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**ECONOMIC REFORMS, LIBERALISATION AND GLOBALISATION: AN  
IMPACT STUDY ON GROWTH OF MSME SECTOR IN INDIA**

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**INTRODUCTION:**

Micro, Small and Medium Enterprises (MSMEs) sector play a crucial role in the sustainable economic growth of both emerging and developing economies; this is particularly true of India.

According to United Nations Industrial Development Organisation (UNIDO) small and medium enterprises around the world are estimated to account for almost over 90 per cent of all enterprises, and for 50-60 per cent of total employment in the world.

India's Asian Counterparts like, China, Taiwan and South Korea have been able to build much of their economic success on the growth of SMEs. The small and medium enterprises' contribution to China's economy has been immense; they have been instrumental in creating 75 per cent of the total productions output and are accountable for close to 70 per cent of China's total export.

In the USA, small and medium enterprises (firms with less than 500 employees) account for 99.9 per cent of the business, almost 50 per cent of total employment. Also, about 97 per cent of identified exporters are from the SME sector.

Similarly in Japan SMEs account for 99 per cent of business enterprises. The segment account for about 74 per cent of employment in the manufacturing sector, 85 per cent of total employment in the real estate services sector.

SMEs in South Korea represent 99.8 per cent of total business enterprises, account for 86.5 per cent of total employment.

In Brazil, MSE represent 20 per cent of the GDP. If the country's 4.7 million registered business, 96.8 per cent are MSEs and along with the other 9.5 million informal enterprises, they employ 59 per cent of the economically active population. Similarly informal and micro enterprises account

for 39 per cent of labour force and contribute to 24 per cent of the GDP in South Africa; SMEs employ 27 per cent of the labour force and contribute 32 per cent to the GDP; while large enterprises employ 34 per cent people and account for 44 per cent of GDP.

SMEs comprise over 90 per cent of all industrial units in Bangladesh contributions between 80 per cent and 85 per cent of the industrial employment and 23 per cent of the total civilian employment. They contribute three-quarters of the house hold income in both the urban and the rural areas.

In Thailand, SMEs play an integral role in the economy of the country. In 2003, there were 20,06,528 enterprises of which 99.5 per cent were SMEs. These SMEs generated products worth 38.1 per cent of GDP in 2003 and they employed 60.7 per cent of Thailand's working population.

According to an Australian Economist Chris Hall, the SMEs contribute about 70 per cent of new jobs across the globe, while larger firms tend to job destroyers. The further states that as countries develop the share of agriculture in providing employment and in GDP decreases.

In India, the MSME sector is the nursery for entrepreneurship, often driven by the individual creativity and innovators, with a significant contribution in the country's GDP, manufacturing output, export and employment generation. MSMEs contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSMEs and the overall growth in the MSMEs is much higher than in the larger industries, MSMEs are better dispersed. In view of these factors, MSMEs are important for achieving national objectives of growth with equity and inclusion.

As per the quick estimates of 4<sup>th</sup> All-India census of MSMEs, the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons.

If the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94 per cent) are in the unregistered segment.

MSMEs in the country manufacture over 6,000 products. Some of the major sub-sectors in terms of manufacturing output are food products (18.97 per cent), textiles and readymade garments

(14.05 per cent), basic metal (8.81 per cent), chemical and chemical products (7.55 per cent), metal products (7.52 per cent), machinery and equipments (4.5 per cent), rubber and plastic products (3.9 per cent), furniture (2.62 per cent), paper and paper products (2.03 per cent) and leather and leather products (1.98 per cent).

In view of the MSME Sector's role in the economic and social development of the country, the Government has emphasized on its growth and development. It has taken various measures initiatives from time to time which have facilitated the sector's ubiquitous growth.

The rationale and justification for effective policy and programmatic support is driven by the need to internalize the externalities, which has enabled the MSME sector to coexist with the large scale industries. That is why Government accords preferential treatment to the Micro and small Segment in relation to larger players. However, with increasing globalizations, MSMEs have been facing many challenges. Since liberalization in 1991, the sector has invariably been exposed to competition from across the globe.

#### **NEED FOR THE STUDY:**

Despite the significant role played by this sector in the Indian Economy, it is rather difficult to obtain information or comprehensive documentation relevant to the actual status, problems and prospects of the MSME sector through any single source. To fill this void, the researcher has made an attempt to obtain detailed information pertaining to different facts and present the same in the form of "Status, Role, Problems and Prospects of MSME sector in Indian Economy during the liberalized period". This maiden thesis aims at providing comprehensive insights into the MSME sector to the policy maker, industrialists, policy players, researchers and students of higher learning institutions.

