



**India's MSME Sector holds the key for Atmanirbhar Bharat
(a self-reliant India)**

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The outbreak of COVID 19 pandemic has drastically changed the global economic landscape. A recent report by the World Trade Organisation estimates that global merchandise trade will reduce by 13-32% in 2020 due to COVID-19 pandemic. This trade is likely to plummet steeper in sectors with complex supply chains such as electronics, automotive, etc. This global phenomenon is going to make countries think about strengthening their local supply chains. India has already stated a vision of 'Atmanirbhar Bharat' or a self-reliant India which will need strengthening of the local industries and their standing on a global stage

MSMEs can play a significant role in achieving this vision, however, a lot more needs to be done for MSMEs to become a growth driver for India. Three key parameters for the success of MSMEs are **Financial Stability**, **Availability of Skilled Labour in MSME clusters**, and **Market Competitiveness of their products** to both achieve import substitution as well as exports.



Financial Stability

- Multiple measures are announced by govt. to support MSMEs as part of COVID package
- Most of them do not provide an immediate relief to MSMEs in paying out their wages, purchase of raw material, etc.
- Immediate relief will be required from public or private sector to keep the MSMEs in business



Availability of Skilled Labour

- In past years, migration of labour to urban centres increased the availability of cheap labour for the industries as well as the MSMEs in or around urban centres
- Reverse migration after COVID lockdown will impact the availability of skilled labour significantly, thus, skilling programs will be needed at the local level



Market Competitiveness

- The intended vision of self-reliant India won't be achieved without making Indian MSMEs competitive in market in front of other global players
- Customer perception will also need to be improved with advocacy programmes

Financial Stability for MSMEs

Indian government in its recent announcements regarding support for MSMEs focussed more on opening up credit lines for the distressed MSMEs. A key highlight of the announcement was the collateral free loan fully guaranteed by the government with a principal repayment moratorium for 12 months. This does provide support to the MSMEs but it still lacks the immediate relief needed to pay salaries, for buying raw materials, etc. in order to retain the workforce and avoiding shutting down of operations.

Other announced measures like subordinate debt and equity infusion are measures that can help the MSMEs in the long run but all these measures will also increase the debt burden. The widening of MSME definition is indeed a welcome step and will ensure that firms can continue to grow without

fearing loss of MSME status and its associated benefits with an increase in revenues. Overall the government has paved a path for ensuring financial stability of the MSMEs going forward but immediate relief either from the public sector or the private sector will also be needed to ensure survival of the MSMEs.

Availability of skilled labour

In past few decades, the shift of labour from rural to urban places in search of employment had created a huge population of migrant workers. There are various estimates for the migrant population in India. As per the 2011 census, 37% of the country's population is classified as internal migrants. The Economic survey in 2016 estimated 20% of the total workforce (10 crore people) as migrant workforce. This shift in working population from rural clusters to urban centres led to an increased availability of cheaper workforce in and around the urban centres with job opportunities. COVID 19 changed a few things, India announced a very strict lockdown in March with multiple extensions, this led to migrant workers moving back to their hometown as finding means to live in urban centres was getting difficult. This is a big challenge in terms of availability of skilled labour to the MSMEs in and around these urban centres. Ensuring availability of skilled labour by either skilling local workforce or making the conditions lucrative for the migrant labour to come back is essential for MSME growth.

Market competitiveness of MSMEs

MSMEs need to be competitive against global suppliers in order to be able to meet demand via import substitution or for catering to the export markets. They would also need to focus on supply chain resilience despite an ongoing pandemic crisis with a global expectation of second wave of the virus.

With the vision of self-reliant India in mind, it becomes highly important to improve the competitiveness of MSMEs through a **market oriented strategy**. The effort needs to be inclusive, taking into account the new normal due to COVID 19, and build on consensus on the challenges, goal and broad policy direction among the key stakeholders (policy makers & influencers, administration, industry bodies, and private sector). It involves working with MSMEs and offering them support, a large part of which is in the form of knowledge and training in the areas of design, manufacturing & selling/distribution to help them make products that are in sync with technological and consumer trends while meeting all the aspects of Quality, Cost and Delivery. The market orientation efforts would complement the on-going efforts of development of MSMEs by the government.

