Firstbiz, the business portal that is part of Firstpost, one of India’s biggest online news and views portal, has commissioned a small and medium enterprises survey in the run-up to Budget 2014-15. Firstpost/Firstbiz are part of the same media group that owns CNBC TV-18, CNN-IBN, CNBC Awaaz and several regional news channels in Hindi and other languages.

The purpose of this survey is to look at the challenges faced by small and medium enterprises (SMEs), which are India’s most important sector from the perspective of employment and growth. It is also India’s most challenged sector.

According to the International Finance Corporation’s rankings on the ease of doing business, in 2014 India slipped a further three places to be ranked a lowly 134. This means doing business in India is something only the very brave attempt. The small and medium sector bears the brunt of India’s red tape and inspector raj. Obtaining bank credit is also a laborious and troublesome process.

With this survey, we hope to highlight some of the key issues that hinder or help India’s SME sector.

India’s new central government, headed by Narendra Modi, has promised to make business a less traumatic process for entrepreneurs. We hope the results of this survey, when conveyed to the topmost political leaders, will help improve the business climate and enthuse more entrepreneurs to create new businesses and jobs.

R Jagannathan
Editor-in-Chief
Firstpost/Firstbiz
The Indian SME Survey: Analysing Indian SME Perceptions Around Union Budget 2014-15

Small and Medium Enterprises (SMEs) in India have seen exponential growth over the last decade. According to the latest reports by the SMB Chamber of Commerce and the Ministry of Micro, Small and Medium Enterprises, India currently has more than 48 million SMEs\(^1\). These SMEs contribute more than 45% of India’s industrial output, 40% of the country’s total exports and create 1.3 million jobs every year\(^2\). Yet, these SMEs continue to struggle on multiple accounts. While some are challenged by credit and finance issues, others are struggling to cope with stringent regulatory environments. This report dwells deeper into many such challenges and also highlights what these SMEs expect from the upcoming Union Budget in July 2014.

**The Reality**
Numbering over 48 million, Indian SMEs have grown at a stable pace of 4.5% in the last 5 years. However, funds focusing on SMEs are having difficulties in raising money, among other challenges. The reality is that although this sector plays a vital role in giving a boost to the overall GDP, it is still overlooked by the Government.

**The Sentiment**
Indian SMEs operate in a very challenging atmosphere. According to the World Bank, India has slipped 3 ranks in its Ease of Doing Business Index – this raises deep concerns about the state of affairs in India. SMEs are said to be the backbone of India’s economy, however not much is being done to promote their healthy growth and development.

**The Expectation**
The new Government has worked like a shot in the arm for the country. While it’s hard to miss the air of optimism, the longevity of this feel good sentiment is contingent on the announcements in the Union Budget. SMEs expect focus on key challenges and want definitive schemes and programs to help solve pending matters.

---

### Methodology & Other Details

Firstbiz and Greyhound Knowledge Group commissioned a survey across 540 small and medium enterprises (SMEs) across India. The survey covered 9 Indian cities. In order to ensure we got a diverse slice of opinions we targeted Small and Medium Enterprises (SMEs) in Tier- 1, Tier- 2 and Tier- 3 cities. Tier- 1 cities covered were Delhi, Mumbai and Chennai; Tier- 2 cities covered were Chandigarh, Ahmadabad and Coimbatore; and Tier- 3 cities covered were Nasik, Indore, and Kanpur.

The respondents interviewed were key decision makers of SMEs, such as Owners and Managing Directors, CxOs, Business Heads, Import/Export Managers, Production Heads, among others.
THE REALITY – THE INDIA SME GROWTH STORY SO FAR

Numbering over 48 million (see graph below), Indian SMEs have grown at a stable pace of 4.5% in the last 5 years. According to the latest Annual Report\(^3\) issued by the Ministry of Micro, Small and Medium Enterprises, there are over 6,000 products, ranging from traditional to high-tech, which are being manufactured by the MSME sector for domestic as well as international markets.

According to the latest Economic Survey, Indian SMEs employ close to 40% of India’s workforce\(^1\). After the agriculture sector, SMEs rank second in fostering employment opportunities. Over 3.25 lakh jobs were generated in the SME sector during the period between April 2011 and February 2012\(^4\).

\textbf{Figure 1} Total Number of SMEs in India (2008-2013)

![Total Number of SMEs in India (2008-2013)](source: Ministry of Micro, Small and Medium Enterprises (MSME)
A FirstBiz – Greyhound Knowledge Group Initiative)

However, in January-February 2013, SMEs saw a decline of 51% in investments through the Private Equity (PE) route in just one year. The sector fell from USD 306.27 million to USD 151 million\(^5\). Funds focussing on SMEs are having difficulties in raising money because of the prevailing conditions. The total gap in MSME funding is estimated at USD 126 million\(^6\). Although banks have been slowly trying to bridge this gap, stringent reforms from the government are required.