#### **OBJECTIVES OF THE STUDY:**

Although a very substantial literature is available dealing with the various dimensions of the MSME sector yet there is an urgent need of a comprehensive study which may cover the most neglected aspects viz., impact of reforms on the growth and development and prospects of MSME sector in new regime. The present study is an endeavour in this director.

**The main objectives of the present study are:**

1. To examine the state sponsored development programmes and policies;
2. To study the status of MSME sector;
3. To examine the recommendations of various committees/working group relating to credit and promotion of MSME sector;
4. To analyse the impact of “economic reforms” process on the growth and development of MSME sector;
5. To examine the prospects of MSME sector;
6. To suggest concrete measures for the development of MSME sector.

**HYPOTHESIS:**

Hypothesis -1: Economic Reforms encouraged for a sustained growth and development of MSMEs.

Hypothesis -2: Employment opportunities and rate of absorption of manpower has increased by manifolds.

Hypothesis -3: Legislative reforms, policies and programmes have contributed significantly and created favourable environment for growth and development of MSMEs.

**STUDY METHODOLOGY:**

The researcher has attempted to organize the research work on the basis of the stated objectives and hypothesis. The literature reviewed has given enough theoretical background to the issues of MSME sector and research work referred embedded researcher to strategize the strategy to follow to delve into the issues of MSME sector and especially with context of the objectives and hypothesis formulated in the above section. The methods carved out and methodology adopted is succinctly mentioned the following sections and sub-sections.

**Data Collection (sources and of various themes):**

The objective of the study is to assess the impact of economic reforms, liberalization and

globalization on the functionality of MSME sector. There are primarily two aspects of MSME sector is under consideration of the study viz. economic reforms and its impact on the revenue generation, employment and scale-up as well as impact of globalization. Hence, the research is very particular in terms of collecting and collating information on the economic functions of MSME sector and also information on the areas being impacted because of the recent past globalization and liberalization.

Therefore, the research is carried out using secondary information. In this context, the researcher collected information from all MSME owned by Public Sector Undertakings and private parties. The information collected from micro, small and medium enterprises are being collected from various research documents, Government publications and from the web based information. The industrial information units of all agencies are being surfaced to gather the relevant information.

In order to give justice to the study the researcher has purposively collected information before and after the economic reform being institutionalized by the Government. It is also attempted to collect information on the sectors being affected in the course of the economic reforms etc. The research has been mentioned in the following section is non-political in character and hence, confined to collection and analysis of data pertaining to the economic sector.

Besides, information on sectors falling under the purview of the MSME sector is collected and collected to analyze research objectives and hypothesis formulated considering the impact of liberalization and globalization.

### **Data Analysis:**

The study has used the following statistical tools for analyzing the data.

#### **i. Calculating Percent (Straight Line) Growth Rates:**

The percent change from one period to another is calculated from the formula

$$GR = \frac{(V_{\text{present}} - V_{\text{past}})}{V_{\text{past}}} \times 100$$

Where:

GR = Growth Rate

V present = Present Value

V past = Future Value

**ii. Compound Annual Growth Rate (CAGR):**

The year-over-year growth rate of an investment over a specified period of time.

The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

This can be written as follows:

$$CAGR = \frac{\text{Ending Value}^{\frac{1}{\text{no. of Years}}} - \text{Beginning Value}}{-1}$$

CAGR isn't the actual return in reality. It's an imaginary number that describes the rate at which an investment would have grown if it grew at a steady rate. You can think of CAGR as a way to smooth out the returns.

**iii. Arithmetic Mean:** Arithmetic mean is calculated by adding values of all items and dividing the sum with the total number of items. The formula used for calculating arithmetic mean is as follows;

$$X = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N} = \frac{\sum X}{N}$$

N                      N

Where, X            -            Arithmetic Value

ΣX                   -            Sum of all variables

N                   -            Number of variables

**iv. Standard Deviation:** Standard deviation measures the absolute dispersion. A standard deviation means a high degree of uniformity of the observations as well as homogeneity of series, a large standard deviation means just the opposite. It may be calculated as follows:

$$\sigma = \frac{\sqrt{\sum x^2}}{N} \quad x = (X - \bar{X})$$

**v. Co-efficient of Variation (C.V):** Co-efficient of variation is a situation where we want to compare the variability of two or more than two series. A high variation indicates less consistency and less variation indicates more uniformity.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

$\sigma$  = Standard Deviation of the Variables

$\bar{X}$  = Mean Value of Variables

**vi. Co-efficient of Correlation:** It is a statistical device, which helps us in analyzing the co-variation between two or more series of variables. The co-efficient of correlation is denoted by the symbol 'r', the formula for computing 'r' which was practiced by "*Karl Pearson*" is:

$$r = \frac{\sum xy}{N \sigma_x \sigma_y}$$

Where:

$$x = (X - \bar{X})$$

$$y = (Y - \bar{Y})$$

$\sigma_x$  = Standard Deviation of Series X

$\sigma_y$  = Standard Deviation of Series Y

N = Number pairs or observations

R = Correlation Co-efficient.

