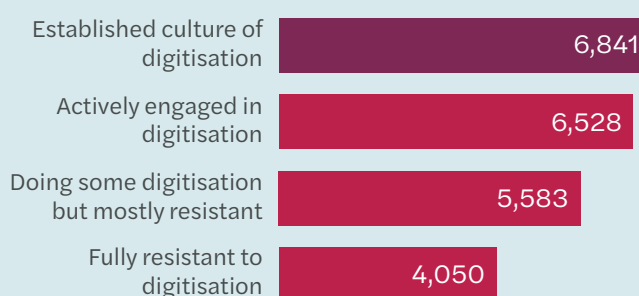Consequently, labour productivity is 40% lower amongst such enterprises.

Meanwhile, **only 10.1% of respondents have an established culture towards digital processes** – i.e., an ecosystem that can help them convert digitisation into full-fledged digitalisation.

Hiking up this digital comfort rate has become utmost important for Japan in order to revitalise its rural sectors and, at the same time, curb issues related to an aging population.

Receptivity to digitisation amongst SMEs

- Actively engaged in digitisation 42.3
- Doing some digitisation but mostly resistant 40.3
- Established culture of digitisation 10.1
- Fully resistant to digitisation 7.2

Labour productivity (in 1,000 JPY)

Established culture of digitisation	6,841
Actively engaged in digitisation	6,528
Doing some digitisation but mostly resistant	5,583
Fully resistant to digitisation	4,050

Source: Ministry of Economy, Trade and Industry (METI), Government of Japan; University of Tokyo

Designing a digi-ready docket for MSMEs
Global best practices

Building Digi-confidence amongst SMEs in Japan

A promising Ricoh footprint to support productivity innovation

A number of public-private initiatives that help SMEs in both hard and soft integration have been put forth throughout the years to spur up digital awareness.

One of such key initiatives consist of that by the Ricoh Group, a Japanese multinational corporation that specialises in providing a range of business solutions. This includes digital services, digital products, graphic communications, industrial solutions and futures (smart processes).

Ricoh has been **offering scrum packages to SMEs** since October 2017. This comprises of over 150+ kinds of packages across nine industries that cover three common tasks:

1. Workstyle reform
2. Data security
3. Back-office operations

Aggregate **sales of such scrum passages through June 2021 stood at around 160,000 units**, with many clients using IT introduction subsidies from the government to capitalise upon this opportunity.

Source: Ministry of Economy, Trade and Industry (METI), Government of Japan; University of Tokyo

Designing a digi-ready docket for MSMEs
Global best practices

Building Digi-confidence amongst SMEs in Japan

How have these packages helped improve SME awareness and hike up their productivity by digital solutions? (success exemplars)

1 Using a GPS-enabled communication system for a concrete mixing company with 30 employees helps ensure that raw concrete is delivered in time without any damage.

2 Integrating a software helps a nine-person food production company maintain process management charts and data necessary to acquire food quality certifications.

3 Utilising a time management system with VPN helps a construction company (with 45 staff members) significantly improve its productivity.

Source: Ministry of Economy, Trade and Industry (METI), Government of Japan; University of Tokyo

06

The digi-ready docket for India

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

The vast opportunities the digital ecosystem has for MSMEs greatly outweigh the inherent challenges and gaps that may be limiting growth. Meanwhile, the global case exemplars showcase that digitalisation is not an impenetrable conundrum but a process that that needs to be understood and addressed from all angles. For MSMEs, the shift from brick-and-mortar to digitisation and then ultimate digitalisation is a radical shift that will require commensurate time and effort. At the same time, it is tenable that some enterprises may not require complete digital transformation at all; they may find value in cherry-picking certain processes to become digital (i.e., working upon digitisation) and then integrating this hybrid model to maintain operations. It is important to respect the vision and scope that each enterprise has and customise a plan that does not cause it to become myopic but receptive to the change that any digital strategy (big or small) requires.

Holistically, Forvis Mazars in India recommends the following digi-docket for MSMEs in India

1. Set education as a priority

Digital awareness and literacy are the foundation of digitalisation. MSMEs need to understand how digital transformation can impact their operations and the steps they must take to ensure all milestones are accounted for. They need to be aware of the significance and optimal use of the internet, which includes being well versed with e-commerce platforms, e-management tools, data privacy etc.

