

GROWTH DRIVERS OF THE

ECONOMY

International MSME Day

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CONSUMER CONNECT INITIATIVE



Bouncing back

As the MSME sector has been a significant growth driver to economy, experts stress upon reworking of strategies for a solid comeback amid the new normal

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Learning the ropes in the current scenario, enterprising minds are now thinking out of the box. Each business is a mix of calculated risks, innovation, entrepreneurial spirit and also learning. This is how Micro, Small and Medium-sized Enterprises (MSMEs) have been one of the leading backbones of the economy. The UN General Assembly, in its 74th Plenary held in 2017, declared June 27 as Micro, Small and Medium-sized Enterprises Day, recognizing the importance of Micro, Small and Medium-sized Enterprises in achieving sustainable development goals and in promoting innovation, creativity and sustainable work for all. The Ministry of Micro Small and Medium Enterprises organised an international convention on the theme 'Indian MSMEs, Global Aspirations' last year.



REWORKING BUSINESS PLAN

- The market pulse of the new normal
- Identifying potential business areas
- Strategic action plan
- Prudent financial management
- Understanding consumer behaviour
- Adaptability to challenge
- Aligning with the digital world

take us to the higher echelons of global economy."

Sardeshmukh feels that reworking on business strategy would be the best way out to make a comeback. "The most urgent, immediate, desired action for the small businesses would be, to prepare a strategic plan to come out of this unprecedented situation, which majority of them might not have given any serious consideration to. A well drafted, thought out plan may be based on the earlier worst year the business has ever faced. As this is the worst business scenario we have ever faced, full of uncertainties. What is most important is prudent financial management, effective market penetration and efficient resources planning," he adds.

CRISIL REPORT SUGGESTS THAT MEASURES ANNOUNCED BY THE MINISTRY OF FINANCE AND THE RBI, NUDGING BANKS AND OTHER INSTITUTIONS TO LEND MORE, WILL HELP MSME TIDE OVER TAPERED CASH FLOWS

TAKING COGNIZANCE

As the MSME sector has been a significant growth driver to economy, experts stress upon reworking strategic orientation and innovation. Anand Sardeshmukh, former MCA director and management counsel, says, "Today the global economy is predominantly an economy comprising majority and fueled by MSMEs. The world has recognised the importance of contribution of MSMEs to the economy. We too have recognised it but we need further strengthening of this segment. This segment will

LEARNING RIGHT LESSONS

Experts maintain that this is the time to learn the right lessons and make a long-term strategic reorientation of the business. A CRISIL report predicts tough times ahead for MSMEs. The report suggests that previous downturns have shown that micro and small enterprises are unable to manage transient working capital challenges as easily as their large and medium peers. To that extent, the measures announced by the Ministry of Finance and the RBI, nudging banks and other institutions to lend more, will help them tide over tapered cash flows.

Thushan Panekil, director, CRISIL SME Solution, says, "MSMEs are one of the biggest contributors to GDP. Policy push is a must for making a comeback in these tough times. We need to focus on this sector as it generates employment and it has farther reach, especially in the rural areas. We also need to see how quickly they have been adapting to the changing environment. Policy push can help weather the storm. It needs to be seen how much of this is translated into reality."

The government has announced a number of packages for the sector. Dr (Capt) C M Chitale, management expert, says, "MSME sector must take a note of relief measures announced by the government due to the pandemic and try to take maximum advantage. It is also necessary that a plan be chalked out to allow business to open activity in a phased manner while observing all directives of the local administration. New opportunities are required to be tapped by way of diversification. One should not compromise on quality. Entrepreneurs must face the situation boldly. When going gets tough, the tough gets going."

SMALL IS BIG

- The UN General Assembly in 2017 declared June 27 as Micro, Small and Medium-sized Enterprises Day
- Last year, The Ministry of Micro Small and Medium Enterprises organised an international convention on the theme 'Indian MSMEs, Global Aspirations' in New Delhi to observe the day
- From July, over six crore (MSMEs) across the country will be classified on the basis of the new criteria approved by the government.
- As CRISIL classifies 450 MSMEs across crucial upstream sectors such as construction-real estate, auto components and textiles-readymade and downstream sectors such as FMCG distributors and auto dealerships. The survey highlighted sector-specific challenges.
- In upstream sectors, inventory build-up and stretched receivables highlight the need for incremental working capital in the next 1-2 months.