The value of correlation co-efficient, which is obtained by the above formula, shall always lie between  $\pm 1$ . If  $r = +1$  it means there is a perfect positive correlation between the variables. When  $r = -1$ , there is a perfect negative correlation between the variables. When  $r = 0$  it means there is no relationship between the two variables.

**Data Presentation:**

Data collected from the government and private sources are analyzed using the above spelt statistical tools. The data collected are cross-validated against the source and analyzed. It is also attempted to use graphical mode of data analysis and presentation for better understanding and clarity on the objectives studied. The research has followed an unique approach of discussion and presentation of the research findings, looking at the ever growing scenario of the MSME sector and its global presence.

The researcher has analyzed the objective separately, giving a contextual reference and present scenario and then cross-examined the statistical facts and figure collected to examine the hypothesis formulated. The findings of each hypothesis immediately follow after the analysis. The hypothesis specific analysis of MSME sector is giving a crystallized scenario of the induced and direct impact of economic reforms and liberalizations.

**SCOPE OF THE STUDY:**

In the course of the literature review the researcher has consulted many thousands of research across the globe and could able to grasp the lateral and vertical development and growth of the MSME sector. There are many strands of MSME sector being dealt by several research works. Widely, several thousands of research documents and books are talking about multiplicity of factors and its causative relation with micro, small and medium enterprises sector. The globalization and the recent past international monetary crisis would more or less impact the MSME sector world across.

It is also to mention that the intended and un-intended impacts of global financial crisis have brought about policy changes in economies of the world. A new economic order is being institutionalized with a newer institutional and monetary frame-work at place to deal with the emerging scenario world over. Consequently, the globalization and changes in trade regime and policy too brought about a significant change in the industrial production, trade regulations,

and more stringent policy control on trade and business.

The developing countries in general and India in particular devised a specific business and trade policy and brought about significant changes in the fiscal and monetary policy to accelerate the business of MSME sector. The impact of globalization and opening up of market for business on Indian MSME sector is very minimal and the current policies and programming is taking care of the interest of the entrepreneurs in small scale and medium enterprises to withstand and absorb all kinds of business sucks.

The literatures studied have established that there are several factors responsible for the growth and development of the MSME sector in India. The causative factors are many and so also the realization of impacts of all forms. While one set of factors are facilitating the process of development and faster growth of the MSME sector the other set of factors inhibit the development and growth.

#### **LIMITATIONS OF THE STUDY:**

The current study is limiting its exploration to the economic factors and policy reforms in the arena of economic sectors only. The study is analyzing the various policy measures undertaken to safeguard the smooth functioning of MSME sector and make enable them to withstand business shocks of all kinds. Even with the economic reforms, the study is limiting its analysis to physical and financial growth and development of the MSME sector and its corollary impact on the generation of employment, income and well-being. The study is restricting its analysis and depth to the parameters analyzed above and thereby, refraining from entering into greater details on the economic and institutional norms set up for regulating MSME sector operation.

The study is also limiting its analysis to the policy initiatives of liberalization and its impact on the growth and development of the MSME sector. The study will restrict itself entering into the legislative policy measures adopted for international trade and business. A study, indeed, look around the multifarious impact of trade liberalization.

The research therefore is very much confined and would primarily revolve around the economic factor impacting MSME sector and also the impact of liberalization policy on the functioning of the MESE sector in particular. Hence, factors like socio-cultural-institutional and political

impacting the growth and development of the MSME sector will not fall into the ambit of the research and the present research analysis. The research is not speaking anything about the social factors, cultural dynamics, regional and/or geographic variations, institutional set ups and its consequent positive and negative impacts on the MSME sector.

Most of the document on MSME sector revealed that political factor is influencing the sustainability, growth and development of many MSMEs in India. However, the present study will not ponder political factors and include any of them for analyzing the development and growth of the micro, small and medium enterprises.

The study is in *interalia* limiting its analysis to economic reforms and liberalization and its impact on growth and development of MSME sector in clear terms and refraining to take a whole lot of factors responsible for growth and development of MSME sector in India.