The reality hereby is that although this sector plays a vital role in giving a boost to the overall Gross Domestic Product (GDP), it is still overlooked by the government, corporate sector and the financial sector. Thus, the commendable efforts and support of this sector do not receive the required attention.
THE SENTIMENT – SME GROWTH IS HANDICAPPED

Indian SMEs today operate in a very challenging atmosphere. According to World Bank\textsuperscript{7}, India has slipped 3 ranks in its Ease of Doing Business Index – this raises deep concerns about the state of affairs in India. SMEs are said to be the backbone of India’s economy, however not much is being done to promote their healthy growth and development.

In order for us to help understand the obstacles that exist, we reached out to 540 SMEs across India. We interviewed key decision makers from these SMEs on challenges faced by them on a day-to-day basis, and the following emerged as the biggest challenges:

1. Dearth of easy finance and credit instruments
2. Limiting regulatory polices
3. Unavailability of modern, affordable technology
4. Lack of basic infrastructure facilities
5. Absence of exclusive marketing platforms and distribution networks
6. Inflexible labour laws and availability of affordable skilled labour

Figure 2 Challenges faced by Indian SMEs

![Bar chart showing the percentages of SMEs facing various challenges.]

Dearth of easy finance and credit instruments 79%
Limiting regulatory polices 78%
Unavailability of modern technology 76%
Lack of infrastructure facilities 74%
Absence of marketing platforms and distribution networks 72%
Labour laws and availability of affordable skilled labour 70%

Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)

Figure 2 above highlights the key challenges currently faced by SMEs in India. Across all categories, access to financial and credit instruments is observed as the most critical challenge (79%), compared to inflexible labour laws that was stated as the least critical challenge (70%) by SMEs in India. Other key trends include:

- **Enterprises from Tier-2 towns find it harder to access finance and credit instruments when compared to those from Tier-1 towns.** While 83% enterprises from Chandigarh stated this as a challenge, only 77% enterprises from Mumbai quoted it as a growth inhibitor.

- **Enterprises from Tier-2 and Tier-3 towns find it harder to access suitable technology when compared to those from Tier-1 towns.** While 83% and 80% enterprises from Nasik and Ahmadabad, respectively, stated this as a challenge, only 72% enterprises from Chennai quoted it as an issue.

- **Availability of basic infrastructure including Power, Water and Waste Management is a challenge for enterprises across all cities.** As a unanimous outcome, both small and mid-market enterprises across all cities stated basic infrastructure as a challenge. Compared to the average of 74%, Mumbai was the highest at 80%, followed by Indore and Nasik at 78%. 
• Challenge around availability of skills and labour is felt the most by enterprises in Tier-3 cities. While both small and mid-market enterprises report unavailability of skills and labour in a similar manner (both rate this challenge at 70%), enterprises in Tier-3 towns face this issue the most. When compared to other cities, enterprises in Nasik (82%), Kanpur (77%) and Indore (75%) have rated this as most critical.

Dearth Of Easy Finance And Credit Tools

Ease of credit access and quick finance is the most critical growth driver for any SME. Most Indian SMEs start out with minimal capital, which eventually stalls their growth after a certain point. Easy credit access for SMEs therefore becomes a very important factor for national growth as well. The lack of easy credit is stagnating growth of SMEs, which in turn is affecting national growth in terms of GDP, import, export and employment. Unavailability of credit at the right time can affect business growth at many levels; this is why a lot of small businesses often shut shop after not being able to generate margins.

Figure 3 SME Challenge 1 – Dearth Of Easy Finance And Credit Tools

Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)

Figure 3 above digs deeper into the acute problems that SMEs face on a day-to-day basis when trying to obtain credit for their business operations. Across India, the unanimous sentiment of businesses was that it is extremely challenging to obtain collateral free term loans from banks (80%), whereas Import/Export transaction costs on goods were considered to be the least critical problem (63%). Other key trends that emerged were:

• Enterprises from Tier-3 cities find it difficult to obtain credit owing to high interest rates as compared to enterprises from Tier-1 cities. Almost 80% enterprises from Nasik and Indore felt high interest rates were an obstacle, whereas only 60% thought of it as an obstacle in cities like Mumbai and Delhi.

• Enterprises from Tier-2 and Tier-3 cities find obtaining term loans without collaterals a major obstruction as compared to Tier-1 cities: In Nasik 83% enterprises and in Chandigarh 90% respondents stated this as problem. On the other hand only 73% enterprises from Delhi stated this as a challenge.

