FICCI Report on
SMEs in India

Federation of Indian Chambers of Commerce & Industry
September, 2023

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Foreword



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FICCI, the country's oldest apex business chamber established in 1927, works with various stakeholders to further the national agenda of sustainable, inclusive, and resilient growth. In this context, small and medium enterprises (SMEs) are an important constituent as they contribute significantly to the country's output, exports, and employment.

A key priority for FICCI has been to unlock the potential of SMEs by identifying and addressing issues which hinder their growth and hold back innovation. Digitalisation is a critical area where, with the right strategy and resources, small and medium enterprises can leapfrog traditional constraints; similarly, embracing sustainability practises is imperative in order to access global markets.

The **FICCI Report on SMEs** was conceptualised to assess the awareness of and preparedness for digitalisation and sustainability by small and medium enterprises from the manufacturing sector in India. It is based on a nationwide survey of more than 600 SMEs across 14 cities followed by focussed group discussions. The report highlights how SMEs are adapting to the digital transformation taking place and adopting sustainability practices; it identifies the challenges in this regard and, more importantly, makes specific recommendations on how to overcome them.

I would like to thank all those who were involved in the preparation of this report. A special word of mention about Mr R V Kanoria, Past President, FICCI; Mr Sanjay Bhatia, Past President, CMSME; and Mr Jitender Balakrishnan for their expert advice and guidance. The support provided by Mr Shailesh Pathak, Secretary General, FICCI was also important.

I am sure stakeholders will find the data contained in this report useful, and it will enable policymakers to plan interventions which will further strengthen the SME ecosystem so as to make small and medium enterprises a key pillar of our economy.



Subhrakant Panda

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STUDY CONTEXT

Setting the context

Small and Medium Enterprises (SMEs) have been a crucial part of India's economic landscape for many years. Recognizing the importance of SMEs in India's economy, the government has implemented various policies and initiatives to support their growth. These include credit programs, tax benefits, infrastructure development, technology upgradation schemes, etc.

Despite government support, access to finance remains a significant challenge for SMEs in India. In addition, SMEs in India face several challenges, including inadequate infrastructure, complex regulatory procedures, skill shortages, and limited market access. Overcoming these challenges is crucial for their growth and sustainability.

In the past few years, various factors driving the businesses and society across the world have witnessed changes. World is transitioning to a new era of business driven by technology and convergence while the challenges of sustaining socio-economic life has become imminent. This has brought certain degree of uncertainty and unpredictability in the business environment across the globe.

Digitalisation has gained traction and changes in business dynamics brought challenges for industries accustomed to old ways. SMEs in India have been increasingly adopting technology and digital solutions to enhance their competitiveness. This includes the use of e-commerce platforms, digital marketing, cloud computing, and automation tools. Such technological advancements can improve productivity and access to markets for SMEs.

Digital tools and platforms have enabled SMEs to expand their reach beyond traditional boundaries. They can now access domestic and global markets through e-commerce platforms, social media, and online marketplaces. Digitalisation has allowed SMEs to streamline their operations and reduce costs. Automation of processes, digital accounting systems, and cloud computing have improved efficiency and productivity while minimizing manual labour and administrative tasks. This enables SMEs to allocate resources more effectively and focus on core business activities.

Also, impending global challenges such as climate & environmental concerns have come to fore for a timely resolution impacting industries in terms of environment sustainability.

SMEs often have limited financial and human resources to allocate towards sustainability initiatives. Implementing sustainable practices may require upfront investments, additional training, and dedicated personnel, which can be challenging for SMEs. Many SMEs have limited knowledge and awareness of sustainability practices and their business benefits. They may lack the necessary expertise to develop and implement sustainability strategies, measure their impact, or navigate complex regulations related to sustainability. Government support, industry associations, and initiatives aimed at promoting sustainability practices among SMEs can play a crucial role in overcoming these challenges.

External factors impacting industry also had bearing on the financial viability and regulatory compliance of the companies. These dynamic changes have percolated as major headwinds for smaller industrial units such as the SMEs.

The task at hand is to find pragmatic solutions to the issues and challenges not just at the policy level but also at industry level, with a view to strengthen the SME eco-system and make them the key pillars of sustained high economic growth.

Study objective

The objective of this study was to understand the issues and challenges faced by small and medium enterprises (SMEs) focusing on manufacturing sector in India.

The issues and challenges focused on the following key aspects, namely:

- Financing
- Compliance
- Digitalisation
- Sustainability



In view of the above, FICCI commissioned a market research study to IPSOS to understand the issues and challenges faced by small and medium enterprises (SMEs) in the manufacturing sector in India, with a special focus on aspects related to Digitisation and Sustainability.

The research methodology involved a combination of quantitative and qualitative research, including face-to-face interviews with SME owners and key decision-makers, as well as focus group discussions with industry experts and regional association members. The study covered seven sectors and included a total of 610 respondents through face-to-face interviews and three focus group discussions from various cities across India (Agra, Rourkela and Chennai).

EXECUTIVE SUMMARY

RESEARCH FINDINGS

EXECUTIVE SUMMARY

In recent years, world economies have been confronted with a series of unprecedented challenges. The rapid spread of the Covid-19 pandemic brought profound disruptions across various sectors, which was then further aggravated due to the geo-political conflicts. The consequences of these events have been far-reaching, affecting everything from supply chains to inflation rates, thus impeding the growth of businesses and the overall economy.

Nevertheless, amidst the turbulence, economic recovery has again started to gather momentum. The resilience of businesses has played a significant role in navigating through these uncertain times. By adapting to new circumstances, embracing innovation, and using the power of digital transformation, organizations have found ways to overcome challenges.

While the path to full recovery may take time, the signs of progress are becoming increasingly evident. Governments, international bodies, and businesses alike are working continuously to rebuild their economies. Further, it is crucial for businesses to remain vigilant and adaptive to the evolving landscape.

SMEs are currently recognized as the driving force behind India's economic and social development. By embracing digital technologies, SMEs have an even greater opportunity to thrive, grow, and succeed. The digitisation of SMEs (Small and Medium Enterprises) in India is an ongoing process aimed at leveraging digital technologies to enhance the efficiency and competitiveness of these businesses. The government has been actively promoting digital transformation of SMEs to drive growth, foster innovation, and improve access to markets.

There are several initiatives taken by the government and private sector to support the digitalisation of SMEs in India. The government has been investing in improving digital infrastructure, including internet connectivity and mobile networks, to enable SMEs to access and leverage digital technologies. Mobile technology is playing a significant role in the digitalisation efforts of SMEs in India. With the increasing availability of smartphones and affordable data plans, SMEs are leveraging mobile applications and platforms for various business functions, including communication, payments, inventory management, and marketing. The promotion and adoption of digital payment systems, such as UPI (Unified Payments Interface) and mobile wallets, have facilitated cashless transactions for SMEs, enhancing financial inclusion and convenience.

SMEs have been leveraging e-commerce platforms and online marketplaces to reach a larger customer base and expand their market presence. These platforms provide opportunities for SMEs to showcase and sell their products and services nationally and globally. SMEs can utilize various digital tools and channels, including social media platforms, search engine optimization (SEO), and online advertising, to promote their products and services and target specific customer segments. Cloud-based solutions offer SMEs flexibility, scalability, and cost-effectiveness in managing their data, applications, and infrastructure. Cloud computing enables SMEs to access resources on-demand and reduces the need for expensive IT infrastructure. SMEs can leverage digital technologies like Artificial Intelligence (AI) and Robotic Process Automation (RPA) to automate routine tasks, streamline processes, and improve operational efficiency. The Indian government and industry bodies are focusing on imparting digital literacy and skills training to SME owners and employees to ensure they can effectively adopt and use digital technologies.

The government and other stakeholders are investing in skilling programs to enhance digital literacy and technical capabilities among SME owners and employees, enabling them to effectively adopt and utilize digital technologies. These measures aim to empower SMEs by enabling them to digitalize their operations, enhance competitiveness, and harness the potential of the digital economy.

However, challenges such as connectivity issues, cybersecurity concerns, and lack of digital awareness and skills remain, which need to be addressed for wider digital adoption among Indian SMEs and contribute to their growth and development.

The study explored the usage of digital technology by SMEs in different business functions, with 60 percent of enterprises using digital tools for human resources, 51 percent for sales and marketing, and 48 percent for finance. Further, the accounting software and business applications like ERP and CRM were the most commonly used digital tools by SMEs. It was further confirmed by most of the enterprises that they have experienced improvements in productivity and reduction in operational costs as a result of incorporating technology into their business and adopting tools such CRM and ERP.

In terms of online markets and sales platforms, 71 percent of enterprises had their own channels or sales platforms in the form of their own website to either display or sell products. The adoption of online markets and sales platform has increased their sales, profits as well as reach to customers. However, certain challenges also came to fore including tough competition, lower profit margins and lack of skilled manpower to manage such platforms.

Overall, over half of the enterprises rated their ease of compliance on the GST portal as moderate, while approximately 43 percent rated it as positive. SMEs also suggested simplifying tax compliances, labour and employment laws, accounting standards, import-export regulations, etc.

In terms of sustainability, given the contribution of SMEs to the economic growth, they can play a significant role in making a positive impact on the environment and society as a whole. By adopting sustainable practices, SMEs can mitigate their ecological footprint, optimize resource utilization, and minimize waste generation.

As per our study, an overwhelming 72 percent of respondents were generally aware of sustainability and ESG practices, whereas 28 percent were unfamiliar with them. The importance of buyer support in implementing sustainability and ESG practices was instrumental as 64 percent of enterprises received guidance and support from their buyers.

Over the past two years, a significant number of enterprises have taken steps to adopt sustainable practices. The highest proportion of enterprises (41 percent) implemented measures to eliminate paper usage, demonstrating a growing awareness of the need to reduce waste and conserve resources, conserve water (41 percent), invest in green projects (39 percent), etc. The respondents also highlighted their priority for implementing sustainable practices over the next two years, which included the usage of renewable energy (36 percent), and investment in green projects (35 percent).

It was further observed that about 64 percent of participating enterprises have realigned their businesses as per buyer's requirements and have thus invested in sustainable practices in response to the growing demand for sustainable practices by their buyers.

Although the benefits of implementing sustainable practices are evident, there are several challenges that firms may face while implementing them. The respondents have indicated that time

constraint (42 percent) is among the key challenges in adopting sustainability practices, followed by limited funding (41 percent) and a lack of incentives for implementation (41 percent).

In-addition, enterprises have suggested ways to improve the adoption of sustainability and ESG practices by SMEs. Approximately half of the respondents suggested increasing awareness through targeted campaigns, training programs, and other awareness-raising initiatives, providing subsidies or other benefits to incentivize compliance (35 percent). This could include tax breaks or other financial incentives for SMEs that prioritize sustainability and ESG practices.

The study has highlighted the growing significance of digitalisation and the potential benefits it offers to SMEs in terms of increased productivity, reduced operational costs, and expanded market reach. The study also underscores the importance of sustainability and ESG practices and the role of buyer support in their implementation. Additionally, the study report findings also emphasized the importance of access to finance for SMEs, and the need for simplified compliance procedures.

These findings can serve as a valuable resource for policymakers, industry associations/experts, and SMEs themselves in addressing the challenges and leveraging the opportunities in the manufacturing sector.

SURVEY FINDINGS

The findings of the survey related to financing, digitalisation & compliance, and sustainability are detailed below. In addition, the growth performance of SMEs and outlook have also been covered.

1. FINANCING

Despite the SMEs significant contribution to the Indian economy, they face various challenges. Amongst the major challenges faced by SMEs include access to finance and high credit costs. Despite several schemes and incentives by the Government of India, SMEs face inherent challenges in financing.