Because the study has been undertaken for a holistic understanding of MSME sector in India the study has encountered difficulties in data collation and compalaisalation and greatly realized data insufficiency.

#### **RELEVANCE OF THE STUDY:**

The study is exploring economic reforms and its causative impacts on growth and development of the MSME sector. Virtually, the parameters like employment generation, income, physical and financial growth of MSME sector is studied in greater detail. In addition, the liberalization of business and trade policy is thoroughly reviewed in the wake of the current global scenario and therefore its impacts on the growth of the MSME sector in India. The research as spelt out above is firmly looking into the parameter centric scenario of MSME sector in India and broadly schematizing a cursory note of the MSMEs sector of the state of Andhra Pradesh.

The study is therefore is very much practical in nature and is possessing an important bearing on highlighting issues of MSME sector for its operation and business. The business enterprises will get a direct-aid to avoid the intended challenges from the sector. This will be an eye-opening research for the new business enterprises/firms venturing to take up investments in the MSME sector. Even for the seasoned entrepreneur groups, the present study would serve to

minimize the business-risk to certain extend. Depiction of present health and development scenario of the MSME sector would also enable business firms to diversify the business strategy and develop a copying mechanism to go ahead with the business venture with adequate degree of comfort.

The policy makers and administrators, who are directly dealing with the management of the MSMEs and ensured of a forward growth of the sector, would be benefitted through reviewing actual stages of the growth of the sector and thereby maneuvering the policies and programmes in the right direction. This study would be very relevant to the officers in management and direction position to give a way out advice for development of ancillary strategies to control the current scenario as well as institutionalizing measures to manage the anticipated risks there from the sector.

The researcher would use the document further analysis of the health of MSME sector and would possibly carve out strategies for better income generation, employment and growth. This would also enable researcher to find-out ways for ensuring a financial vibrancy for the sector and recommending a sustainable growth-path for the upcoming MSME sector and a more competitive global markets.

The study will be beneficial for the elected public bureaucrats to decide upon the business faith of the MSME sector. The analysis of the economic reform measures and policy changes would have far reaching impact and relevance to decide upon the economic contribution of the sector to the national and state exchequer and thereby deciding upon the volume and quantum of investment to be leveraged from the government to the PSUs. Generation of employment in a country like India with an ever increasing population is crucially important to provide income and employment to the maximum number possible so as to retain the economic well-being of the individuals and country. Hence, the present study is thoroughly analyzing the employment generation scenario of the MSME sector at the parlance of the economic reforms and liberalization and this would provide a mirror view of the employment scenario in MSME sector the country.

Liberalization of trade and business policy and thereby opening up of the market for cut-throat competition in the MSME sector is thoroughly analyzed and this would enable business elites,

economists and policy makers to properly understand the international business scenario of the MSME sector and accordingly strategize positioning the sector with the interest of ensuring the profit and business motive of MSME sector keep going.

#### **CHAPTERISATION SCHEMA:**

The *first chapter* is the introductory chapter to the study is devoted for capturing the relevant studies and researches carried out globally and with in India. it is primarily revealing the research objective and hypothesis to be studied. this chapter is also sharing the data collection, tabulation and methods of analysis in greater detail along with sharing the relevance and the scope of the study. the schema of Chapterisation is drawn towards the end of the chapter. The literatures reviewed and study outcomes are captured under five broad areas such as: Economic reforms of Government of India since 1st Five Year Plan, MSME sector, Growth and development of MSME in India and World, and Economic reforms and status of MSME.

The *second chapter* of the study is revealing the historical development of MSME sector in India and abroad. The chapter has gone ahead with defining the sector as understood globally. Besides, development within India is succinctly dealt to give a birds-eye-view of the MSME sector development, classifications and growth. A section of the chapter is devoted to understand the MSME sector during the pre and post independence.

The *third chapter* is the the developed to study the policies, programmes an various economic reforms undertakes for the MSME sector in India . The Industrial Policies are being thoroughly presented.

The *fourth chapter* is dealing with the Institutional Frame Work for the Development of MSMEs. The chapter is devoted the role of Development Support Institutions.

The *fifth chapter* of the study is dealing with the Institutional Framework for Credit Dispensation to MSMEs. The chapter gave ahead with the role of Financial and Promotional Institutions in Credit Dispensation .

The *sixth chapter* carried out of the various Committees and Commissions instituted.

The *seventh chapter* is the core chapter of the research. The Impact of Economic Reforms on

the Growth on Development of MSME sector is critically analyzed against the set objectives of the study and the hypothesis arrived. The economic reforms and impact of liberalization is discussed, assessed and gaps in policy execution are neatly presented in the context of MSME sector in India.