• 71% SMEs are not aware of the government’s Credit Guarantee Scheme for access to collateral free credit from Banks. Of the 29% enterprises that were aware, 99% stated that the scheme did not help them as it is difficult to access information on the scheme from banks.
Limiting Regulatory Policies for Ease of Doing A Business

India scores very low on the World Bank’s Ease of Doing business Index, and this is primarily because India does not provide a very favourable business climate for its enterprises, especially the SMEs. Indian SMEs are weighed down by inflexible and complicated regulatory policies which make starting and running a business difficult. Owing to this prohibitive business climate, many innovative entrepreneurs are not able to enter the markets or sustain a business.

Figure 4 SME Challenge 2 – Limiting Regulatory Policies For Ease of Doing A Business

Figure 4 above breaks down what inflexible regulatory policies mean to SMEs. All the SMEs interviewed had unanimous opinions on the dire state of business regulatory affairs in India. Some key trends that emerged were:

- **SMEs from Tier-3 cities believe in the need for special start schemes more than enterprises from Tier-1 cities.** 88% enterprises in Indore and Nasik felt that start-up business lacked government support schemes as compared to Delhi, whereas 78% enterprises felt the need of special start-up incentives and support.

- **All SMEs echo the need for an exclusive regulatory agency.** Respondents felt that a common body is required at the Centre, exclusively for SMEs to handle their regulatory affairs. Enterprises want creation of a governing body that will lay out starting as well as operational regulations. 93% enterprises in Delhi felt that it would lead to standardisation in book keeping and reporting, which will increase transparency. In smaller cities such as Indore, Nasik and Kanpur, almost 85% enterprises felt a presence of a common regulatory body would lead to standardisation of registration procedures.

Unavailability of Modern Affordable Technology

In an increasingly complex and competitive economic landscape, the need to align people, processes and technology is stronger than ever. Latest technology can help enterprises reduce cost and time taken to innovate and offer sophisticated products and services. This helps SMEs differentiate from peers, optimize cost structures and most importantly compete on a global level with other corporate giants.

However, SMEs in India face multiple struggles on account of accessing and using the latest technological advancements. While knowledge, access and funds continue to hamper implementation of technology, absence of an ecosystem that enables technology transfer and interaction with experts is a critical reason of limited adoption.
The chart above explains the key reasons why SMEs fail to adopt latest technology to innovate and transform their businesses. The absence of a common platform for interaction with technology providers continues to be the most critical challenge faced by SMEs in this area. While the trend comes out as most important across all cities, the smaller enterprises face this challenge relatively more (74%) when compared to mid-market enterprises (68%). Other key trends that emerged were:

- **Enterprises from Tier-3 cities find it a lot more difficult to access funds to support Innovation and R&D.** 75% enterprises from Indore and Kanpur quoted this as a key reason for their slow adoption of technology. This compares to only 62% enterprises in Mumbai stating the same reason.

- **Smaller enterprises and those headquartered in Tier-3 towns quote minimal knowledge more often than their counterparts.** While 61% mid-market enterprises quote knowledge as an inhibitor to adoption of technology, 63% small enterprises face the same. Albeit minimal, the difference is important since it points to adoption of latest technology having a direct correlation with sophistication of skills and vision in a company. Furthermore, 68% and 67% enterprises from Indore and Ahmedabad respectively stated this as a challenge.

- **High cost of adoption is a key inhibitor for enterprises in Tier-3 towns.** Compared to the national average of 62%, 70% and 67%, enterprises from Indore and Kanpur respectively quoted cost a key issue for active adoption of latest technology.

- **Awareness of government programs and grants continues to be a challenge.** There are multiple government schemes and programs under which SMEs can access technology. However, education and awareness about these initiatives is dismally low. 90% enterprises remain unaware about Technology Business Incubation (TBI), one of the government’s key initiatives.

### Lack of Basic Infrastructure Facilities

Adequate and modern infrastructure powers the steady growth of a nation’s economy. The absence of proper infrastructure can cause serious problems to an enterprise’s daily business operations of manufacturing, consumption, and distribution of goods and services. The lack of proper infrastructure affects businesses at every level and ends up being a deterrent to healthy growth.
Figure 6 above highlights some of the key issues that cause a hindrance to normal business operations in an SME. The biggest challenge for SMEs across India is lack of reliable electricity resources (90%), whereas increase in coal and gas prices was the least challenging (82%). Other key trends that emerged were:

- **More SMEs in Tier-3 cities feel the need for cluster infrastructure development as compared to those in Tier-1 cities.** 94% enterprises in Nasik and Kanpur felt that there was a pressing need to encourage and set up cluster-based infrastructure as it was directly impacting their competitiveness in markets. In comparison about 83% enterprises in cities such as Delhi and Chennai feel the need of cluster infrastructure. However, the unanimous sentiment of enterprises was that cluster-based infrastructure would indeed be a boon to SME growth.