1.1 Sources of Finance:

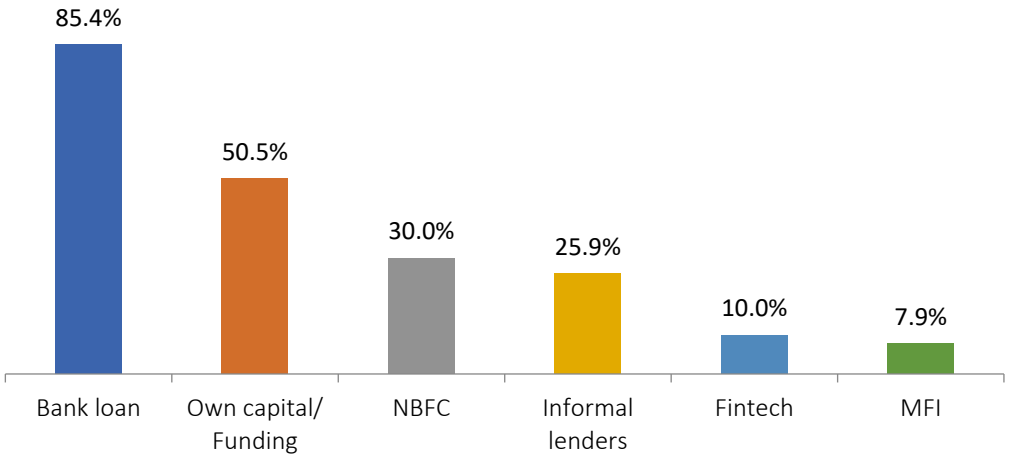
There are various sources of finances for enterprises including own capital, Informal lenders (moneylenders, friends, family), banks, NBFCs, Fintech, MFIs etc.

During the survey, the sources of finance for enterprises for setting up and running their business were explored. Among all, the highest proportion of SMEs have taken bank loans (85 percent) for setting up and running their enterprises followed by enterprises that have used their own capital/ self-funding (50 percent), NBFCs (30 percent), Informal lenders - moneylenders, friends, family (26 percent).

In all categories, bank loans were the most common source of finance for setting up and running a business, followed by own capital or self-funding.

Figure 1-A: Sources of finance of enterprises

[N=610, Multiple Response Possible]



As per enterprise type wise, the source of finance for setting up and running their business for majority of small and medium sized firms was bank loan followed by own capital/ self-funding. A similar trend was found industry wise across all participating sectors where bank loans and own capital/ self-funding were top sources of financing for setting up and running their business.

Table 1-1: Category wise sources of finances of enterprises

[All figures in percentage, Multiple Response Possible]

Sources of Finance	Base (N)	Bank loan	Own capital/ funding	NBFC	Informal lenders	Fintech	MFI
Overall	**610**	**85.4**	**50.5**	**30.0**	**25.9**	**10.0**	**7.9**
Enterprise Type							
Small	**247**	83.0	51.8	23.1	24.7	7.3	5.3
Medium	**363**	87.1	49.6	34.7	26.7	11.9	9.6
Type of Industry							
Textile and Garments	**119**	78.2	52.9	34.5	25.2	9.2	8.4
Furniture	**118**	83.1	50.9	28.0	22.0	13.6	9.3
Processed Foods	**77**	85.7	55.8	24.7	10.4	13.0	7.8
Machinery & Auto Comp.	**94**	92.6	46.8	36.2	30.9	6.4	7.5
Fabricated Metal Products	**72**	87.5	44.4	25.0	40.3	11.1	5.6
Sports Goods	**51**	82.4	52.9	23.5	31.4	13.7	11.8
Light Engineering goods	**79**	91.1	49.4	32.9	25.3	3.8	5.1
Export Product							
Yes	**428**	86.7	45.6	37.9	26.6	11.5	9.1
No	**182**	82.4	62.1	11.5	24.2	6.6	5.0

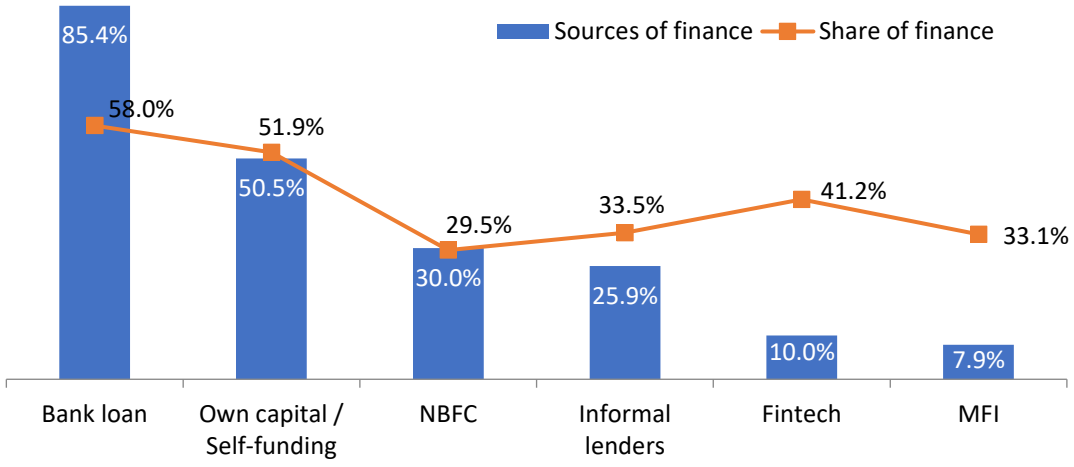
[Data to be read row-wise]

[The colour in the cells show values, where green, yellow and red colour indicates row wise highest, average and lowest values.]

1.2 Share of Finance:

When examining the distribution of financing sources for SMEs and their respective shares, it was discovered that bank loans were the preferred option over other sources and the proportion of financing obtained through bank loans was also the highest (58%). This is followed by own capital/ self-funding as the second most preferred option for financing, with average share of 52% in total finance composition.

Figure 1-B: Sources and share of finance of enterprises.



[N=610, Multiple Response Possible]

According to the feedback gathered from participants of Focus Group Discussions (FGDs), following observations were made:

i. Respondents highlighted the issue of collateral while seeking bank loans. It was highlighted that Collateral-free Credit is only on papers and not implemented. Banks provide the loan only when collateral is offered.

ii. Respondents also shared their views on the amended provision in Sec 43B of the Income Tax Act relating to tax deduction for purchases from MSMEs to be allowed only on actual payment, which has been implemented from April 1st, 2023. The respondents were of the view that since this is a very recent change, it is difficult to comment on the efficacy of its implementation. However, they affirmed that the new provision will provide a massive relief to MSMEs and also improve compliance across the entire supply chain.

Suggestions on MSME financing

Change In Classification Norms of MSMEs for NPAs: The working cycle of MSMEs in many cases extends much beyond 90 days period as from the date of purchase of raw materials till the date of making sales which spreads over a period of 90 days and thereafter, it takes another 30 to 90 days to realize the bills and receivables. Hence, the working capital cycle of MSMEs keeps prolonging due to delays in realization of sales receivables. Due to such delays, which have become a general business practice now, MSMEs find it extremely difficult to service their debt instalments or interest obligations in time, as a result of which, many of them default and their dues become irregular and overdue, leading to their classification into NPAs. There is a need to reconsider the provision of 90 days limit for classifying their over dues into NPAs.

It is recommended that the 90 days limit fixed by RBI for classifying overdue of MSMEs should be increased to 180 days so that MSMEs are not constrained to divert their working capital towards servicing of their loan-instalments and clearing of their overdues at the cost of normal business operations. This improvement in the RBI guidelines will save a large number of MSMEs from turning sick or getting closed resulting in loss of economic activity and employment. This will also prevent avoidable classification of bad debts and unwarranted litigation by banks thereby saving the banks from losses.

Increase emphasis on cash flow-based lending: Lending to the MSME sector should move to cash-flow based lending which replaces lending based on physical asset as collateral, with information-based system lending.

2. DIGITALISATION AND COMPLIANCE

The government and industry stakeholders have recognized the importance of the digital ecosystem for supporting the SME sector, particularly since the outbreak of the pandemic. A digital infrastructure that supports end-to-end solutions, access to finance, payments, inventory, operations, trading, sales, etc. would be instrumental for enterprises to adopt digital technologies.

2.1 Awareness and Experience of Digital Platforms by Government - GeM and TReDS

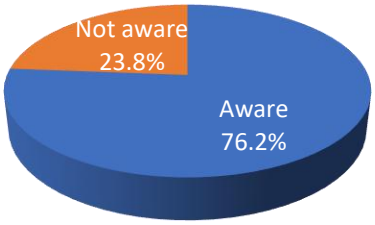
The Government e-Marketplace (GeM) has expanded the opportunities for enterprises to promote, market and sell their products digitally. It is an open and transparent procurement platform for government buyers.

During the survey, enterprises were asked if they were aware of GeM portal. Over three-fourth of enterprises (76 percent) were aware of the GeM portal for Public Procurement in India.

About 76 percent of enterprises were aware of GeM portal for public procurement and out of them 52 percent have already registered and 8 percent are in process of registration

Figure 2-A: Awareness of GeM Portal

[N=610]



Industry-wise, about 8 out of 10 enterprises from processed foods and sports goods were aware of GeM portal for Public Procurement in India whereas it was lowest for fabricated metal product enterprises (67 percent). Out of the 465 enterprises that were aware of the GeM portal, more than half of the enterprises had already registered on the portal for public procurement, while approximately 8 percent were in the process of registering.

Table 2-1: Awareness of GeM portal and registration - Category wise *[All figures in percentage]*

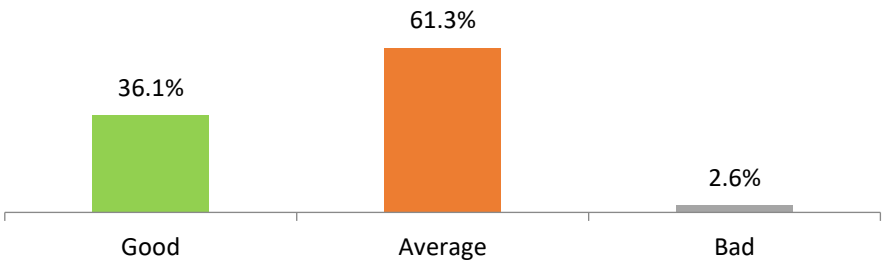
Awareness of GeM	Base (N)	Aware	Base (N) [aware of GeM]	Registered	Registration in process	Not registered
Overall	**610**	**76.2**	**465**	**51.8**	**8.2**	**40.0**
Enterprise type						
Small	**247**	77.7	**192**	51.0	5.7	43.2
Medium	**363**	75.2	**273**	52.4	9.9	37.7
Type of industry						
Textile and Garments	**119**	77.3	**92**	51.1	8.7	40.2
Furniture	**118**	73.7	**87**	39.1	10.3	50.6
Processed Foods	**77**	87.0	**67**	55.2	14.9	29.9
Machinery & Auto Comp.	**94**	74.5	**70**	61.4	1.4	37.1
Fabricated Metal Products	**72**	66.7	**48**	54.2	8.3	37.5
Sports Goods	**51**	80.4	**41**	51.2	7.3	41.5
Light Engineering goods	**79**	76.0	**60**	55.0	5.0	40.0

2.1.1 Experience with GeM portal:

Out of the 465 enterprises that were aware of the GeM portal, 36 percent of respondents rated the GeM portal as good, while 61 percent considered it to be average.

Figure 2-B: Experience with GeM Portal

[N=465]



Further, a higher percentage of medium-sized enterprises reported having a positive experience with the GeM portal compared to small-sized enterprises.