The *eighth chapter* is critically looking into the Problems and Prospects of MSME sector under three major categories viz. general problems, sectoral problems and the future prospects of MSME in India. Towards the end, scenario of MSME sector in Andhra Pradesh and the problems associated is discussed.

Last but not the least, the *ninth chapter* is summarizing the study findings, as well as putting forth suggestions for improvement of the performance of MSME sector in India. Consequently, the recommendations are advanced under three broad thematic areas viz. general recommendation, recommendations concerning economic reforms and functionality of MSME and recommendations concerning impact of liberalization and functionality of MSME sector.

#### **REVIEW OF THE LITERATURE:**

The researcher, in order to fine tune the research objectives, has reviewed the available published and semi-published and unpublished information under five broad areas, viz, (i) Economic reforms of government of India since 1<sup>st</sup> five year plan, (ii) MSME sector, (iii) Growth and development of MSMEs in India and world and (iv) Economic Reforms and Status of MSME Sector

Literature on economic reforms of Government of India has been referred since inception of five year plans as well as formulation of industrial policies. The literature reviewed depicts information on the various policies adopted towards effective strengthening as well as management of MSMEs in the context of emerging marketing and challenges from the growth of IT sector. It is also revealing various policy measures adopted by different governments towards development and redefining the sector.

The researcher has exclusively devoted attention to understand the meaning, concept, wider definitions, physical presence, and regional spread through consulting literatures available on MSME sector in particular. It is intended to collect and collate various types of

MSMEs existing in India and around the world and to get an understanding of its sectoral relevance for overall growth and development of the economies.

It is observed that growth and development of MSMEs in India and the world has followed a zig-zag path and cyclical ways and the factors attributed to the cyclical development may be broadly classified into the sociological, physical, institutional, economic and cultural etc. However, with the advent of globalisation and opening up of rural market for competition, the meaning of development and growth for MSME has been changed. The researcher, under the impression for understanding the “the growth and development of MSME sector in India and the world”, has gone through various research documents and publication across the globe available since 1956 till 2010 and captured the findings systematically.

The phases of development of MSME sector is thoroughly captured under the broad heading of “Economic Reforms and the Status of MSME”. This section of literature review primarily captured information on the various economic measures adopted by the central and state government and its impact on the growth and development of the MSME Sector. The opinion of different authors and findings of different research documents and critical review of policy measures and especially the economic measures are captured and placed under the section. The researcher has attempted to capture the intended and unintended impacts of the policy reforms brought by the international agencies like SAFTA, FTA, and NAFTA etc on the overall business and economic growth of MSME sector both regionally and nationally. Besides, the researcher has also referred several books and official reports of industries falling under the category of MSME sector. Research reports as well critical analysis report published at the web is also consulted to ascertain critical understanding on the MSME sector.

#### **MAJOR FINDINGS:**

1. The small and highly fragmented structure of SMEs makes them vulnerable to the external business environment. According to the interim results of the Fourth All India Census, around 94 per cent of the enterprises are unregistered and are a part of the unorganized sector.
2. Inconsistencies in the policies and implementation of various government programmes become ineffective as the benefit from such initiatives do not reach the MSMEs.

3. The availability of skilled labour poses a challenge for firms in the unorganized sector. At times these firms are unable to afford the higher wages demanded by skilled personnel. Also, adaptation of available technology may prove to be difficult for MSMEs.

4. Moreover, about 95 per cent of MSMEs are proprietary firms and lack the professional outlook needed to drive growth. The problems of proprietary firms are further compounded by their inability to bargain with the suppliers to source raw materials and other supplies on competitive terms. This also hampers their ability to procure credit on preferred terms, as the scale and size of operations of these firms is small. Banks and other financial institutions are special in extending finance to them. Even if banks do extend credit, the loan terms are rigid.

5. One of the biggest obstacles to the growth of MSME sector has been access to adequate and timely financial assistance, especially from the formal sector. Not only does access to finance rank high amongst the constraints, it also has a proportionally greater impact on their growth.

In spite their dominant numbers and importance in job creation; MSMEs have traditionally faced difficulty in obtaining formal credit or equity capital. Adequate availability of cheap, timely and effective credit has always been a challenge for the SMEs. The recent financial crisis led to the slowdown in earnings of companies in general, and MSMEs in particular, further reducing their chances of raising credit from financial institutions. The share of formal line of credit extended to MSMEs has been declining. According to the RBI, the share of credit to SMEs as a per cent of gross bank credit declined steadily from around 15 per cent in 1998 to less than 7 per cent in 2007. Their average share in GDP over 1998-2007 remained at around 13 per cent.