How can we meet this goal?

- Group existing geographic micro, small and medium clusters into sub-groups that consist of enterprises that have a similar level of digital maturity, or lack thereof. The existing MSE-CDP cluster list may be utilised here, and a classification system can be used to distinguish a graded bucket towards digital awareness – Level 1, 2, 3 etc.

- Interview enterprise heads within each bucket to identify their mindset and willingness towards digital platforms. Accordingly, shortlist digital solution providers for each type of graded bucket within each type of enterprise cluster (micro, small and medium) that help address their knowledge gaps.

- Arrange interactive sessions in which each sub-group engages with representatives from digital solutions firms, having a hands-on approach with the tools and platforms. A customised self-guide can also be handed out at the end of each session to reinforce the learning. Note: A separate type of training may be required for medium enterprises that are substantially larger than their counterparts and have a different end goal with going digital.

- These interactive sessions can further involve the integration of existing schemes such as Digital MSME, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), e-NAM etc. Industry-specific specialisation can also be provided here.

- A periodic programme plan that consists of a series of sessions as opposed to standalone ad-hoc seminars are always more efficient. This will ensure a practice of feedback and review.

Holistically, Forvis Mazars in India recommends the following digi-docket for MSMEs in India

2. Encourage targeted investment

Continuous public and private support is imperative to make MSMEs digitally-ready. However, such level of support need not simply be limited to capital; after all, injecting unidirectional funds is unlikely to achieve the fulfillment of long-term objectives and rather encourage enterprises to engage in superfluous expenditure. Balancing financing needs through a range of support mechanisms can help ensure firms receive the right set of digital infrastructure at the right time.

How can we meet this goal?

▪ Finetune fragmented subsidies and grants into a unified digital funding programme, which is specifically for MSMEs to adopt digital technologies. Couple this with expert/consultant support. This could cover costs related to purchasing software, hardware, and training. A specific "digi-mentor" can be assigned to make sure firms know how to operate and integrate each set of the technology at every step. Furthermore, instead of providing a lump-sum amount at one go, apportion out the funds in a series of installments that will be disbursed upon the meeting of a preset, measurable digital milestone.

▪ Offer tax deductions or credits for entity-driven investments made in digital infrastructure, such as IT equipment, software, cyber-training and cybersecurity.

▪ Expand private avenues of investment. This includes encouraging venture capital firms and angel investors to fund MSMEs that are focused on digital innovation.

▪ Support startup incubators and accelerators that focus on digital technologies for MSMEs. These programmes can provide funding, mentorship, and networking opportunities to budding entrepreneurs in the digital space.

▪ Establish industry consortia or alliances that provide funding support to MSMEs in specific sectors or regions. These consortia can leverage collective resources to fund digital projects and initiatives that benefit the entire ecosystem.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

3. Channelise Lendtech innovation into MSMEs

While scheduled commercial banks have been pioneers in addressing credit needs, LendTechs have disrupted the industry with their innovative capabilities to reach new customers and offer custom financing solutions. Specifically, the use of digital platforms, algorithms and data analytics allows Lendtech companies to quickly evaluate loans, offer friendlier interest rates and flexible loan terms, as well as render speedy disbursements. MSMEs should be guided to leverage this space at the optimum, given that it will not only help them meet financing requirements but also understand the potential of digital platforms to transform a set of processes altogether. This can help them grow their trust and confidence in digitalisation even more.

How can we meet this goal?

- Foster both conventional and non-conventional financial institutions to integrate artificial intelligence (AI) and advanced analytics in their operational processes. This can redefine and accelerate the success of digital lending.

- Develop umbrella-encompassing mobile applications that that allow MSMEs to access a comprehensive set of lending services on-the-go. This makes it easier for them to manage their finances and apply for credit. Moreover, a pre-screening loan assessment that is easy to complete and understand will help them reach out to the right set of institutions.

- Provide support in helping MSMEs create and maintain their DigiLockers with the required set ofdocuments needed for common loan applications.