Table 2-2: Experience with GeM portal - Category wise

[All figures in percentage]

Experience with GeM Portal	Base (N)	Good	Average	Bad
Overall	**465**	**36.1**	**61.3**	**2.6**
Enterprise type				
Small	**192**	30.7	66.7	2.6
Medium	**273**	39.9	57.5	2.6
Type of Industry				
Textile and Garments	**92**	39.1	58.7	2.2
Furniture	**87**	28.7	69.0	2.3
Processed Foods	**67**	38.8	58.2	3.0
Machinery and Auto Components	**70**	41.4	55.7	2.9
Fabricated Metal Products	**48**	35.4	64.6	0.0
Sports Goods	**41**	17.1	75.6	7.3
Light Engineering goods	**60**	46.7	51.7	1.7

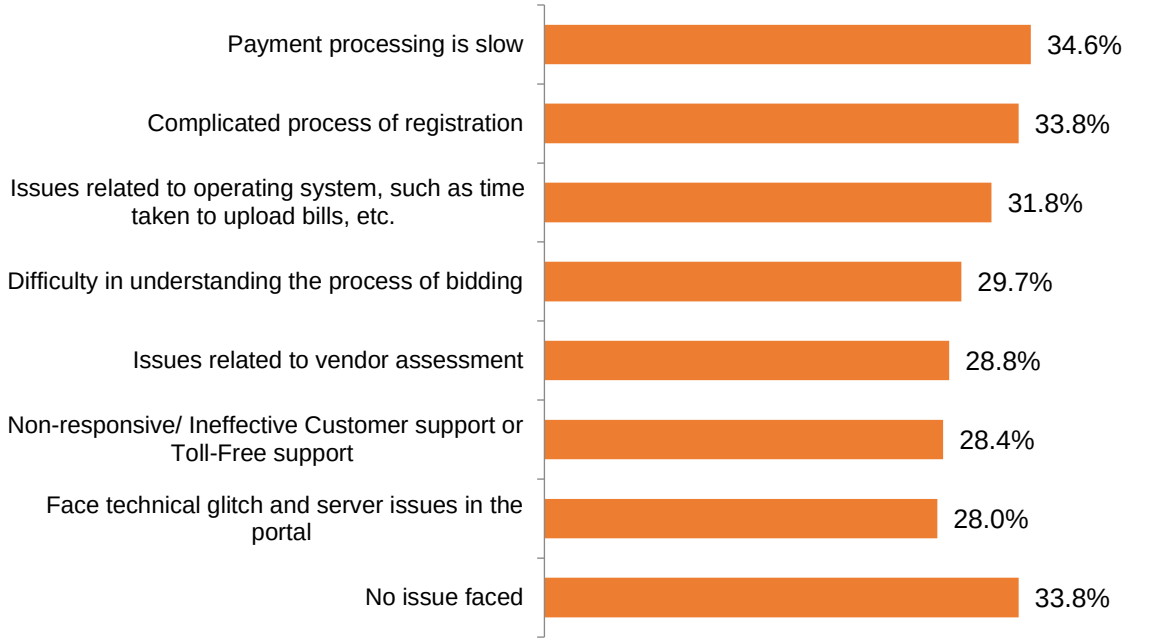
The enterprises that were aware of the GeM portal were asked to feedback on the key issues faced. Overall, about one-third of the enterprises have not faced any issues with GeM portal.

Across categories (Type of enterprise, firms that export products), the top issues faced by enterprises were:

- Slow payment processing (35 percent)
- Complicated process of registration (34 percent)
- Issues related to operating system, such as time taken to upload bills, etc. (32 percent)
- Difficulty in understanding the process of bidding (30 percent)

Figure 2-C: Key issues faced on GeM platform.

[N=465, Multiple Response Possible]



2.1.2 Awareness & experience with TReDS:

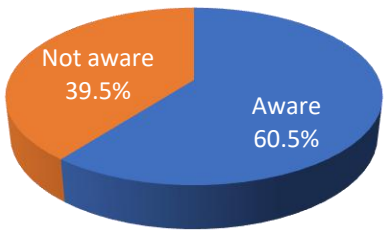
TReDS is an electronic platform for facilitating the financing/ discounting of trade receivables of MSMEs through online bidding by multiple financiers and buyers. These receivables can be due from buyers, including Government Departments and PSUs. This system is designed to provide an efficient and secure way for MSMEs to manage their working capital requirements by allowing them to sell their trade receivables to financiers (banks, NBFCs, etc.) on a digital platform. TReDS helps MSMEs in tackling the challenges of delayed payments and limited availability of reasonably priced working capital.

About 61 percent of enterprises were aware of TReDS platform for financing/ discounting of trade receivables. Out of these, 44 percent have registered and 9 percent are in the process of registration

During the survey, enterprises were asked if they were aware of TReDS platform. Overall, 6 out of 10 enterprises (61 percent) were aware of the TReDS portal for financing/ discounting of trade receivables.

Industry-wise, over 6 out of 10 enterprises from processed foods, textile & garments and furniture industries were aware of TReDS platform for financing/ discounting of trade receivables whereas for sports goods enterprises 55 percent were aware of the platform.

Figure 2-D: Awareness of TReDS platform *[N=610]*



Out of the 369 enterprises that were aware of the TReDS platform, about 44 percent of the enterprises had already registered on TReDS platform, while approximately 9 percent were in the process of registering.

Table 2-3: Awareness of TReDS platform and registration - Category wise

[All figures in percentage]

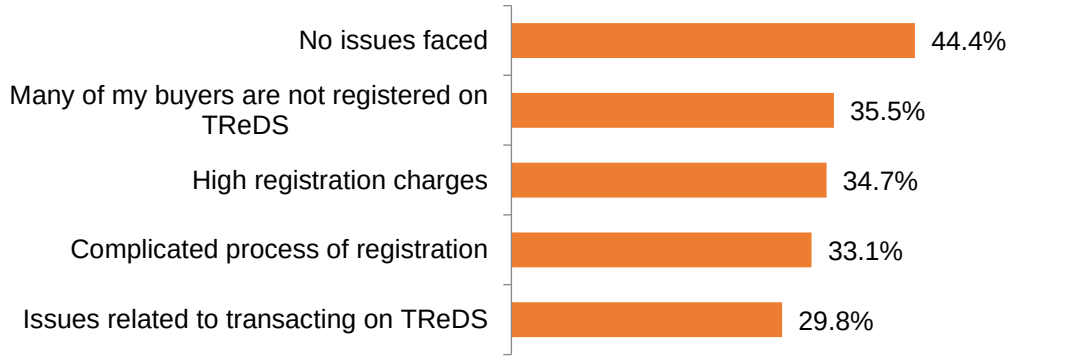
Awareness of TReDS	Base (N)	Aware	Base (N) [aware of TReDS]	Registered	Registration in process	Not registered
Overall	**610**	**60.5**	**369**	**44.2**	**8.9**	**46.9**
Enterprise type						
Small	**247**	72.1	**178**	42.7	5.6	51.7
Medium	**363**	52.6	**191**	45.6	12.0	42.4
Type of industry						
Textile and Garments	**119**	63.0	**75**	42.7	6.7	50.7
Furniture	**118**	61.0	**72**	37.5	11.1	51.4
Processed Foods	**77**	68.8	**53**	47.2	7.6	45.3
Machinery and Auto Components	**94**	58.5	**55**	47.3	5.5	47.3
Fabricated Metal Products	**72**	56.9	**41**	46.3	9.8	43.9
Sports Goods	**51**	54.9	**28**	60.7	10.7	28.6
Light Engineering goods	**79**	57.0	**45**	37.8	13.3	48.9

Out of the 369 enterprises that were aware of the TReDS platform, about 44 percent of the enterprises did not face any issue with TReDS platform.

Among others, 36 percent of respondents have mentioned that many of their buyers have not registered on TReDS and hence they face problems. Other challenges that were highlighted include high registration costs (35 percent), and complicated process of registration (33 percent).

Figure 2-E: Key issues faced with TReDS platform

[N=369, Multiple Response Possible]



The key suggestions to improve the performance of these platforms include:

1. **Automatic Publishing of GST registered MSMEs' invoices on TReDS and Deemed Acceptance by Corporate:** It was suggested that the registration at TReDS should be mandatory for all companies having the turnover of more than Rs. 250 crore, as it would

increase the purview of TReDS (Currently it is Rs 500 crore and above). It is also suggested that every tax invoice raised by GST registered MSME unit, should reflect automatically on the respective TReDS platform where MSME unit is registered i.e. linking of GST with TReDS. After the delivery of Services or Goods, within a certain number of days, the corporate must accept or reject the automatically published SMEs' invoice. After that period, the published SME's tax invoice should be deemed accepted and should be available for Financial Institutions to provide fund to SMEs. If the corporate rejects any invoice, a mandatory clarification must be sought which should be visible to Banks & respective SME units.

2. **Participation of State Government Agencies in TReDs**: SME Enterprises which have rendered the services under the Central schemes where implementation is at the State Government level are deprived of the benefit of facility of Bill Discounting through this platform, given that the State Government agencies are not mandatorily required to register on TReDS platform. For greater effectiveness, it should be made mandatory for all State Governments' agencies who are implementing Central Government Funded Schemes on the ground, to get enrolled on all or any one of the TReDS (Trade Receivables Discounting System) Platform so that SMEs can get their bills discounted from TReDS. In addition, the coverage could be expanded to include all States' PSUs. This will help in addressing the cash flow problems of the MSMEs who are working for Central Government Funded Schemes in various States.

3. **Make Customer Care Helpline of TReDS more robust**: The existing customer care helpline has been reported to be ineffective as there is limited response and tickets generated take a long time for resolution of issues. Promptly addressing and resolving the grievances of customers would enhance user experience.

4. **High Cost**: SMEs feel that the cost of using the GeM platform, set at 0.5 percent of the order value, is high. There should be exemptions or reduced rates to alleviate the financial burden on SMEs.

5. **Payment Assurance and Timelines**: In case of GeM, while the payments are assured, the time taken for receiving the payments varies. Some mechanism to be made to ensure timely payments to SMEs.

2.2 Usage of digital technology by SMEs:

The usage of digital technology by Small, and Medium Enterprises (SMEs) has become increasingly important in current business scenarios. Digital technology can help SMEs to streamline their operations, reach new customers, and improve their overall competitiveness. The digital technology which can be leveraged by SMEs includes e-commerce platforms, digital marketing tools, cloud-based services, and mobile applications. However, despite the potential benefits of digital technology, many firms still face challenges in adopting and utilizing these tools due to factors such as limited funding, limited digital literacy, and inadequate infrastructure.

2.2.1 Business function wise usage of digital technology:

Technology plays an instrumental role in facilitating the efficient management and operation of various business functions. Enterprises were asked about the usage of digital technology in their business functions such as Sales and Marketing, Finance, Operations, Human resources, Administration, etc.

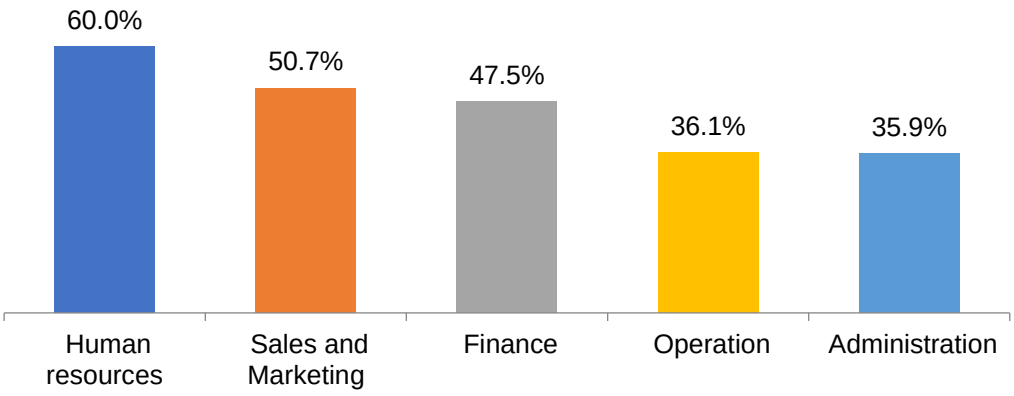
Overall, 6 out of 10 surveyed enterprises were using digital technology for human resource business function. The usage of digital technology for sales and marketing was reported by 51 percent of enterprises, followed by finance (48 percent).

Comparatively, less proportion of enterprises were using digital technology in operations and administration (36 percent) related business functions.