Most MSMEs in India have no access to the equity market and rely heavily on loans from commercial banks and other such institutions, along with informal sources of finance.

6. Commercial banks prefer advancing money to large corporate borrowers as such deals are less risky. Moreover, extending finance to MSMEs in far-flung areas and maintaining their accounts involves additional cost for the banks. The RBI report, India's Financial Sector- An Assessment, says the average credit group for SSIs during 2002-07 was 68.8 per cent.

7. The quality of basic infrastructure namely roads, power, telecommunication, transport, among others, affect the growth prospects of MSMEs. Industries in rural areas (about 52 per cent

of total MSMEs), find it difficult to integrate efficiently with urban areas. This leads to inefficiencies both in procuring raw materials and in reaching out to target markets. To illustrate: The Indian food processing industry is highly- localized and unorganized. Almost 19 per cent of MSMEs are engaged in manufacturing and processing food and food products. The food processing industry has been facing constants such as non-availability of adequate critical infrastructural facilities – cold chain, packing and grading centres etc. low levels of processing and storage of fruits and vegetables results in huge wastages. These wastages are estimated at about 35 per cent of the produce and are worth about Rs. 500 bn annually.

The current cold storage capacity caters to less than 10 per cent of the produce. Moreover, these storage units are very rudimentary in nature, as over 80 per cent of them are designed only to handle Potatoes. Besides, export-oriented sectors such as textiles, leather et al find it hard to efficiently produce and sell to their customers due to lack of connectivity to ports and markets.

Technology and product innovation are very crucial for the growth of MSMEs and for their competitiveness. Spectrum of technology in operations and differ in the value of products manufactured and their individual size, among other parameters. The companies at the higher and of the spectrum that operate in sectors such as auto components, textiles, IT hardware et al, require capital investments to meet their glowing needs of quality and to attain their economies of scale.

8. Due to their small-scale of operations, MSMEs cannot invest much in R&D for product innovation and in requiring modern technologies. Indian MSMEs need to come up with new products and processes to enhance profitability and competitiveness.

To make MSMEs more competitive, the government has initiated several programmes to upgrade technology and encourage product innovation. However, there is an immediate need to sensitive and disseminate knowledge about new and modern technologies to these MSMEs, and to support them in requiring, adapting to, and implementing these technologies.

9. Techniques such as credit scoring can be useful in relaxing financing constraints. MSMEs scoring has made more learns available to these enterprises by reducing the cost and time

taken to obtain loans, controlled risk more effectively and eliminated biases from lending institutions.

Better credit information of companies has, in turn, increased the amount of financing for MSMEs, thereby serving the needs of both the MSMEs and the potential lenders. Further credit bureaus have also been instrumental in reducing information asymmetries between creditors and lenders. A World Bank report stated that small firms with access to credit bureau have a 40 per cent chance of obtaining a loan, whereas firms without access to credit bureaus have only a 28 per cent chance. Therefore, there are significant opportunities to increase lending to MSMEs by establishing MSME credit bureaus.

**10. Access to markets** Small businesses do not have adequate resources to link to markets beyond their immediate context. This is a limiting factor for profitability as well as growth. The economic slowdown has meant shrinking demand for export-oriented SMEs.

**11. Customer retention** SMEs depend on the quality and competitive advantages of their goods and services to get and retain customers. Proportionate to large enterprises, they do not make overt moves to retain customers. This can be a challenge and so SMEs are also adopting tools like customer resource management and focusing on branding, visibility and corporate communication to ensure that customers come back.

**12. Access to finance and high cost of capital** In the absence of adequate means for financing, SMEs have restricted access to funds. Banks and financial institutions have not been forthcoming in the past to lend to SMEs. In the past five years, angel investors, venture capitalists and private equity players have started investing in the SME sector. Even so, SMEs count lack of finance as amongst their biggest problems. Besides unwillingness of lenders to look at SMEs, a lack of collateral is a common barrier to get finance.

**13.** Plus, the cost of compliance is often prohibitive. A simplified structure for SME lending is required, with simpler conditions for eligibility, corporate governance norms and disclosure standards. On the other hand, SMEs also need to improve accounting practices and increase transparency to make themselves more attractive to lenders and investors.

**14.** Delayed payment from customers is another common problem faced by SMEs. This results in cash-flow problems and SMEs are unable to sustain themselves.

**15. Access to business development services** SMEs are usually inward-looking and do not use

business management tools to enhance their businesses. For instance, benchmarking and best practices are rarely used by SMEs. Small businesses particularly face the problem of being unable to forecast demand because they do not use market or business intelligence. Often, affordability for business services, tools and software is a barrier. However, the availability of tools suited to small businesses has also been a problem in the past.