- **When enterprises were questioned about government schemes that are in implementation today, the answer was that they were unaware of the same.** This is alarming because it augments the problem of infrastructure availability, as enterprises do not leverage the provisions that exist for them. In case of the Industrial Infrastructure Up-gradation Scheme (IIUS) scheme of Department of Industrial Policy and Promotion, 90% of total respondents were unaware of the scheme. Similarly when asked about Integrated Infrastructure Development (IID) scheme of Ministry of MSME, 92% of total respondents were unaware of the existence of this scheme.
Absence of Exclusive Marketing Platforms & Distribution Networks

With consumer habits changing rapidly and increased competition from both local and global brands, market
dynamics and customer loyalties are in a state of flux. While offering best-in-class products and services, enterprises
also need to improve the quality of customer interaction at each opportunity. Enhancing customer engagement is
not a matter of choice anymore and to succeed, SMEs need market intelligence, tools and well-trained workforces to respond to these external pressures.

Figure 7 SME Challenge 5 – Absence Of Exclusive Marketing Platforms & Distribution Networks

Figure 7 above explains the key reasons why SMEs in India are unable to approach marketing and distribution
effectively. The most quoted reason (74%) why SMEs fail to adopt marketing techniques, build a robust supply chain
network and invest in geographic expansion is lack of monetary support. Other key trends that emerged were:

- **Large enterprises continue to beat SMEs down on marketing and supply chain.** 68% enterprises across all verticals and cities quoted this as the second most significant reason. This clearly implies the need for SMEs to participate in industry bodies that allow for scale in both marketing and supply chain.

- **Smaller enterprises and those headquartered in Tier-3 towns quote lack of awareness of technology solutions to cater to marketing needs more often than their bigger counterparts.** While 65% mid-market enterprises quote lack of awareness as an inhibitor to adoption of technology to aid marketing initiatives, 68% small enterprises face the same. Furthermore, 77% enterprises from Indore stated this as a challenge.

- **Limited understanding about new-age marketing strategies cripples smaller enterprises and those in Tier-3 cities.** 64% mid-market enterprises lack understanding on new-age marketing strategies like content and database marketing – this compares to 64% small enterprises facing the same. Furthermore, 77% enterprises from Indore stated lack of understanding as a hindrance to their growth.

- **Only 11% SMEs are aware about government programs and grants to support marketing and supply chain networks.** As an ongoing effort, the government runs multiple schemes and programs to support SMEs with access to knowledge, technology and funding to tackle marketing and supply chain challenges. However, education and awareness about these initiatives remains very low. 89% enterprises remain unaware about key government initiatives like The Marketing Assistance and Technology Up-gradation Scheme for Micro Small and Medium Enterprises\(^\text{12}\) and the MSE Marketing Development Assistance (MDA) Scheme\(^\text{13}\).
Inflexible Labour Laws and Availability of Affordable Skilled Labour

Indian SMEs employ 40% of the country’s workforce, making them the employment powerhouse of the country. However, India today faces the big challenge of outdated labour laws that are still in use. This leaves many SMEs struggling with problems of culture and scale and not being able to meet their workforce demands. A labour law reform overhaul is required to absorb the 200 million individuals that will enter the workforce in the next 2 decades.

Figure 8 SME Challenge 6 – Inflexible Labour Laws And Availability Of Affordable Skilled Labour

Figure 8 above highlights some of the key issues that enterprises face because of inflexible labour laws. The majority of enterprises (94%) feel that retaining talent is the biggest challenge due to lack of ability to pay well and inadequate employer branding. The challenge that fared lowest amongst respondents was unavailability of skilled workers at affordable costs, 77% enterprises felt this was a challenge. Other trends were:

- **Smaller Enterprises feel the pressure of not being able to retain talent.** 86% of small enterprises felt that retaining talent was a big challenge owing to their lack of ability to pay well, and absence of branding. Respondents stated that due to low operating margins they were often unable to retain the right skilled talent. In comparison, 82% mid-market enterprises stated this as a challenge.

- **Respondents from Tier-3 cities felt that minimum wage policies should be subject to the per capita income of the region.** 80% of respondents from Indore, Nasik and Kanpur felt that minimum wages should be according to per capita income of the region instead of a national standard minimum wage policy.