The usage of digital technology was highest for Human Resource business function across most categories of enterprises while it was lowest for operations and administration business functions.

Figure 2-F: Business functions wise usage of digital technology

[N=610, Multiple Response Possible]



Industry-wise, the highest proportion of enterprises in Textile and Garments, Furniture, Processed Foods, Sports Goods, and Light Engineering goods were using digital technology in human resources function whereas such proportion was lowest for operation and administration business functions.

Table 2-4: Business functions wise usage of digital technology - Category wise

[All figures in percentage, Multiple Response Possible]

Business functions wise digital technology	Base (N)	Human resources	Sales & Marketing	Finance	Operation	Admin
Overall	**610**	**60.0**	**50.7**	**47.5**	**36.1**	**35.9**
Enterprise type						
Small	**247**	51.0	61.5	55.9	40.9	37.3
Medium	**363**	66.1	43.3	41.9	32.8	35.0
Type of Industry						
Textile and Garments	**119**	65.6	48.7	42.9	28.6	30.3
Furniture	**118**	63.6	46.6	44.9	34.8	30.5
Processed Foods	**77**	62.3	52.0	52.0	44.2	37.7
Machinery & Auto Comp.	**94**	51.1	51.1	56.4	38.3	48.9
Fabricated Metal Products	**72**	51.4	54.2	45.8	40.3	36.1
Sports Goods	**51**	66.7	47.1	43.1	17.7	17.7
Light Engineering goods	**79**	58.2	57.0	48.1	46.8	46.8
Export Product						
Yes	**428**	66.4	43.9	41.8	31.5	32.0
No	**182**	45.1	66.5	61.0	46.7	45.1

[Row wise highest and lowest values are highlighted in green and pink colour]

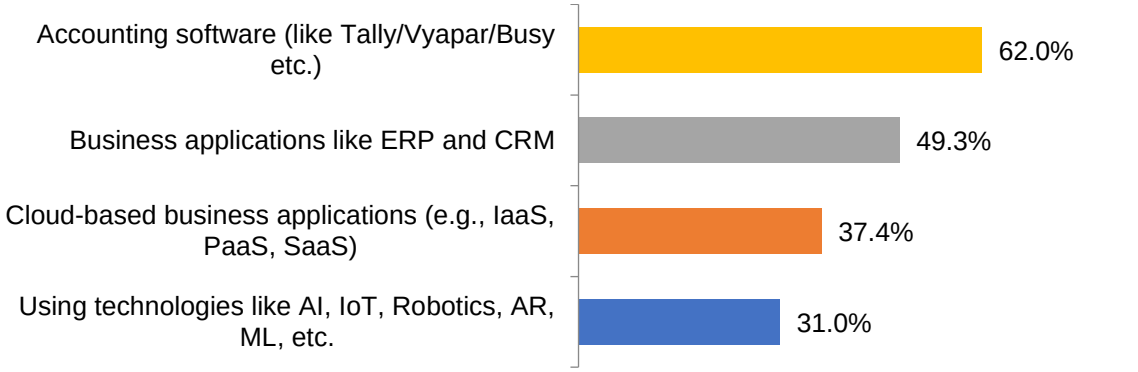
2.2.2 Usage of digital tools/ software by SME enterprises:

In order to simplify and automate business functions and processes (including accounting, human resources, production, management, etc.), enterprises use various types of digital tools and software. Respondents that use digital technology were further asked about the type of tools and software they use in their business processes. Overall, the highest proportion of enterprises surveyed uses accounting software such as Tally/ Vyapar/ Busy, etc. (62 percent), followed by applications like ERP and CRM (49 percent).

About 37 percent of enterprises surveyed were using cloud-based business applications such as IaaS, PaaS, SaaS etc., followed by usage of technology such as AI, IoT, Robotics, AR, ML, etc.

Figure 2-G: Usage of digital tools/ software by SMEs

[N=610, Multiple Response Possible]



Accounting software such as Tally/ Vyapar/ Busy, etc. was the most commonly used tool across all types of enterprises, regardless of size, industry, export status followed by business applications such as ERP and CRM.

Table 2-5: Usage of digital tools/ software by SMEs - Category wise

[All figures in percentage, Multiple Response Possible]

Usage of digital tools/ software	Base (N)	Accounting software	Business apps	Cloud-based business apps	Using tech like AI, IoT, Robotics, AR, ML, etc.
Overall	**610**	**62.0**	**49.3**	**37.4**	**31.0**
Enterprise type					
Small	**247**	69.2	55.5	27.1	30.8
Medium	**363**	57.0	45.2	44.4	31.1
Type of Industry					
Textile and Garments	**119**	58.8	55.5	31.9	31.1
Furniture	**118**	60.2	45.8	41.5	31.4
Processed Foods	**77**	70.1	52.0	40.3	32.5
Machinery & Auto Comp.	**94**	67.0	52.1	37.2	24.5
Fabricated Metal Products	**72**	59.7	45.8	25.0	31.9
Sports Goods	**51**	54.9	39.2	51.0	33.3
Light Engineering goods	**79**	62.0	49.4	39.2	34.2
Export Product					
Yes	**428**	56.3	47.0	43.7	37.2
No	**182**	75.3	55.0	22.5	16.5

[Row wise highest value is highlighted in green colour]

Over the last few years, there has been increased focus on digitalisation and many businesses have adopted various digital tools in their businesses including digital payments, own websites, sales through e-commerce, digitalisation of business, etc. During FGDs, the respondents were asked regarding the adoption of digitalisation practices by SMEs.

They have shared that the SMEs in India have embraced digital technology, particularly digital payments like credit cards and UPI, making transactions easier and reducing the need for physical bank visits. The government's proactive approach to digitalisation is appreciated by businesses. However, it was highlighted that there is a need for subsidies for cloud-based ERP systems and incentives for advanced technologies like IoT.

The key digital technologies and related services adopted by SMEs are mentioned below:

1. **Digital payment methods**: SMEs have shifted from traditional methods like cheques to digital payment options such as credit cards and UPI. This transition has made payments easier and almost eliminated the need to visit the banks.
2. **Security and authentication**: The respondents valued the security measures in India's digital payment systems, particularly the requirement of OTP for transactions. They perceive the presence of OTP mechanism as a safeguard against unauthorized payments.
3. **Digital marketing and taxation**: An equalization levy is currently applicable to payments made for, 'online' advertisement on platforms of foreign entities. The foreign company unwilling to take on the burden of this levy generally passes on to the businesses seeking advertisement services. The levy of tax can hugely impact the business of new start-ups or small businesses which do not have a significant share in the market needs advertising to

reach to the consumers. The levy of such tax increases the cost of doing business by adding to the marketing cost. SMEs and Indian start-ups are major users of digital advertising platforms.

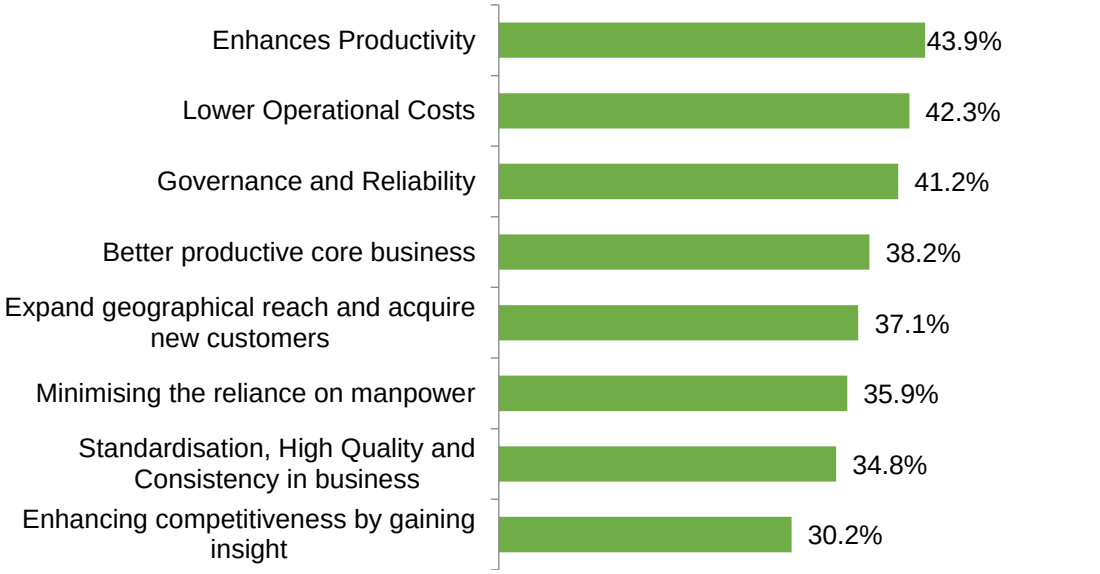
2.2.3 Benefits of adopting digital tools/ software by SMEs:

The survey gauged the benefits of digital adoption by SMEs. Overall, 4 out of 10 respondents have shared that the digital tools/ software have helped them in enhancing their productivity, lowering their operational costs and better governance. Additionally, 38 percent mentioned that the adoption of technology has enabled them to focus on their core business in a more productive way.

About 37 percent of respondents have mentioned that due to the adoption of digital tools/ software, they have expanded the geographical reach of their business and new customers were acquired, 36 percent mentioned that the reliance on manpower was minimised and 35 percent said that they have also benefited by way of standardization, high quality and consistency in business.

Figure 2-H: Benefits of adopting digital tools/ software by SMEs

[N=610, Multiple Response Possible]

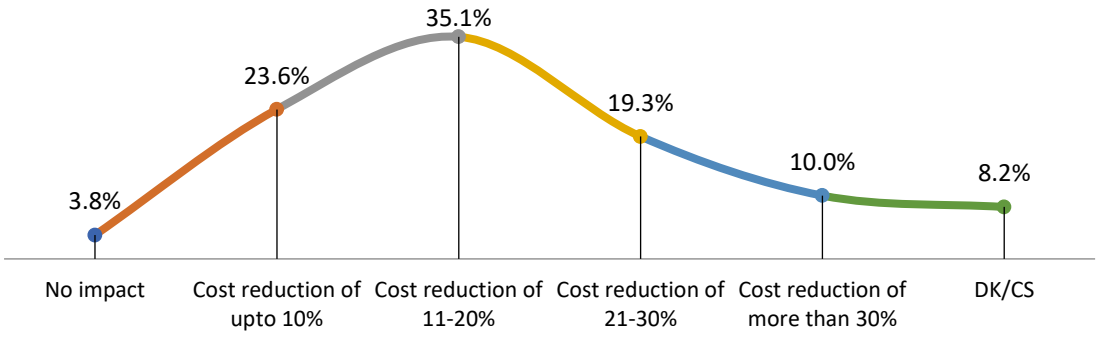


2.2.4 Impact of digitalisation on overall operational costs per year

Most of the firms have experienced improvements in productivity and reductions in operational costs as a result of incorporating digital technology into their business functions and adopting tools such CRM and ERP. As a result of adopting technology and the impact of digitalisation, approximately 35 percent of respondents reported a reduction in their annual operational costs by 11-20 percent. Meanwhile, nearly 30 percent of respondents indicated that their annual operational costs had decreased by more than 20 percent.

Figure 2-I: Impact of digitalisation on overall operational cost per year

[N=610]



In terms of enterprise type, medium-sized firms reported a larger decrease in annual operational costs compared to small-sized firms. Similarly, export firms experienced a similar trend compared to non-exporters.