Tapping the potential of the MSME

While the global outbreak of the COVID pandemic has caused economic disruptions, it can be used as an opportunity by the small enterprises to increase competitiveness and scale up their operations

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India is aggressively positioning itself as an alternative investment destination for several multinational companies who have been keen to shift its operations out of China. This move will have a positive impact on the country's micro, small, and medium enterprises (MSME). India has around 6.33 crore registered MSMEs out of which almost 99 percent are micro-enterprises. The sector contributes almost 30 percent to India's GDP and has the potential to reach 50 percent in the next five years. MSMEs also account for 45 percent of India's exports and provides employment to 11 crore people directly and indirectly. These small units have the potential to act as growth drivers for the economy.

The MSME sectors like most were severely impacted by the total lockdown where economic activity came to a complete halt. The small entrepreneurs due to the paucity of funds were facing acute liquidity crises and were even struggling to pay off the salaries to its staff. The central government provided it with a series of relief measures to help it revive itself. The government announced measures like collateral-free automatic loans, subordinated debt for stressed MSME, and Fund of Funds. A special liquidity scheme of Rs. 50,000 crore and a Rs. 45,000 crore liquidity infusion through a partial guarantee scheme covering commercial papers and borrowings for NBFCs, Housing Finance companies, and Microfinance institutions.

The Reserve Bank of India also announced a series of measures like the moratorium on loans and reduction in the interest rates to provide some additional liquidity. Other than helping the struggling MSME sector by providing them with much-needed liquidity, and restoring demand in the sector, these measures helped in arresting job-losses, and kid-starting growth.

The government also took fur-

ther steps taken to strengthen this sector. The change in MSME definition brought about parity with global standards. In the long run, these measures would enable small enterprises to scale-up, without losing the benefits. The Government discouraged global tenders for Government procurement contracts of up to Rs 200 crore which would allow smaller Indian businesses to flourish.

To help out smaller businesses operating on streets, the government also announced measures like provisioning an immediate working capital of Rs 10,000 to 50 lakh street vendors under the Mukhyamantri Shiksha Loans. The provision would help these vendors restart their business immediately which in turn would create employment opportunities, demand for goods and services and thus get the wheels of the economy in motion.

WHAT ELSE WORKS IN THEIR FAVOR?

There are some advantages that directly and indirectly work in favor of Indian enterprises. Firstly, since the last several years, the central government has been putting a lot of emphasis on skilling its manpower through its Skill India Initiative. There are several state governments and private players who have taken this forward by setting up skill development institutes and have got hundreds of batches of the trained workforce who are ready to give productive results from day one of employment. Secondly, on the ease of doing work, the country in the last 6 years have jumped to the 63rd rank due to the reforms across various areas of doing business. The country also has one of the youngest populations in the world. More than 65 percent of its people are below the age of 35 years. By the end of the year 2020, while the average age in

Japan would be 48 years and 37 years in China, in India, the average age is just around 29 years. India other than being a place poised to become a manufacturing hub has also one of the largest consumer markets. So companies that think of shifting its operations in India also get a market to sell its products and services. India is less battered as compared to other countries due to this COVID pandemic. Even developed countries like the US and the UK would be registering negative returns this year; however, India is one of the few countries which can expect to register a growth rate of 1-2 percent. Countries like to move its op-

erations in a place that has been less impacted. India also has one of the highest remittances coming in the country thanks to its expat population living in other countries. So it is strong in its foreign exchange remittances holding.

Lastly, other than the central government, even individual state governments are trying their best to attract global companies and foreign investment which in turn would create more jobs.

Indian MSMEs are at challenging times and there is a disruption of tide, however, this is a defining moment that would make them competitive globally.

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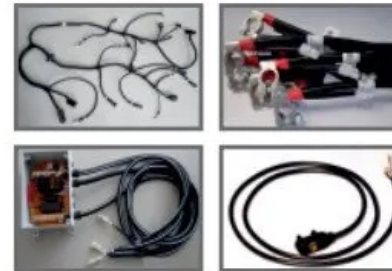
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