- **Respondents across all cities unanimously felt low productivity of labourers was a major hindrance in their growth plans.** The common sentiment of SMEs was that they face extremely low productivity numbers from their workforce. SME employers blamed trade unions and their limited ability to pay well as some of the major factors causing low productivity. Many enterprises were of the opinion that affordable technology overhaul might reduce labour effort and in turn increase productivity.
THE EXPECTATION – SMEs DEMAND A COMPREHENSIVE AND RESULT-ORIENTED BUDGET

The newly appointed NDA government in India has worked like a shot in the arm for the country’s economy. A recent study by ASSOCHAM\textsuperscript{15} confirmed that this new wave of leadership for India is expected to double foreign investments to USD 60 billion. This is surely a major boost from the distressed condition of the Indian economy under the previous UPA government. While it’s hard to miss the air of optimism in the country, longevity of this sentiment is contingent on the announcements in the Union Budget. SMEs continue to be plagued with challenges that are inhibiting them from growth in revenue and scale. The Union Budget 2013-14 did little to uplift the sentiments of the SME sector and offered no additional support and guidance. SMEs expect the new Narendra Modi-led NDA government to focus on their key challenges and provide definitive schemes and programs to help solve long pending matters.

More specifically, factors like the introduction of the Goods and Service Tax (GST), Foreign Direct Investment (FDI) in retail along with the need for transparency in action, accountability of programs and funds and dependable governance have been pending topics over the past Budgets. Lack of commitment from the previous government over the past Budgets continues to reduce confidence of SMEs to explore and invest aggressively to expand and grow revenue. In addition, the new government must also action a program to promote and support entrepreneurship – this will add to the domestic economy on multiple levels, including adding muscle to the country’s Intellectual Property (IP).

\textit{Figure 9 Expectations of Indian SMEs from Union Budget 2014–15}

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of basic infrastructure facilities</td>
<td>96%</td>
</tr>
<tr>
<td>Introducing regulatory reforms for ease of doing business</td>
<td>96%</td>
</tr>
<tr>
<td>Introducing labour law reforms</td>
<td>93%</td>
</tr>
<tr>
<td>Introduction of easy financing and credit tools</td>
<td>92%</td>
</tr>
<tr>
<td>Access to marketing platforms and networks</td>
<td>92%</td>
</tr>
<tr>
<td>Access to modern affordable technology</td>
<td>92%</td>
</tr>
</tbody>
</table>

\textit{Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)}

Figure 9 above highlights the key expectations and reforms that SMEs would like as part of the upcoming Union Budget in July 2014. Albeit improvement of infrastructure scores more than other factors like availability of modern affordable technology, in all categories expectations have been rated above 90%. This corroborates well with the premise on which this government has been elected – change and growth. Few key trends that stand out:

- \textbf{When compared to mid-market enterprises, small enterprises have higher expectations on introduction of easy financing and credit tools and access to modern technology.} 93% of small enterprises across all cities expect this Budget to focus on improving finance and technology. This compares to 90% of mid-market enterprises demanding the same from this Budget.

- \textbf{Enterprises in Tier-3 towns find it more challenging to do business.} 100% of enterprises in Kanpur are expecting this Budget to have regulatory reforms to facilitate ease of doing business. This is closely followed by Nasik where 95% of enterprises are expecting similar reforms.
• Support for marketing platforms and network channels is expected a lot more from enterprises in Tier-2 and Tier-3 towns. 98% of enterprises in both Chandigarh and Nasik expect this Budget to introduce new reforms to help SMEs with knowledge, training and budgets for marketing support and network channels.

Introduction of Easy Financing and Credit Tools

In order for SMEs to compete with large scale enterprises and other global counterparts, it is important that they are provided easy and affordable opportunities to obtain credit. With limited working capital, key for SMEs is low cost finance that is available from public sector banks. In order to retain growth for SMEs, the government must work towards establishing an environment that simplifies access to finance and creates transparency in how banks and credit agencies decide terms. Last but not the least, offering clarity on introduction of Goods and Services Tax (GST) will ensure all active in the ecosystem can plan the migration smoothly.

Figure 10 SME Expectations 1 – Introduction Of Easy Financing And Credit Tools

Basis the survey conducted in June 2014, nearly all enterprises (97%) are expecting the Budget will introduce a new policy that makes it easy for SMEs to obtain a term loan from banks without high emphasis on collaterals and complex paper work and at reduced interest rates. Other key trends observed from the survey include:

• Small enterprises hold high expectations that this Budget will have a policy that encourages creation of an independent SME exchange – a dedicated stock exchange for SMEs acting as a common financial exchange for financial and equity trade. While only 89% of mid-market enterprises are expecting this, smaller enterprises have higher expectations and have rated it at 94%. The enterprises interviewed were also unaware of the existence of the SME exchange platform started by the Bombay Stock Exchange (BSE)\(^1\). Enterprises further went to say that what was required was an independent and exclusive body which would bring in ease of registering for small as well as medium level enterprises. They also expect this exchange to go beyond the functions of fund generation and cater to other functions such as facilitating trading and marketing network creation.