Table 2-6: Impact of digitalisation on overall operational cost per year - Category wise

[All figures in percentage]

Cost reduction due to digitalisation	Base (N)	No impact	Reduced upto 10 percent	Reduced 11-20 percent	Reduced 21-30 percent	Reduced more than 30 percent	DK/CS
Overall	**610**	**3.8**	**23.6**	**35.1**	**19.3**	**10.0**	**8.2**
Enterprise type							
Small	**247**	5.3	34	30.4	16.6	6.1	7.7
Medium	**363**	2.8	16.5	38.3	21.2	12.7	8.5
Type of Industry							
Textile and Garments	**119**	3.4	15.1	36.1	25.2	16.8	3.4
Furniture	**118**	0.9	33.9	33.1	17.0	8.5	6.8
Processed Foods	**77**	2.6	26.0	49.4	13.0	6.5	2.6
Machinery & Auto Comp.	**94**	6.4	23.4	31.9	18.1	9.6	10.6
Fabricated Metal Products	**72**	5.6	25.0	19.4	22.2	8.3	19.4
Sports Goods	**51**	3.9	23.5	35.3	23.5	9.8	3.9
Light Engineering goods	**79**	5.1	17.7	40.5	16.5	7.6	12.7
Export Product							
Yes	**428**	1.9	18.2	41.8	21.7	11.2	5.1
No	**182**	8.2	36.3	19.2	13.7	7.1	15.4

[The colour in the cells show values, where green, yellow and red colour indicates row wise highest, average and lowest values.]

2.2.5 Key challenges & solutions w.r.t technology integration/ digitalisation:

Respondents were asked to list out the main challenges they have faced in integrating technology and digitising business functions.

The primary challenge in integrating technology and digitizing business functions was found to be the limited awareness about the positive impact of digital transformation on their businesses, with 41 percent of respondents citing this as a major obstacle. This was followed closely by lack of skilled resources and technological expertise required to effectively integrate and operate these technologies, which was reported by 40 percent of the respondents. Additionally, 40 percent of the respondents also reported lack of knowledge of business-

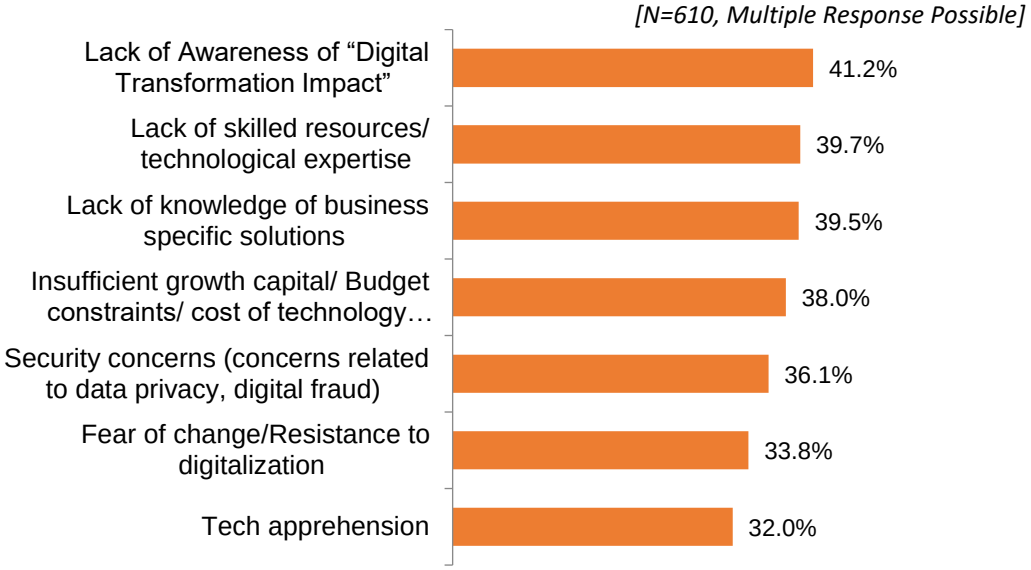
specific solutions as a significant challenge in technology digitalisation.

Respondents have also mentioned challenges such as insufficient growth capital/ budget constraint in technology adoption (38 percent), privacy and data security concerns (36 percent) and fear of change in business process and related apprehensions (34 percent).

In terms of enterprise type, medium-sized firms reported a lack of awareness of "Digital Transformation Impact" (42 percent) as a major challenge for technology integration/ digitalisation, whereas for small-sized firms it was a lack of knowledge of business-specific solutions (45 percent).

Figure 2-J: Key challenges faced w.r.t technology integration/ digitalisation

[N=610, Multiple Response Possible]



The respondents were also asked about potential solutions to overcome the obstacles to digital adoption.

Overall, 47 percent of respondents indicated that creating awareness about the efficient use of technology is a potential solution to overcome challenges in digital adoption. This could involve educating business owners and employees about the benefits of digital technology and how to effectively incorporate it into their operations.

Additionally, 42 percent of respondents suggested the need for handholding and technology support to assist businesses in adopting digital solutions. Almost a similar proportion of respondents recommended provision of SME training and upskilling programs to facilitate the transition to digital.

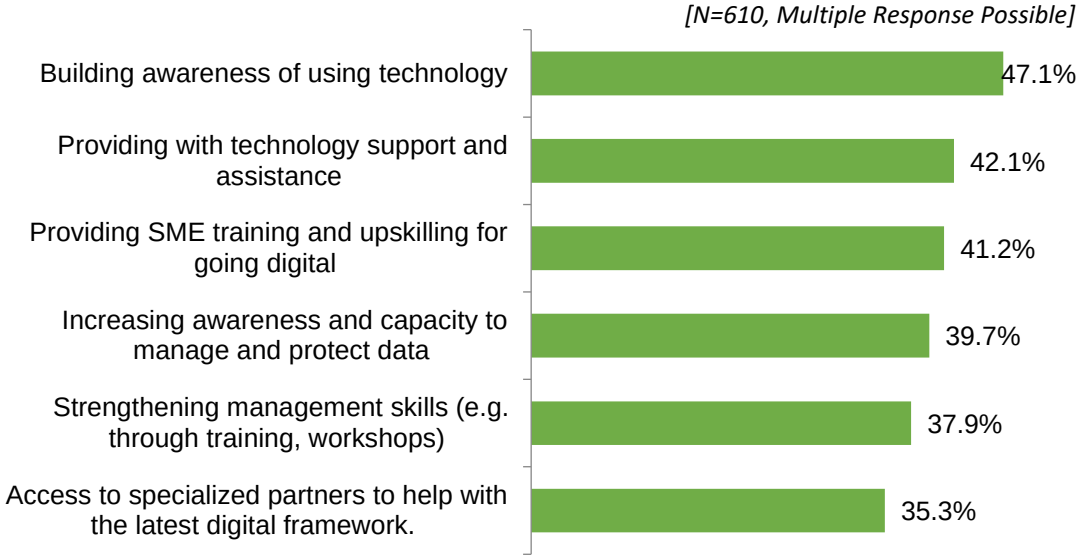
The key recommendation from the respondents included the need to increase awareness and capacity for managing and protecting data (40 percent).

Also, 35 percent of respondents suggested providing businesses with access to specialized partners who could assist with digital adoption. This could include partnerships with technology companies or consultants who could provide guidance and support on the implementation of digital solutions.

While there is a government scheme "Digital MSME" as a part of the Champions Scheme to promote digital adoption amongst MSMEs enterprises, there is perhaps a need to create greater awareness about the scheme and its utility to the SMEs across India.

Figure 2-K: Suggestions for overcoming digital adoption challenges

[N=610, Multiple Response Possible]



Respondents participating in FGDs have also mentioned that the government can play a vital role in promoting digitalisation by simplifying bureaucratic processes and reducing the burden of compliance on SMEs. Streamlining regulations and making them more tech-friendly will encourage SMEs to adopt digital tools and technologies. This could involve creating a single-window system for various approvals and licenses, minimizing paperwork, and digitizing compliance procedures.

2.3 Usage of e-commerce/ own online channels by SMEs:

The emergence of e-commerce has provided Small and Medium Enterprises (SMEs) with new opportunities to expand their business operations to reach maximum customer base (beyond their physical presence). The use of e-commerce platforms and establishing their own online channels has become quite popular among enterprises.

71 percent of enterprises had their own channels or sales platforms.
*Key **advantages** of selling through e-commerce:*
- increase in sales,
- increase in profits
- wider reach
*Key **challenges**:*
- tough competition
- lower profit margins
- lack of skilled manpower

2.3.1 Own online market/ sales platform on website[1]:

In terms of online markets and sales platforms, it was found that 71 percent of enterprises had their own channels or sales platforms in the form of their own website to either display or sell products. 78 percent of medium-sized enterprises and 61 percent of small-sized enterprises had their own online market of sales platforms on their website.

[1] Own online market and sales platform means enterprises were either displaying or selling their products on their own website.

In terms of industry, it was observed that sports goods-related firms had the highest proportion of 84 percent of enterprises having own online market/ sales platform on website to either display or sell products.

Similarly, about 75 percent of enterprises related to light engineering goods, processed foods, and textiles and garments had their own online sales platforms.

Furthermore, as many as 85 percent of export firms had their own online market or sales platform, while only 39 percent of non-export firms had such a platform.

Table 2-7: Own online market/ sales platform on the website of SMEs

Own online market/ sales platform of SMEs	Base (N)	Yes (%)	No (%)
Overall	**610**	**71.2**	**28.9**
Enterprise type			
Small	**247**	60.7	39.3
Medium	**363**	78.2	21.8
Type of Industry			
Textile and Garments	**119**	72.3	27.7
Furniture	**118**	67.8	32.2
Processed Foods	**77**	74.0	26.0
Machinery and Auto Components	**94**	69.2	30.9
Fabricated Metal Products	**72**	61.1	38.9
Sports Goods	**51**	84.3	15.7
Light Engineering goods	**79**	74.7	25.3
Export Product			
Yes	**428**	84.8	15.2
No	**182**	39.0	61.0

2.3.2 Proportion of annual sales through online platforms:

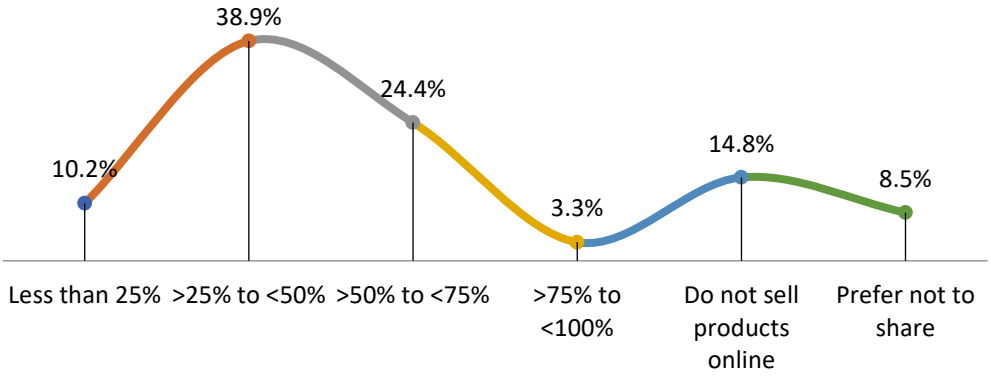
Respondents were asked whether they sell through online platforms by way of e-commerce or own online platforms. Around 76 percent of respondents reported some sales through online channels, about 15 percent of enterprises surveyed mentioned that they do not sell products through online platforms and about 9 percent preferred not to disclose information about online sales.

About 39 percent of enterprises that sold online, reported to have25-50 percent of their sales through online platforms such as e-commerce/ own website. On the other hand, 24 percent enterprises reported that 50-75 percent of their sales was through online platforms.

Enterprises wise, only 11 percent of medium sized firms do not sell their products on online platforms while such proportion for small sized firms stood at 21 percent.