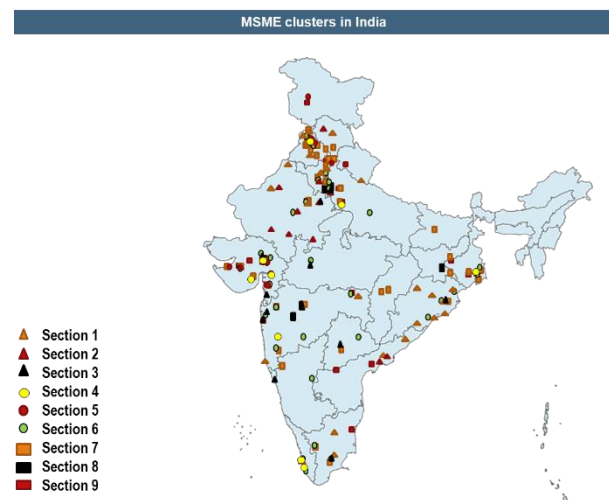
Some of the key areas that need to be focussed are as follows

- 1) **Capability of Supply** – It is essential to improve the capability of Indian MSMEs to supply quality products especially with new norms of operations being introduced due to COVID 19. Maintaining social distancing, running on reduced capacity, etc. would further aggravate the situation for the cash stripped MSMEs. Hence, it is imperative to provide immediate support for ensuring they keep up their capability of supply
- 2) **Capability of demand** - To remain relevant in the market, Indian MSMEs need to be adaptable with changing market trends. Recent global developments have also reduced the planning horizons in global supply chains making it crucial for Indian MSMEs to be able to adapt to a variable demand scenario
- 3) **Capacity** - Ensuring capacity and availability of raw materials is also crucial. The disruption in global logistics has broken the chain for some key raw materials. Low working capital availability also makes it difficult for MSMEs to restore raw material supply

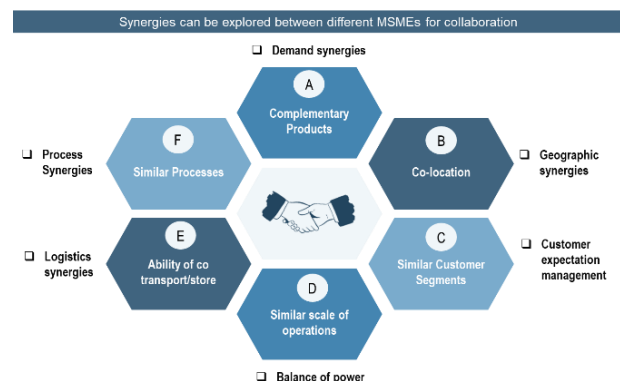
- 4) **Cost competitiveness** – Cost competitiveness is also one of the major factor while competing with global counterparts specially in Asia. The impact of COVID 19 on business operations will require innovative methods to reduce cost. Automation is essential in some areas for implementing distancing and also for quality control. MSMEs could be introduced to low-cost automation techniques which work in tandem with the human workforce
- 5) **Customer perception** – Branding and advocacy will also be needed to leverage the positive connotations associated with certain Indian products and assess negative connotations that can be removed

Cluster approach for development of MSMEs

The United Nations Industrial Development Organisation (UNIDO) has defined multiple manufacturing clusters across India to help create a conducive environment for development of small and medium enterprises. The UNIDO cluster data compiled by Development Commissioner, Ministry of Micro, Small and Medium enterprises provides information on details of each cluster about total revenue, total people employed, type of products manufactured, etc. UNIDO has also classified each cluster into 9 sections based on the type of products being manufactured in those clusters.

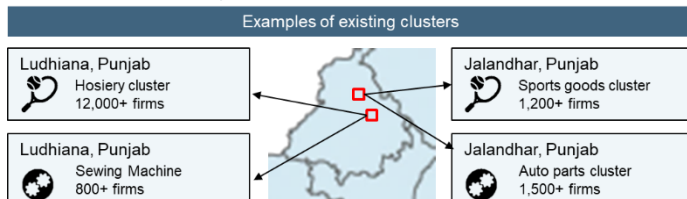


Clusters across India hold the key for developing a self-reliant ecosystem based on local skills and expertise. The cluster approach becomes all the more important with the localised nature of lockdown opening policies. Measures for development of MSME clusters can be aligned with the strategy to fight the impact of COVID 19.



Clusters can also be used for identifying synergies between various stressed MSMEs which can then be used to **create collaborating firms**. MSMEs that cannot stand alone might be able to succeed as combined firms by utilising various synergies. These synergies can be across various areas such as demand synergies, geographic synergies, logistics synergies, etc. A good example will be the Jalandhar cluster for sports good. Through focussed efforts, this cluster can combine resources for tracking the latest trends and demand requirements across the globe and manufacturing market oriented products that can easily adapt to the changes in consumer preferences.