- Create P2P lending platforms where individual investors can lend directly to MSMEs. This democratises access to capital and provides alternative funding sources

- Encourage and embed blockchain technology in the e-lending process to ensure transparent and secure transaction records, reduce the risk of fraud and build trust amongst lenders and borrowers.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

Holistically, Forvis Mazars in India recommends the following digi-docket for MSMEs in India

4. Build comprehensive regulatory understanding

MSMEs already face considerable difficulties in understanding the regulatory ambit of their own operating industries. This understanding gap is often construed to exacerbate with the introduction of digital processes, given that they bring in a new compliance agenda on the table. Providing firms with a thorough knowledge of what the real regulatory obligations are and how they do not aim to frivolously add more burden is pivotal. While expert advice is the typical go-to-way here, it cannot be the sole medium of learning. Enterprises must be helped to help themselves by having access to consolidated, concise and user-friendly guidelines on-the-go that are carefully crafted in layman's terms. This can apprise them on what duties digitalisation brings, why it is important to meet them, the cross-border implications this holds and the long-run synchronisation that can be built into meeting compliance dues.

How can we meet this goal?

- Create dedicated websites and portals where MSMEs can easily access information about relevant regulations concerning data protection, cybersecurity and information handling. These portals should offer clear, concise summaries and detailed guides on compliance. A model from the Champions portal may be leveraged as a starting point here.

- Couple India-centric laws with overseas regulations. Enterprises that export or deal internationally should be able to select a country of their choice to see what additional obligations they may have when dealing as fully-compliant Indian entities.

- Develop mobile applications that provide updates on regulatory changes, compliance checklists, and step-by-step guides for MSMEs to follow. A customised notification system can be highly effective here, given it can readily be leveraged by operational managers.

- Overtime this digital regulatory repository can also be extended to sector-specific regulations, offering MSMEs a more streamlined approach to understand all rules concerning them. It will also make them comfortable in expanding their market outreach.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

Holistically, Forvis Mazars in India recommends the following digi-docket for MSMEs in India

5. Foster greater inclusivity of medium units

Many existing schemes towards MSMEs are skewed towards micro and small units only; the medium cohort is excluded due to its size and/or turnover. This inherently discourages entities from growing past a certain limit and many often try to "stay small" to avail incoming support. Nevertheless, medium enterprises are still growing and face their own set of operational challenges that they could require assistance in. While they may not need the same level of hand-holding as their smaller counterparts, it does not mean they do not require any support whatsoever. A similar conjecture follows suit for digitalisation; while medium firms may already be abreast with basic electronic processes and may have inculcated some into their individual processes, their task towards digital transformation is quite different than that of micro players. They may need guidance pertaining to tertiary digital areas such as cloud migration, analytics, ERP implementation, cyber-maintenance, search engine optimisation, amongst others. A dedicated plan that helps to address their areas of focus and binds them into the overall chain of support for MSMEs is crucial.

How can we meet this goal?

- Develop digitalisation programmes specifically tailored to the needs and capabilities of medium-sized enterprises. These programmes may include areas such as optimal cloud management, implementation of ERP, CRM and SCM, leadership training, interoperability, amongst others.

- Offer technical assistance and consulting services to medium units to help them assess their digital readiness, identify areas for improvement, and develop a customised plan for them. This strategy is highly effective for high-performing entities that can see a huge change post digitalisation.

- Foster partnerships between government agencies, industry associations, and private sector stakeholders. Holding digital conclaves can be especially helpful here.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

Holistically, Forvis Mazars in India recommends the following digi-docket for MSMEs in India

6. Keep digitalisation a gradual not binary process

A core reason for firms to either delay or fall flat in digitalisation has been the FOMO that pushed them to bite more than they could chew. Accordingly, MSMEs should be encouraged to adopt *digitisation* first, as opposed to *digitalisation*, and that too at a pace that is suited for them to commit. In fact, not pressing upon digitalisation at all can ironically speed up this process more than ever. Digi-service providers should keep the focus on moving firms to smarter ways of working that, naturally, bring in an element of technology for them to learn.