Figure 2-L: Proportion of annual sales through online platforms

[N=610]



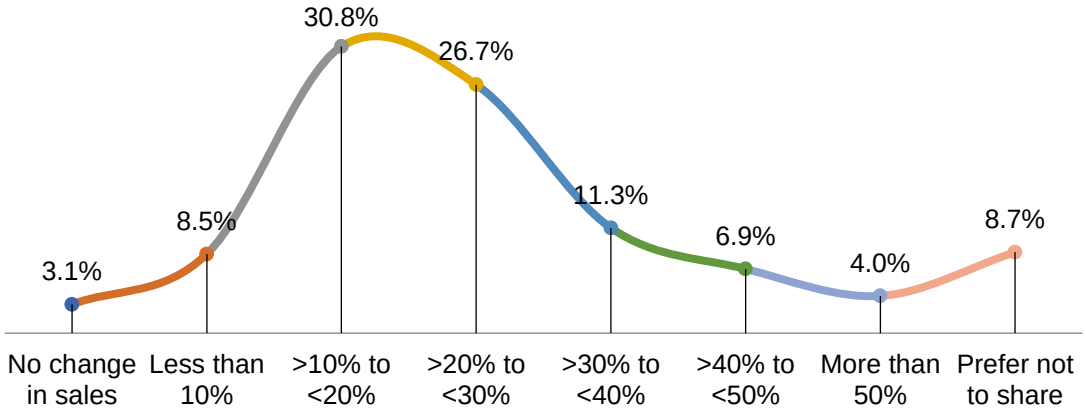
2.3.3 Increase in annual sales after adopting online platforms:

Enterprises participating in the survey were asked about the increase in annual sales since the adoption of e-commerce/own online platforms.

30 percent of the respondents reported an increase in their annual sales between 10-20 percent after adopting e-commerce or their own online platforms. 27 percent of respondents reported a higher increase in annual sales between 20-30 percent after adopting online platforms. This indicates the potential benefits that enterprises can reap by embracing e-commerce and online sales platforms.

Figure 2-M: Increase in annual sales after adopting online platforms

[N=520]



In terms of enterprise type, 35 percent of medium-sized firms and 25 percent of small-sized firms reported an increase in annual sales between 10-20 percent. However, almost 50 percent of medium sized firms and 48 percent of small- sized firms reported an increase in sales of more than 20 percent post adoption of online sales channel.

Table 2-8: Increase in annual sales after adopting online platforms – Category-wise

[All figures in percentage]

Increase in annual sales after adoption of online platforms	Base (N)	No change	<10%	>10% to <20%	>20% to <30%	>30% to <40%	>40% to <50%	>50%	Prefer not to share
Overall	**520**	**3.1**	**8.5**	**30.8**	**26.7**	**11.3**	**6.9**	**4.0**	**8.7**
Enterprise type									
Small	**196**	6.1	14.8	24.5	30.6	8.2	5.1	4.1	6.6
Medium	**324**	1.2	4.6	34.6	24.4	13.3	8.0	4.0	9.9
Type of Industry									
Textile and Garments	**106**	0.9	7.5	30.2	26.4	13.2	9.4	8.5	3.8
Furniture	**93**	2.2	14.0	40.9	21.5	8.6	6.5	4.3	2.2
Processed Foods	**66**	0.0	1.5	42.4	34.8	9.1	0.0	3.0	9.1
Machinery & Auto Comp.	**78**	3.8	5.1	21.8	34.6	12.8	7.7	2.6	11.5
Fabricated Metal Products	**62**	9.7	12.9	11.3	32.3	9.7	4.8	0.0	19.4
Sports Goods	**47**	2.1	12.8	38.3	12.8	17.0	8.5	4.3	4.3
Light Engineering goods	**68**	4.4	5.9	29.4	22.1	10.3	10.3	2.9	14.7
Export Product									
Yes	**385**	1.0	6.2	33.0	26.8	14.3	7.8	4.2	6.8
No	**135**	8.9	14.8	24.4	26.7	3.0	4.4	3.7	14.1

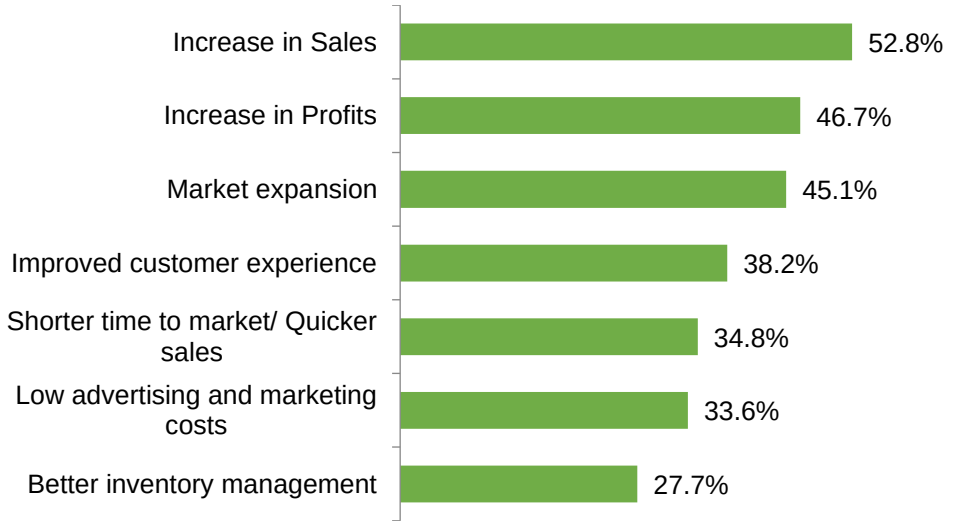
2.3.4 Advantages & challenges of selling through e-commerce platforms:

Apart from an increase in annual sales following the adoption of an online platform, respondents were asked about the advantages as well as challenges associated with sales through e-commerce platforms.

The respondents highlighted several benefits of selling through e-commerce platforms. These benefits included an increase in sales (53 percent), higher profits (47 percent), a wider market reach (45 percent), improved customer experience (38 percent), and a shorter time to market/ sales (35 percent), among others. These advantages demonstrate the potential value that e-commerce platforms can offer to enterprises.

Figure 2-N: Advantages of selling through e-commerce platforms

N=610, Multiple Response Possible]

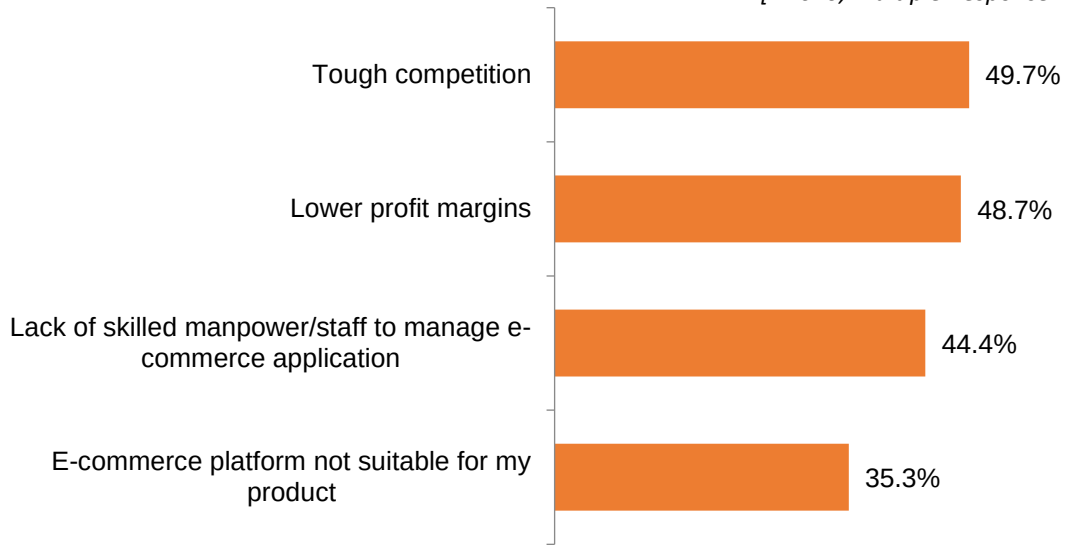


The adoption of e-commerce by enterprises has not been uniform. While some SMEs have been successful in establishing their online channels, others have faced various challenges. The most prominent issue was tough competition (50 percent), as there are numerous players on similar platforms offering similar propositions to customers.

Other challenges mentioned included low-profit margins (49 percent), the need for skilled manpower or additional staff to manage the online platform (44 percent), and the unsuitability of the e-commerce platform for certain products (35 percent).

Figure 2-O: Challenges of selling through e-commerce platforms

[N=610, Multiple Response Possible]



The key challenges faced by the SMEs that are inhibiting their growth and integration with e-commerce platforms include -

1. **Limited product suitability:** E-commerce platforms are typically designed towards the sale of consumer goods, which are often smaller in size and quantity. For SMEs dealing with larger and bulk orders, the e-commerce platforms have limitations (especially related to raw material).
2. **Challenge in logistics:** E-commerce platforms are primarily designed to handle last-mile delivery for smaller packages. However, when dealing with larger and heavier materials, the logistics become more complex.
3. **Lack of customization options:** SMEs operating in industries like engineering often offer specialized products with unique specifications. E-commerce platforms tend to focus on standardized products, making it difficult for these businesses to showcase and sell their custom-made items.
4. **One-to-one deal requirements:** In high-value industries, each transaction may involve extensive negotiations and customization to meet the specific needs of customers. The one-to-one nature of these deals does not fit into the typical model of e-commerce where products are often sold in a standardized and automated manner.

5. **Limited market reach for B2B materials**: E-commerce platforms primarily focus on business-to-consumer (B2C) transactions. Therefore, SMEs dealing with business-to-business (B2B) materials may struggle to find the right e-commerce platforms that cater to their needs and have customer base in the B2B segment.

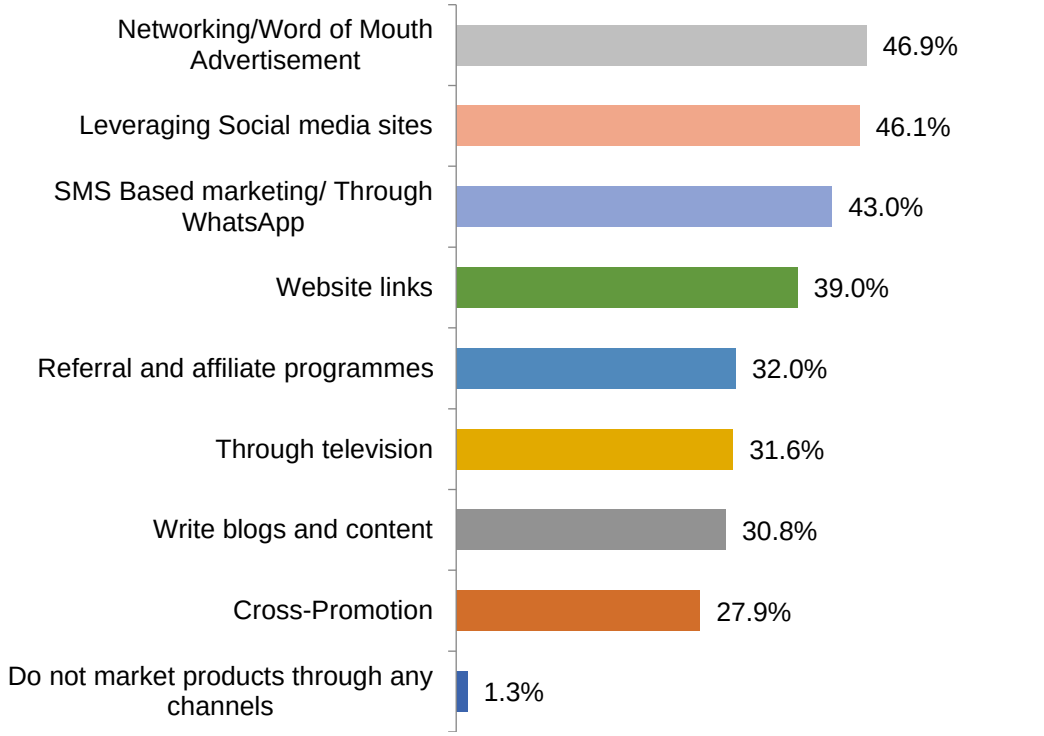
2.3.5 Usage of channels/ mediums to market products:

Enterprises typically employ both traditional and innovative media channels to promote their products and maintain a competitive edge. Traditional media channels include television, radio, newspapers, and magazines, while innovative media channels encompass digital platforms such as social media, email marketing, mobile apps, and influencer marketing. By utilizing a mix of both conventional and innovative media channels, enterprises can reach a wider audience and engage with customers in meaningful ways that align with their changing preferences and behaviours.