In addition to this, consolidation of stressed MSMEs among themselves either by mergers or buy outs



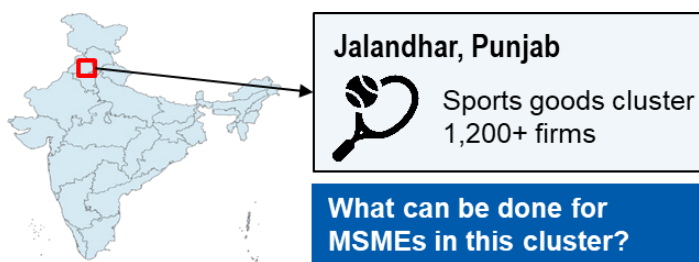
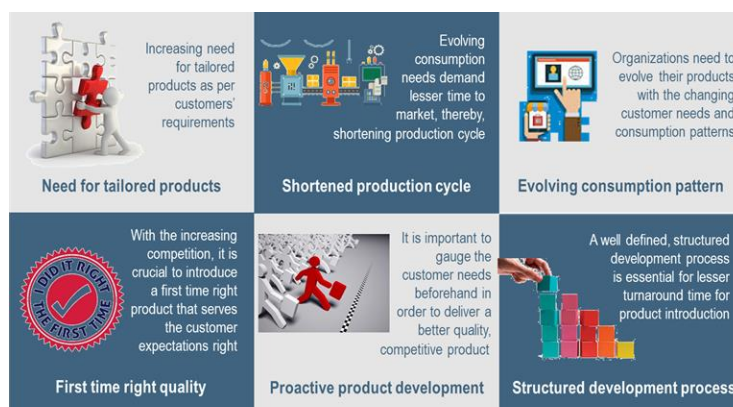
will also help in streamlining the value generation, avoid cannibalisation, and also help secure the skill set of these MSMEs. This consolidation will also be supported by the latest approval by cabinet on revised definitions of MSMEs

where medium enterprises can now have a turnover up to INR 250 crore.

What can be done for the MSMEs in India?

The Indian MSMEs have traditionally been catering to the domestic market either through directly selling to the consumers (B2C) or are a part of the value chain driven by large organized private players (B2B). The manufacturing ecosystem is constantly evolving under the influence of several trends around changing consumer behaviour and technological shifts happening across the globe. Factors like evolving consumption and increasing competition have led to the increasing relevance of integrating customers' voice in product design for MSMEs to stay relevant. Therefore, it becomes extremely important for the MSMEs to design, manufacture and sell products which the customers need. They need to be connected to a demand led environment, where their business strategy and processes are aligned to the changing market dynamics through a **market-oriented strategy**.

Using a cluster approach will help in upgrading the MSMEs to suit the changing global landscape. Financially it might not be feasible for an individual MSME to develop all the capabilities but at the cluster level it can be achieved by sharing resources and realising cluster level synergies.



- 1) Create collaborative firms** - MSMEs in this cluster of sports good can be brought together into a collaboration so that they can realise the synergies (logistics, high capital investment processes, etc.) and improve the overall performance
- 2) Cluster level training programs** - Training and skill development programs can be run at the cluster level to develop overall talent
- 3) Consolidation among MSMEs** - Buyouts, mergers, etc. among the MSMEs will help them sustain
- 4) Cluster level market and product research** - Manufacturing should be demand led to keep the Indian goods relevant in uncertain and rapidly changing global market. The market and product research required can be done at cluster level which will benefit all the MSMEs in that cluster
- 5) Combined advocacy schemes for local products** - Advocacy schemes in the forms of brand ambassadors, advertisement in online and other media can be done at the cluster level. This will help in building the brand for Indian products and thus their acceptance in the global market
- 6) Digital interventions** - Cluster level **Digital Advisory Centres** can be established which will help MSMEs to gain knowledge, select and evaluate various digital options, and share common learnings. This will also enhance their customer connect

Details of some of the strategies that can be explored at the cluster level to achieve the goal of MSMEs driving the vision of a self-reliant India are given below