• Mid-Market enterprises are aggressively pushing to reduce transaction costs in imports/exports and introduce subsidies. As compared to smaller enterprises (84%), 90% of mid-market enterprises are expecting this to be approved in this Budget.

• GST is not the biggest pain point for enterprises and hence not the most expected outcome from this Budget, however it garners high expectations. Compared to 97% of enterprises that rated credit without complex collaterals as their preferred agenda for this Budget, only 90% of enterprises expect GST to be pushed as part of this Budget.
Introducing Regulatory Reforms to Facilitate Ease of Doing Business

Flexible regulatory policies for starting a business are critical for the SME sector to flourish and grow. Every new and growing business needs the right support and incentives to develop its full potential. Therefore it becomes imperative for policy makers to provide the right incubation support and start-up incentives to facilitate ease of doing business.

Figure 11 SME Expectations 2 – Introducing Regulatory Reforms To Facilitate Ease Of Doing Business

Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)

The graph above conveys a strong message. All enterprises interviewed are expecting the government to take notice of the recent wave of entrepreneurs in the country and establish a new program that allows these start-ups to access funds locally rather than looking at funds from other countries. In addition, 91% enterprises stated the need for creation of a common regulatory body for SMEs that helps govern the issues and mandates specific to their needs.

Access to Modern Affordable Technology

SMEs have a unique problem to solve – while they are required to adhere to global standards and ensure compliance to regulations, they mostly have limited understanding (and budgets) for technology. This surely needs to change and Indian SMEs need to evolve to be aggressive users of technology. From being an enabler of productivity and quality, technology must be used for transformation and as a key influencer of competitive advantage.

Figure 12 SME Expectations 3 – Access To Modern Affordable Technology

Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)
Nearly all enterprises we interviewed (98%) expect this Budget to lay onus on making technology cheaper and accessible to SMEs. In addition, enterprises also expect the Government to take necessary steps to create an ecosystem of players and bring them on a common platform to help exchange ideas and know-how. Furthermore, in comparison to mid-market enterprises, smaller enterprises are lobbying hard for government funding and incentives. 94% of small enterprises stated they expect the Budget to revitalize the role of the Small Industries Service Institute (SISI) – this compares to 90% stated by mid-market enterprises.

**Improvement of Basic Infrastructure Facilities**

SMEs today are the foundation of the Indian industrial economy and they hold the potential to make India a global economic powerhouse. It is of critical importance that Indian SMEs are provided with the right infrastructure facilities to facilitate their sustainable growth and development.

**Figure 13 SME Expectations 4 – Improvement Of Basic Infrastructure Facilities**

As depicted in the graph above, all enterprises (100%) we interviewed as part of this research confirmed that they expect the Budget to give incentives and encourage cluster infrastructure schemes for SMEs. Other key expectations include more SEZs to foster growth (98%), availability of reliable electricity resources – provisions for setting up captive power plants (98%) and mandates and disciplines for industrial waste management (98%).

**Access to Marketing Platforms and Networks**

The need for enterprises to increase market coverage, improve operational efficiencies and enhance customer engagement is imperative. However, this requires readiness on two accounts – the company and government regulation and policies including SME special programs, initiatives and funds.

**Figure 14 SME Expectations 5 – Access To Marketing Platforms And Networks**

As depicted in the graph above, 94% expect the Budget to support the development of ICT networks to cater to SMEs.
The recently conducted Firstbiz-Greyhound Knowledge Group SME Survey 2014 highlights the following expectations from SMEs for the upcoming Union Budget 2014-15:

- **SMEs need a common platform that allows for information exchange and learning.** 94% of enterprises across all verticals and cities quoted this as the second most significant reason. This clearly indicates the desire by SMEs to learn more about new technology that enables marketing and channel development. More specifically, enterprises from Tier-3 towns are demanding this most (98%) as compared to the country average of 94%.

- **Enterprises from Tier-2 and Tier-3 towns require specialized monetary support.** Compared to an average of 92%, enterprises from smaller towns are expecting higher monetary support. While 100% enterprises from Coimbatore stated the need for such reforms, it was closely followed by Ahmedabad (95%) and Kanpur (93%).

- **Tier-3 towns are demanding the new government should revitalize the MSE Marketing Development Assistance (MDA) Scheme.** Enterprises from all Tier-3 towns we interviewed are expecting this reform to be announced in the upcoming Budget announcement. While Nasik pegged this at 100%, it was followed by Kanpur (98%) and Indore (95%).