During the survey, it was found that the most preferred channel to market products by enterprises was networking/word-of-mouth advertisement (47 percent) followed by leveraging social media sites such as Facebook/ Instagram/ Telegram/ etc. (46 percent), SMS-based marketing/ through WhatsApp (43 percent). Other key channels include website links, referral/ affiliate programs, television, online blogs and content, etc.

Figure 2-P: Key channels/ mediums to market products

[N=610, Multiple Response Possible]



Almost similar pattern is followed by type of enterprise, industry sectors, etc. The category-wise usage of channels/ medium to market products are provided below.

Table 2-9: Key channels/ mediums to market products

[All figures in percentage, Multiple Response Possible]

Top 3 channels/ mediums	Networking/ Word of Mouth Adv.	Leveraging Social media sites	SMS Based marketing/ WhatsApp	Website links	Through television
Overall	**46.9**	46.1	43.0	39.0	31.6
Enterprise type					
Small	**49.4**	47.0	42.5	34.0	34.8
Medium	**45.2**	45.5	43.3	42.4	29.5
Type of Industry					
Textile and Garments	**41.2**	48.7	42.0	36.1	28.6
Furniture	**41.5**	46.6	39.0	31.4	44.1
Processed Foods	**49.4**	41.6	44.2	44.2	32.5
Machinery & Auto Comp	**52.1**	40.4	51.1	44.7	23.4
Fabricated Metal Products	**56.9**	54.2	44.4	43.1	33.3
Sports Goods	**37.3**	52.9	37.3	29.4	25.5
Light Engineering goods	**51.9**	40.5	41.8	45.6	29.1
Export Product					
Yes	**43.9**	47.0	40.9	41.8	32.7
No	**53.9**	44.0	47.8	32.4	29.1

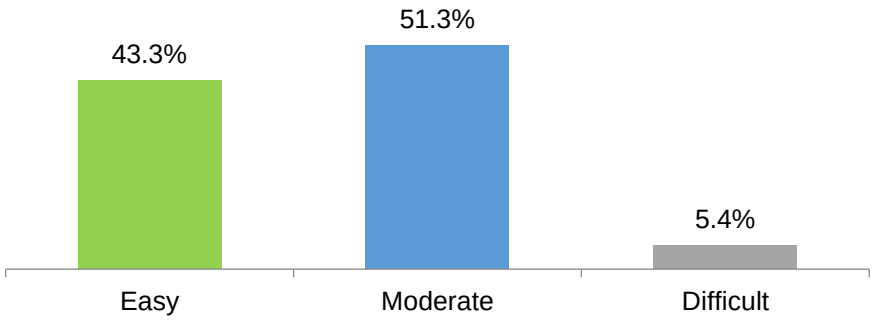
2.4 Compliance:

2.4.1 Experience with GST portal:

Businesses were asked to rate their ease of compliance with GST portal Over half of the enterprises have given a moderate rating for ease of compliance on the GST portal, whereas approximately 43 percent have rated it as good.

Figure 2-Q: Ease of compliance on the GST platform

[N=610]



Further, a higher percentage of medium-sized enterprises reported ease of compliance on the GST platform as good compared to small-sized enterprises.

Table 2-10: Ease of compliance on the GST platform - Category wise

[All figures in percentage]

Ease of compliance on the GST platform	Base (N)	Good/ Easy	Moderate	Difficult
Overall	**610**	**43.3**	**51.3**	**5.4**
Enterprise type				
Small	247	38.1	54.3	7.7
Medium	363	46.8	49.3	3.9
Type of Industry				
Textile and Garments	119	38.7	54.6	6.7
Furniture	118	42.4	53.4	4.2
Processed Foods	77	31.2	66.2	2.6
Machinery and Auto Components	94	45.7	46.8	7.5
Fabricated Metal Products	72	56.9	38.9	4.2
Sports Goods	51	31.4	60.8	7.8
Light Engineering goods	79	55.7	39.2	5.1
Export products				
Yes	428	46.3	48.8	4.9
No	182	36.3	57.1	6.6

During Focussed Group Discussions, respondents were asked about ease of compliances on GST platform. The GST platform was termed as user-friendly and beneficial by the respondents. Though some challenges were faced during the transition phase due to frequent amendments in rules and regulations; however, the government's proactive approach resulted in addressing these issues. The constant efforts to resolve similar concerns will enhance the effectiveness of the GST platform and ease compliance for businesses in future.

2.4.2 Regulation/ compliance which needs relaxation/ simplification:

The enterprises were asked to share their views on regulation/ compliances that need further relaxation/ simplification. About 43 percent of the respondents have suggested that tax compliances should be made simpler or more relaxed to facilitate ease of doing business. Around 40 percent of the respondents have recommended simplifying labour and employment laws and regulations, followed by accounting standards (38 percent), import-export regulations (35 percent), etc.

Figure 2-R: Regulation/ compliance which need relaxation/ simplification

[N=610, Multiple Response Possible]



Based on the type of enterprise, the highest proportion of small-sized firms have suggested for relaxation/ simplification in tax compliance whereas most of the medium-sized firms have suggested accounting standards. Similarly, enterprises that deal in machinery and auto components, light engineering goods and furniture advocated for relaxation/ simplification in tax compliance whereas textile and garments-related enterprises advocate for labour and employment laws & regulations. Export firms have suggested relaxing/ simplifying labour and employment laws & regulations while non-export firms pointed out tax-related compliances.

Table 2-11: Regulation which needs relaxation/ simplification - Category wise

[All figures in percentage, Multiple Response Possible]

Regulation needs relaxation/ simplification	Base (N)	Tax compliances	Labour and Employment laws & regulation	Accounting Standards	Import Export regulations	Environmental regulations	Shop Establishment Rules	Companies Act related compliances	Regulations specific to sector
Overall	**610**	**42.6**	**40.3**	**37.9**	**34.8**	**34.3**	**33.3**	**27.9**	**26.9**
Enterprise type									
Small	**247**	44.9	42.9	32.8	34.4	38.1	30.8	27.5	22.7
Medium	**363**	41.1	38.6	41.3	35.0	31.7	35.0	28.1	29.8
Type of Industry									
Textile and Garments	**119**	42.0	43.7	34.5	33.6	27.7	25.2	27.7	27.7
Furniture	**118**	42.4	39.8	37.3	35.6	33.9	33.1	30.5	28.8
Processed Foods	**77**	31.2	40.3	35.1	40.3	45.5	31.2	26.0	33.8
Mach and Auto Comp	**94**	50.0	40.4	35.1	29.8	39.4	39.4	20.2	18.1
Fabricated Metal Pdt.	**72**	43.1	38.9	50.0	38.9	29.2	43.1	29.2	23.6
Sports Goods	**51**	41.2	31.4	29.4	45.1	35.3	29.4	39.2	35.3
Light Eng. goods	**79**	46.8	43.0	44.3	25.3	31.7	34.2	26.6	24.1
Export products									
Yes	**428**	37.2	41.6	35.3	36.2	32.2	32.2	28.5	32.2
No	**182**	55.5	37.4	44.0	31.3	39.0	35.7	26.4	14.3

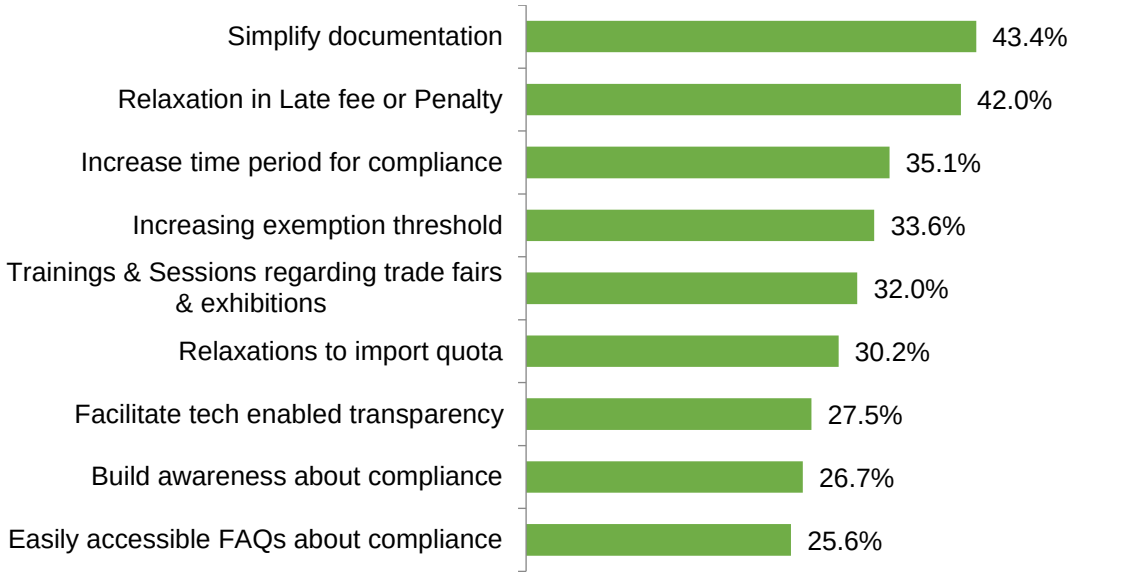
[Row wise highest value is highlighted in green colour]

Respondents were also asked about the type of relaxation or simplification that they are expecting from the government to ensure ease of doing business. Over 4 out of 10 respondents have advised to simplify documentation & relaxation in late fee/ penalty.

More than one-third of respondents suggested increasing the time period for fulfilling the requirements of compliance, increasing the exemption threshold so that the maximum number of enterprises can take benefits.

Figure 2-S: Measures to enhance ease of doing business

[N=610, Multiple Response Possible]



3. SUSTAINABILITY

Sustainability and ESG (Environmental, Social, and Governance) practices are a set of criteria used by businesses, investors, and other stakeholders to evaluate a firm's sustainability and ethical impact. It is crucial for businesses to take into account the impact of their operations on the environment and society.

- The environmental criteria include carbon footprint, energy efficiency, waste management, etc. of businesses.
- Social criteria include labour standards, employee diversity, community engagement, etc.
- Governance criteria include transparency, board diversity, shareholder rights, etc.

In view of ESG's importance, many companies adopt sustainability and ESG practices to report their progress to demonstrate their commitment to sustainability and responsible business practices.

3.1 Awareness of ESG practices:

During the survey, respondents were asked about their familiarity with sustainability and ESG practices. The findings showed that more than 72 percent of respondents were aware/ had heard of sustainability and ESG practices, whereas 28 percent were unfamiliar with them.

When considering enterprise type, a higher percentage of respondents from medium-sized firms (74 percent) were familiar with sustainability and ESG practices compared to small-sized firms (68 percent). In addition, a significant difference was observed between export-oriented and non-export firms, with 81 percent of respondents from export firms being aware of sustainability and ESG practices, while only 49 percent of respondents from non-export firms were aware.