**16 Human resources** According to the *UPS Asia Business Monitor 2008* (UPS ABM) survey, which studied the competitiveness of Asia's SMEs, 48 per cent of the businesses stated that the major business issue keeping them awake at night is retention of quality employees. SMEs are unable to match large enterprises in terms of remuneration and work environment.

**17. Infrastructure and logistics** SMEs, along with the industry in general, suffer from an underdeveloped supply chain and lack of logistics infrastructure in the country. It is far more critical for an SME to ensure that its product reaches the market on time and in good condition because their margins are usually lower. An efficient supply chain ensures that losses are minimized.

**18. Legal and regulatory system** Special laws and provisions for SMEs are needed as the mode of functioning and problems faced are very different from those of larger enterprises. Plus, SMEs are adversely impacted by complicated mechanisms for approvals and permits. Lengthy processes often result in SMEs losing their window of opportunity. About 54 per cent of the respondents to the UPS ABM 2008 survey felt that bureaucracy and red tape in processing applications is a big issue. The policy framework for SMEs in India was developed starting 2006, as the government realized 'the' importance of SMEs to the economy.

**19. WTO compliance** Since India signed the WTO agreement, SMEs have had to deal with a set of regulations that aims to move towards a free market and remove barriers to trade. SMEs are vulnerable to the impact of WTO as they are now in direct competition with companies in East Asia and China that can manufacture goods at lower cost.

**20.** Large companies in India now have the option of procuring their supplies from overseas suppliers and the market for SMEs could go down. Tighter patent laws are also putting SMEs at a disadvantage, as they often cannot afford the compliance. Moreover, Indian SMEs are unable to implement anti-dumping measures and counter other unfair practices, such as moves by competitors to patent traditional Indian products and brands.

**SUGGESTIONS:**

1. The Ministry of Commerce and Industry and Ministry of MSMEs along with other agencies and departments should support the chambers of commerce and other private trade promotion organizations. Financial assistance must be provided to them to organize exhibitions, conferences, B2B meets, business delegations, road shows and catalogue shows in India and abroad.
2. The SMEs chamber of India, SME Export Promotion Council of India, and India International Trade Centre are involved in providing education, guidance, and training programmes on bank finance, market development, new technology, skill development, costing of products, and negotiation skills.
3. It is also essential to have an effective platform to promote joint ventures, private equity funds and also encourage foreign companies to start contract manufacturing tie-ups with India Companies.
4. MSMEs should know, understand and utilize the various schemes of government and banks.
5. Banks should view financing SMEs as a business opportunities while needs to be tapped systems. The current mindset is that SMEs clients tend to pose problems.
6. SMEs need to participate in various educational programmes to understand the latest technology update their knowledge about both, local and export markets and capitalize on business opportunities.
7. It is observed that about 60 percent of the SMEs are using obsolete machines and they should adopt the latest technology to enhance their competitiveness.
8. Often Indian SMEs participate in global exhibitions with the sole purpose of trying to sell their products. Their focus should also be on knowing more about the products of other participants in their field. This would expose them to new technologies and help whether to adopt the same in their enterprises.
9. Unless SMEs in India upgrade their technologies and processes and produce products, which match global standards, they cannot be successful in the local, national, regional and international markets.
10. The Government of India and the State Governments introduce many schemes, the

benefits of which seldom reach the end users and the small entrepreneurs. However, it is necessary to create awareness about these schemes and ensure that their benefits reach SMEs.

11. A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Act, 2006 may be introduced at the earliest. The policy may set a goal for government departments and public sector undertakings to reach, over a stipulated period, a target of at least 20 per cent of their annual volume of purchases from micro and small enterprises (MSEs), and mandate them to report their achievements in this regard in the annual reports.

12. The offset policy of the government, particularly in the defense and aviation sector, should give priority to MSMEs.

13. The government should earmark additional public spending to the tune of Rs. 5,000-5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set up. These funds may be used to: (a) support the establishment of Rehabilitation Funds in the states for revival of potentially viable sick units; (b) assist MSMEs in the acquisition and adaptation of modern clean technologies as well as creation of Technology Banks and product-specific Technology Development Centres; (c) promote establishment of business incubators in educational institutions of repute; (d) renovate existing industrial estates and develop new infrastructure for MSME sector with sustainable urban governance mechanisms; (e) re-engineer, strengthen and revitalize District Industries Centres to enable them to play a more active role in advocacy and capacity building for MSMEs and as appropriate, in their rehabilitation; (f) strengthen NSIC's equity base for enhanced market support to MSMEs; and (g) up-scale the existing programmes of entrepreneurship and skill development targeted at MSMEs.