A similar approach was vouched by the founders of 'Tohands' Smart Calculator in Shark Tank India. The entrepreneurs realised that something as basic as a calculator still makes up an essential part of working for many smaller companies. For these enterprises, the story is about making a couple of calculations to keep the trade going and investing in a POS system is just "too much." Rather than force them to go digital, it is best to bring in something that remains familiar – i.e., the calculator – but in an upgraded form that lets them record transactions and ultimately enhance their book-keeping mechanisms. The added benefits of a digital calculator will in turn boost their confidence towards digital platforms in general and a POS investment may ultimately become desirable.

How can we meet this goal?

- Understand the nature of work in micro and small enterprises and identify areas where there is scope to add just an element of digital technology. This technology can be as simple as upgrading a calculator, an excel sheet, a books of account, a production process etc. Keep the change simple and understandable.

- Have enterprises work their way up by steadily introducing them to IoT-enabled devices and sensors that collect data and manage processes. Keep something as radical as automation far off the charts, until the enterprises have built enough trust with the technology.

- Make sure the people operating such devices are fully equipped with how to operate them in the right manner. Initial training sessions, even for the simplest of software upgrades, may require a new briefing on the table.

The digi-ready docket for India

No digital strategy, not matter how sound it is, can thrive in an ecosystem that is not fit for this purpose. In other words, the availability of essential items such as high-speed internet access, secure data storage platforms and cloud computing is imperative for MSME digitalisation, and this must continue to be met in rural and semi-urban areas.

Training on digitalisation should ultimately be mapped on a ZERO to HERO spectrum. That is, encouraging the adoption of technology that requires zero-to-little investment first and then upgrading firms into making larger digital expenditure. The level of initial hesitancy will be lower when there is a need to make lower upfront investment.

Incentive-led implementation is highly effective. Offering incentives such as bonuses, promotions, or recognition to employees who successfully complete digital skills training can go a long way in instilling a culture of digital literacy.

Remote working has become quite normalised across workplaces, even after the pandemic has subsided. The focus on cloud data management is thereby pivotal and an unambiguous code of conduct that governs confidentiality across borders and physical realms should be highly advocated in MSME-centric seminars.

When it comes to offering help, many a times a greater variety can do more harm than good. Having a plateful of fragmented, individual-running programmes where each focuses on providing support on a sole parameter (i.e., education, infrastructure, networking etc.) can create a shopper's effect confusion; MSMEs will not know when to approach what programme at what stage. Offering holistic scrum packages can be quite useful here, especially for enterprises that are in the nascent stages of going digital.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

These factors, supported by policy interventions from the government and innovative practices from private players, can create an ecosystem that facilitates the digital transformation of MSMEs. Addressing the digital divide and information asymmetry will ensure a change in attitudes and beliefs and help create linkages across both upstream and downstream partners.

Having said that, this is just putting up a couple of bones in the structure of something as intricate as digitalisation. Many of these parameters are industry-, size- and scope-specific, requiring a large degree of customisation to cater to the actual set of enterprises in question.

Designing a digi-ready docket for MSMEs
The digi-ready docket for India

What's ahead?

On the whole, the need for fast tracking MSME digitalisation across India cannot be emphasised enough. Digital platforms have the power to transform the fragmented and highly heterogeneous mix of MSMEs into a more sleek and directional set of enterprises that, in aggregate, can achieve their own goals and potential.

Spreading digital awareness and literacy is the number one steppingstone, as a lack of knowledge on exactly what digitalisation is and why it is as important for smaller firms as it is for the larger ones is still understated. Many firms shy away from the investment – be it in capital, people, or processes – and establish a "digital block" in their working models.

In spite of all this, while it is important to encourage MSMEs towards digital processes, it is not wise to push them at a speed that causes them to trip early on. This is one of the core reasons many firms lose confidence in the concept and become even more digitally-blocked than they were before.

While public and private support has largely been quite positive when it comes to forwarding digital technologies, this collaboration should continue to increase even more. After all, this is a radical task that requires enterprises to pivot and grow in a range of areas – be it literacy, technicality, management and governance – and a multidimensional support system is what will drive them to cross every parameter.

By strategically weaving all loose ends and addressing the gaps in digital infrastructure, capital costs, regulatory complexity and skill development, India will be able to pace up its MSMEs into becoming more digitally-sound and prepared to blossom in a highly dynamic contemporary environment.

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