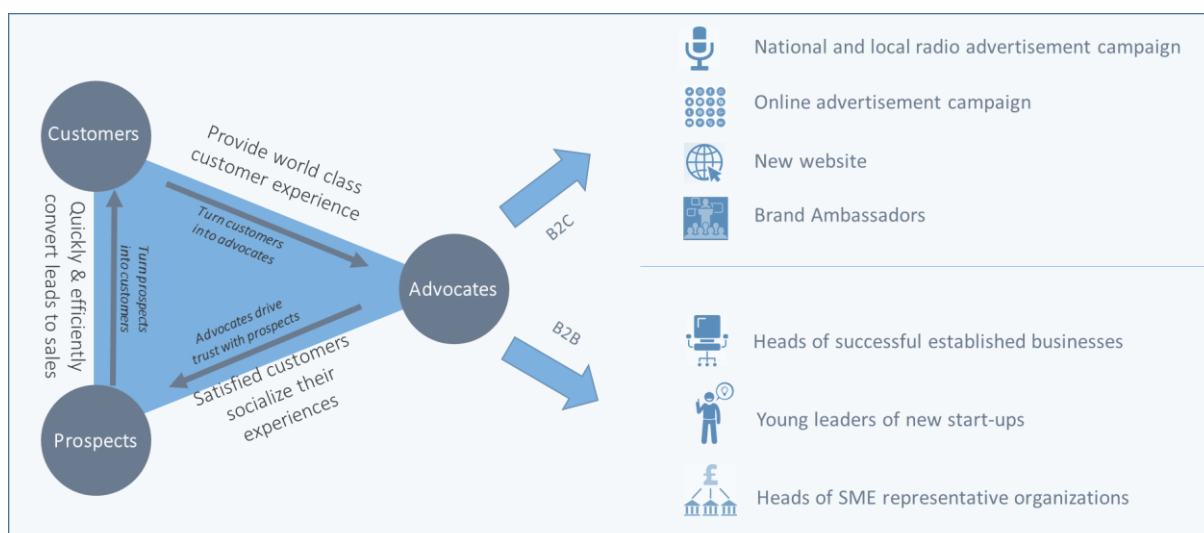
Demand led manufacturing

In a market-oriented strategy, it is essential to have consumer needs drive the whole manufacturing process. Indian MSMEs will be able to provide more acceptable products with superior quality in comparison to foreign substitutes by following a structured approach in which product specifications are decided by correlating the technical parameters with exact consumer needs and an analysis of competitor products. This will lead to superior product specifications which in turn should be translated into optimum process parameter and effective quality control methods.



Advocacy for MSME products

Apart from manufacturing as per the customer needs, it is also important to focus on improving the customer perception around the products being manufactured by the MSMEs. Many of the traditional industries lose out on imports due to their perception of being “cheap” and “poor quality”. Hence, it is imperative for the MSMEs to develop unique value proposition which leverage on their strengths to carve out a niche in the market. This can be addressed through dedicated advocacy campaigns wherein the products are endorsed by influential advocates e.g. Brand ambassadors with mass appeal, social media influencers, bloggers etc. Similarly, for B2B products, the organized players working with the MSMEs in the value chain, can work as effective advocates of their competitiveness.



Digital interventions for MSMEs

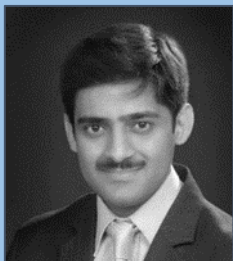
MSMEs can reap tremendous benefits from digital technologies in terms of improved customer reach and connect in the rapidly digitising world, better alignment with internet based new business models, and catching up with the big companies to which they supply and stay relevant in their global supply chains. With emergence of COVID 19, importance of digital technologies has increased even more, however, MSMEs usually have a low awareness about all the digital technologies available to them. Digital technology discussions are usually filled with buzzwords like ‘artificial intelligence’, ‘cloud computing’, etc. which are not always easy to understand.

Under these circumstances, **Digital Advisory Centres** can be set up in MSME clusters which will not only provide knowledge but also the implementation support for all the things digital. They will help MSMEs to select and evaluate various technical options, and to find a solution that could be most beneficial for their business. This will also help in sharing knowledge and real life learnings across the MSMEs.

Continued support for MSMEs during COVID-19

The public sector approach to develop the MSMEs which has largely focussed on **improving efficiency** through measures in the form of subsidies in capital expenditure, access to finance and skill building & automation support among others needs to continue in addition to some immediate measures to help them re-start their operations within the new guidelines during COVID-19. Intrinsic development of MSMEs is essential in ensuring that they stay relevant in global supply chains and help achieve the vision of a self-reliant India. This crisis is a turning point for the MSMEs and they will either flourish or perish based on the support provided and the actions taken by the companies themselves.

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