### Introducing Labour Law Reforms

The last few years have seen an exponential growth in the inflow of workers into the SME sector; this says a lot about the potential SMEs hold for national development. The presence of flexible labour laws therefore becomes increasingly critical in today’s environment. Labour laws provisions such as standardized wages, social security, and job safety ensure that the workforce is protected and delivers its highest output.

*Figure 15 SME Expectations 6 – Introducing Labour Law Reforms*

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schemes for competency and skill development</td>
<td>100%</td>
</tr>
<tr>
<td>Encourage labour intensive manufacturing</td>
<td>98%</td>
</tr>
<tr>
<td>Flexible minimum wage policies</td>
<td>98%</td>
</tr>
<tr>
<td>Laws that protect low skilled labourers</td>
<td>96%</td>
</tr>
</tbody>
</table>

*Source: FirstBiz-Greyhound Knowledge Group SME Survey 2014 (n=540)*

The survey results clarify that 100% enterprises stated the need for government-led initiatives and schemes for competency and skill development to ensure SMEs don’t have under-skilled workers. 98% respondents also mentioned that the minimum wage policies should be made flexible with respect to per capita income of the region and not be same for the whole country. The survey outcomes also pointed to a large majority (98%) of enterprises expecting that the Budget will encourage labour intensive manufacturing by giving entrepreneurs incentives. Last but not the least, 96% of enterprises are expecting new laws that protect low-skilled labourers – this would foster inflow of people into SME jobs.
FINAL THOUGHTS – INDIAN SMEs DEMAND A COMPREHENSIVE AND RESULT ORIENTED BUDGET

SMEs are the undisputed powerhouse of India and through this report and its findings it is clear that there is still a lot that needs to be done for their welfare. SMEs today are burdened by challenges of not just generating capital but also technology obsolescence, inadequate human capital and lack of information. The biggest problems that emerged out of the pan India survey:

- **There is a pressing need to develop infrastructure facilities as SMEs are handicapped due to the lack of it.** Enterprises are struggling with problems of power and electricity as there are not many large scale power grids to support their business operations. Cluster Infrastructure development is one solution that most enterprises look forward to, therefore it is important that more initiatives are launched to encourage cluster financing by the government or through PPP models.

- **Indian SMEs are plagued due to lack of information.** Majority of the SMEs that were interviewed for this survey were uninformed of the schemes started out by the government. This augments the overall challenges SMEs face today as they are unable to reap the benefits of these special schemes.

- **Indian SMEs require solid ICT (Information and Communications Technology) networks to compete with larger enterprises and global counterparts.** Most enterprises that were surveyed are struggling with problems of technology obsolescence and weak communication networks. This is a serious deterrent in the growth of Indian SMEs as it has a direct effect on their productivity.

The welfare of SMEs is critical for national development. Hence, Indian SMEs are hopeful that the new NDA government will introduce a fresh lease of reforms that will finally help them reach their potential. The SME expectations that stood out were:

- **Reforms that will facilitate easier and quicker methods of obtaining credit.** Capital generation remains the core problem more all SMEs, and thus schemes that will provide collateral free credit and reasonable interest rates remain top of everyone’s expectation list.

- **An overhaul in the labour laws both from the employer and workers perspective.**

- **Relaxation in regulatory policies of the government as it would facilitate ease of doing business.** The majority of enterprises feel that India is seeing a new wave of entrepreneurs and to promote them it is essential that the government establish a new program that allows these start-ups to access funds locally rather than looking at funds from other countries.

It is evident that the upcoming Union Budget 2014-15 is one of the most important ones in recent times. While there is an air of optimism amongst Indian businesses, there are also doubts on whether the new government will take lukewarm populist decisions or turn to more stringent result-oriented decisions.
ENDNOTES:

1. “According to the latest reports by SMB Chamber of Commerce and Ministry of Micro, Small and Medium Enterprises, India currently has more than 48 million SMEs”
   Source: Malini Goyal, “SMEs employ close to 40% of India’s workforce, but contribute only 17% to GDP”, Economic Times, June 9, 2013 (http://articles.economictimes.indiatimes.com/2013-06-09/news/39834857_1_smes-workforce-small-and-medium-enterprises)


3. “According to the Annual Report issued by the Ministry of Micro, Small and Medium Enterprises, there are over 6000 products, ranging from traditional to high-tech which are being manufactured by the MSME sector for domestic as well as international markets.” Source: Ministry of MSME Annual Report 2012 – 13, (http://msme.gov.in/WriteReadData/DocumentFile/ANNUALREPORT-MSME-2012-13P.pdf)


8. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is an initiative by the government of India (GOI) and Small Industries Development Bank of India (SIDBI) where the main objective is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. Source: “FICCI GT Report on Vison2020 – Implications for MSMEs”, February 18, 2011, (http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf)

9. Technology Business Incubation (TBI) is one of the most recent services that NSIC has initiated. TBI enables technical entrepreneurs to conduct their R&D programmes in a professional, friendly and supportive environment, while receiving the guidance and hand holding they need in the initial phase. This facility is being offered in Information Technology, Product Design, Energy and Environment auditing, Bio-Technology Electronics and Communications. Source: “FICCI GT Report on Vison2020 – Implications for MSMEs”, February 18, 2011, (http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf)
10. **Industrial Infrastructure Up-gradation Scheme (IIUS)** was launched in 2003 with a view to enhance competitiveness of industry by providing quality infrastructure through public-private partnership in selected functional clusters. The scheme has been suitably modified in 2009 mainly to cut delays in the implementation of the projects and streamline the process. Under the Scheme, central grant is provided to upgrade the infrastructure of the existing clusters. The infrastructure includes physical infrastructure, R & D infrastructure, Common Facilities centre etc. The central grant is restricted to 75% of the project cost subject to a ceiling of INR 60 crore. The remaining 25% is financed by other stakeholders with a minimum industry contribution of 15% of the project cost, which must be in form of cash and not in kind like the cost of land or exiting building. Source: “FICCI GT Report on Vision2020 – Implications for MSMEs”, February 18, 2011, [http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf](http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf)

11. In pursuance of the Industrial Policy measures for promoting and strengthening small and tiny village enterprises announced on 6th August, 1991, the Integrated **Infrastructural Development (IID) Scheme** was launched in 1994. The scheme covers districts which are not covered under the Growth Centres scheme. The aim of the IID scheme is to provide developed sites with infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services etc. The scheme covers rural as well as urban areas with a provision of 50% reservation for rural areas and 50% industrial plots to be reserved for tiny sector. The scheme also provides for up-gradation/ strengthening of the infrastructural facilities in the existing old industrial estates. IID scheme has been subsumed in the MSE-CDP, with all its existing features. However, pending finalisation of guidelines, the proposals for IID centres are being dealt under the existing scheme. Source: “FICCI GT Report on Vision2020 – Implications for MSMEs”, February 18, 2011, [http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf](http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf)

12. The **Marketing Assistance and Technology Up-gradation Scheme for Micro Small and Medium Enterprises**, a program of MSME Ministry, envisages that some clusters of MSMEs, which have quality production and export potential, shall be identified, encouraged and assisted through the scheme to achieve competitiveness in the national and international markets. The program aims at improving the marketing competitiveness of the sector. The activities planned under the scheme include technology up-gradation in packaging, skills up-gradation/ development for modern marketing techniques, competition studies of threatened products, identification of new markets through state and district levels, local exhibitions, trade fairs, corporate governance practices, marketing hubs and reimbursement to ISO certification. Source: “FICCI GT Report on Vision2020 – Implications for MSMEs”, February 18, 2011, [http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf](http://www.ficci.com/spdocument/20143/Grant-Thornton-FICCI%20MSME.pdf)


14. “A labour law reform overhaul is required to absorb the 200 million individuals that will enter the workforce in the coming 2 decades” Source: Rajesh Kumar Singh, “India’s Modi eyes first labour overhaul in decades to create jobs”, UK Reuters, June 29, 2014 [http://uk.reuters.com/article/2014/06/29/uk-india-labour-reforms-idUKKBN0F40XZ20140629](http://uk.reuters.com/article/2014/06/29/uk-india-labour-reforms-idUKKBN0F40XZ20140629)

15. “The newly appointed government in India has worked like a shot in the arm for the country’s economy. A recent study by ASSOCHAM confirmed that this new wave of leadership for India is expected to double foreign investments to USD 60 billion” Source: “Banking on Narendra Modi, foreign investors to pour $60 billion into...”

Our Mission Statement

“Greyhound Knowledge Group is built on the ethos of a research-led approach. Our mission is to be the most trusted group in the research & advisory business in emerging markets. We believe in challenging conventions & committed to change the way research is executed and consumed. This we believe will help our customers make decisions that add value to their routine tasks.”

Greyhound Knowledge Group Companies

Greyhound Research
IT & Telecom Research & Advisory
http://GreyhoundResearch.com
https://twitter.com/Greyhound_R

Greyhound Sculpt
Business Research & Advisory
http://GreyhoundSculpt.com
https://twitter.com/GreyhoundSculpt

Greyhound Technocrat
Executive Search & Head Hunting
http://GreyhoundTechnocrat.com
https://twitter.com/Greyhound_T

Reach out to us on connect@greyhoundgroup.com