14. The government should take steps to create an overall enabling environment using appropriate legal and fiscal instruments, to incentivize the transition of MSMEs from the unorganized to the organized sector as well as for their corporatization as entities. It should also encourage higher investments for innovative and knowledge based ventures as well as for research and development through greater partnership between the industry and academic institutions.

15. The ongoing exercise to introduce a new Direct Tax Code and GST should specifically seek to achieve these policy objectives through appropriate provisions for graded corporate tax structure, tax pay through for angel and venture capital funds and incentives for R&D.

16. Government should set up an independent body at the national level for the promotion

and development of MSMEs. This body may provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganized sector, promote technology development, provide marketing support and coordinate & disseminate information relevant to MSMEs.

Currently, the Development Commissioner (MSME) is the total point for all policy matters, formulation of various promotional schemes as well as channelizing certain incentives and subsidies to the MSME sector, the Small Industries Development Bank of India (SIDBI) is the principal financial institution for financing and related promotional and development work for MSMEs, while the National Small Scale Industries Corporation Limited (NSIC) has been set up to facilitate MSMEs in procurement of raw material and helping in marketing of their products. In addition, various Ministries/Departments of the Government have promotional policies and developmental schemes for the MSMEs in specific sector.

The proposed independent body could use the existing structures of aforesaid organizations with appropriate changes in their charter and mandate. The experience of other countries with such institution (such as the Small Business Administration, in the United States may be considered while deciding on the mandate and structure of the National Level Institution.

17. A Standing Review Committee Under Member (Planning Commission) should be set up to monitor flow of credit to MSME Sector and its apportionment to the more vulnerable sectors like micro enterprises and the unorganized sector.

18. Government should encourage Micro Finance Institutions (MFIs) to form self-help groups and finance micro enterprises in unbanked / identified excluded rural/semi-urban areas at reasonable rates. Banks may also be encouraged to formulate schemes for refinancing loans taken by the MSEs from non-institutional sources/money lenders financial outreach is likely to prove an effective means to formalize the unorganized sector. Suitable incentives, including tax concessions, should be extended to MFIs to encourage them to work as business correspondents and business facilitators for banks to service micro enterprises.

19. The District Industries Centres (DICs) should be strengthened with provision of modern-IT enabled communication facilities and re-training of human resources available with these institutions. As the DICs form the bedrock of MSME. Promotion, they should be urgently strengthened, revitalized and transformed to play a more active role in advocacy and

capacity building for potential and existing entrepreneurs. Whatever viable, active involvement of the private sector on revamping the DIC network should be considered. Such re-engineering of the DICs may be supported by the Central Government.

20. States should be supported by the Central Government to set up Rehabilitation Funds and operationalise appropriate schemes for the rehabilitation of units temporarily rendered sick due to circumstances beyond their control. State Government may establish a mechanism at the district level, in the DICs, to re-examine the viability of sick units in coordination with the banks and implement rehabilitation packages in a time bound manner.

21. The Central Government should infuse industrial estates which are currently in a state of decay and negled, with fresh capital and upgrade them to Industrial Townships.

22. New Clusters for MSEs should be created to meet the requirements of planned development and growth, consistent with the policy of progressively organizing the MSEs. Development of new infrastructure for the MSME sector should be substantially augmented with the government stepping in with viability gap funding to encourage private sector participation.

23. Government should strengthen NSIC's equity base to give a demand sick impetus to MSME enterprises in addition to preferential procurement and volume stipulations enunciated earlier. This shall help remove bottlenecks in procurement of raw materials and also step-up marketing support and provide better backward and forward linkages to the sector.

24. Government should consider earmarking funds to the tune of Rs.1500 crores, within the enhanced investment package to support clean technology initiatives of different Ministries involved with MSME growth, particularly in the context of the National Action Plan for climate change (NAPCC).

25. Revamping and re-launching a more exhaustive SME Helpline.

26. Departure from needless regulations to dawn into a new era of welfare for MSMEs.

27. Large-scale reforms of labour laws to make them entrepreneur-friendly.

28. A greater thrust to bring the whopping rural enterprises into the mainstream.

29. A multi-ministerial effort to remove impediments facing the MSMEs sector in India.

30. Effective Tax reforms to encourage MSMEs to the legal fold.

31. Mulling a mechanism to detect sick industries and efforts to revive them.

32. Setting up Industrial Townships for MSMEs in different parts of the country.

33. New Regulations for making easy availability of bank credits to MSMEs.