Table 3-1: Awareness of ESG practices

[All figures in percentage]

Awareness of sustainability and ESG practices	Base (N)	Yes	No
Overall	**610**	**71.6**	**28.4**
Enterprise type			
Small	**247**	67.6	32.4
Medium	**363**	74.4	25.6
Type of Industry			
Textile and Garments	**119**	74.0	26.1
Furniture	**118**	72.0	28.0
Processed Foods	**77**	68.8	31.2
Machinery and Auto Components	**94**	67.0	33.0
Fabricated Metal Products	**72**	62.5	37.5
Sports Goods	**51**	88.2	11.8
Light Engineering goods	**79**	73.4	26.6
Export Product			
Yes	**428**	81.3	18.7
No	**182**	48.9	51.1

3.1.1 Awareness of sustainability and ESG-related norms and compliances:

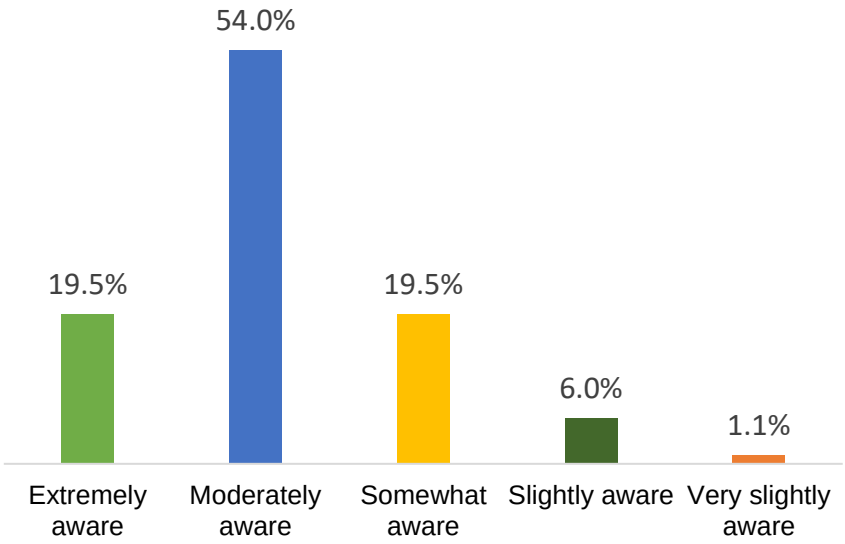
Respondents that were aware of sustainability and ESG practices (N=437) were further investigated about their level of familiarity with sustainability and ESG-related norms and compliances. The level of awareness was captured on a 5-point scale.

The results showed that nearly 73 percent of the respondents were either extremely or moderately aware of such norms and compliances, whereas 19 percent demonstrated a somewhat lower level of awareness.

73 percent of respondents were aware of sustainability and ESG practices. Overall, over half of enterprises (56 percent) were supported/ guided by their buyers in implementing ESG practices.

Figure 3-A: Level of Awareness of ESG-related norms and compliances

[N=437]



In terms of the type of enterprise, a higher proportion of respondents from medium-sized firms (77 percent) were extremely of moderately aware of sustainability and ESG-related norms and compliances compared to small-sized firms where about 68 percent of respondents were extremely or moderately aware. Similarly, a higher proportion of respondents of exporter firms were largely aware of sustainability and ESG-related norms and compliances than non-exporter firms.

Table 3-2: Awareness of sustainability/ ESG norms and compliances - Category wise

[All figures in percentage]

Level of Awareness of norms & compliances	Base (N)	Aware *[Extremely + Moderately]*	Somewhat aware	Not Aware *[Slightly or not aware]*
Overall	**437**	**73.5**	**19.5**	**7.1**
Enterprise type				
Small	**167**	68.3	24.0	7.8
Medium	**270**	76.7	16.7	6.7
Type of Industry				
Textile and Garments	**88**	76.1	15.9	8.0
Furniture	**85**	81.2	11.8	7.1
Processed Foods	**53**	73.6	20.8	5.7
Machinery & Auto Components	**63**	69.8	22.2	7.9
Fabri cated Metal Products	**45**	60.0	28.9	11.1
Sports Goods	**45**	84.4	13.3	2.2
Light Engineering goods	**58**	63.8	29.3	6.9
Export Product				
Yes	**348**	75.6	18.4	6.0
No	**89**	65.2	23.6	11.2

According to the survey findings, around 28 percent of enterprises were not aware of sustainability and ESG practices. These enterprises require guidance and assistance in integrating sustainability and ESG practices into their operations.

As per discussion with respondents in FGDs, it was revealed that there is a varying level of awareness and preparedness among SMEs regarding sustainability practices. While some are aware and taking steps, others need more support and incentives from the government and large buyers to adopt sustainable practices effectively. The export-oriented SMEs have higher awareness of sustainability practices due to the requirements of international markets. On the other hand, domestic market-focused SMEs tend to have less awareness.

There is a general awareness about sustainability practices among SMEs, but it is still at an early stage. Social media has played a role in improving awareness, but many SMEs may not have the financial capacity to implement sustainability initiatives.

The summary of awareness about sustainable practices across various industries is provided below:

Currently, majority SMEs are not prepared for sustainability initiatives related compliance. It is expected to take some time for SMEs to integrate sustainability practices into their operations through handholding by government and corporates.

Many SMEs are concerned about the higher production costs associated with sustainability compliances. They fear that they would have to charge additional premiums for products with

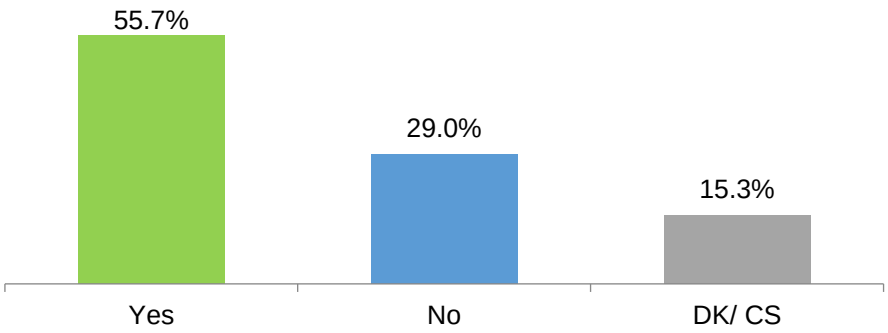
sustainability features, making it difficult for them to compete. Industry specific sustainability practices, such as transitioning to hydrogen-based technologies present significant challenges for SMEs. Licensing, technology adoption, and infrastructure setup require handholding and support from the government.

3.1.2 Buyers support in implementing sustainability and ESG practice:

Regarding the implementation of sustainability and ESG practices, approximately 56 percent of surveyed enterprises reported receiving support/ guidance from their buyers.

Figure 3-B: Buyers' support in implementing sustainability and ESG practices

[N=610]



When analysed by enterprise size, it was found that a greater percentage of medium-sized firms received support/ guidance from their buyers in implementing sustainability and ESG practices, in contrast to small-sized firms. Additionally, 65 percent of exporting firms received buyer support/ guidance for sustainability and ESG implementation as against non-exporting firms, where only 33.5 percent reported receiving such support.

Table 3-3: Category wise support in implementing sustainability and ESG practices

[All figures in percentage]

Buyers support in implementing sustainability and ESG practice	Base (N)	Yes	No	DK/CS
Overall	**610**	**55.7**	**29.0**	**15.3**
Enterprise type				
Small	**247**	49.8	34.8	15.4
Medium	**363**	59.8	25.1	15.2
Type of Industry				
Textile and Garments	**119**	48.7	35.3	16.0
Furniture	**118**	61.0	28.8	10.2
Processed Foods	**77**	53.3	32.5	14.3
Machinery and Auto Components	**94**	56.4	22.3	21.3
Fabricated Metal Products	**72**	44.4	34.7	20.8
Sports Goods	**51**	84.3	3.9	11.8
Light Engineering goods	**79**	51.9	35.4	12.7
Export Product				
Yes	**428**	65.2	23.6	11.2
No	**182**	33.5	41.8	24.7

3.2 Sustainable practices adopted by firms:

In recent years, there has been a growing emphasis on adoption of sustainable practices by Small and Medium Enterprises (SMEs) in India. Businesses have recognized the importance of integrating Environmental, Social, and Governance (ESG) practices into their operations, not only to meet regulatory requirements but also to improve their competitiveness and reputation.

Some common sustainable practices being adopted by SMEs include reducing energy and resource consumption, using eco-friendly materials, implementing waste management programs, and promoting social welfare initiatives such as gender equality and community development. SMEs are also increasingly investing in renewable energy solutions such as solar power, which not only reduce their carbon footprint but also offer cost savings in the long run.

3.2.1 Implementation of sustainability practices - last 2 years & next 2 years:

To determine the status of sustainable practices adoption by enterprises, respondents were surveyed regarding their implementation of such practices in the previous two years, as well as their plans for implementation over the next two years.

Looking at the combination of those already implemented in last 2 years and planning to do in next 2 years, the top 3 sustainability practices adopted or planned to be adopted by firms are investment in green projects (69%), followed by conservation of water with 68.7 percent and elimination of paper usage reported by 66.6 percent of respondents.

Over the past two years, a significant number of enterprises have taken steps to adopt sustainable practices. Among these practices, the highest proportion of respondent enterprises (40 percent) implemented measures to eliminate paper usage, demonstrating a growing awareness of the need to reduce waste and conserve resources. Additionally, 37 percent of respondent enterprises focused on conserving water, with many adopting new technologies and processes to reduce water consumption/ wastage. Other practices included implementation of green projects (34 percent), such as green buildings and eco-friendly transportation, as well as the development of recycling programs (32 percent) to reduce waste and improve resource efficiency. Other practices included using renewable energy (30 percent) by enterprises and development of ESG policy for companies (30 percent), etc.

Key sustainability practices implemented:

Last 2 years

- elimination of paper usage (40 percent)
- conservation of water (37 percent)
- green projects (34 percent)

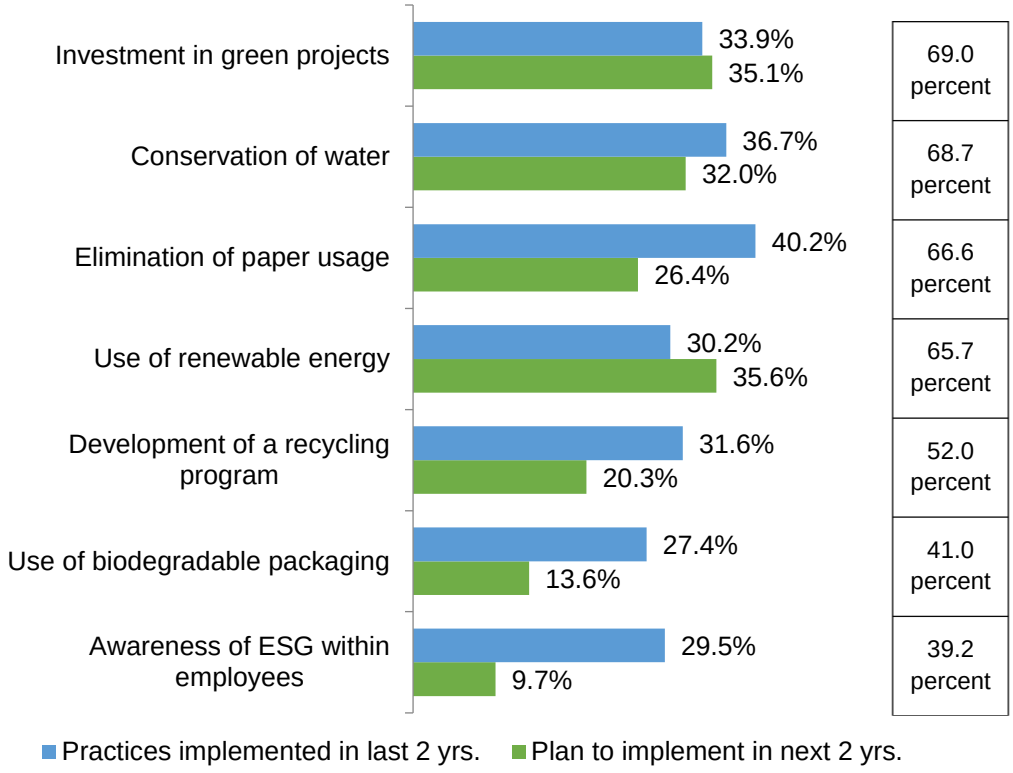
Next 2 years

- usage of renewable energy (36 percent)
- green projects (35 percent)
- conservation of water (32 percent)

Conversely, the priority for sustainable practices over the next two years includes the usage of renewable energy (as reported by 36 percent of respondents). Following closely behind is investment in green projects (35 percent), and prioritization of conservation of water (32 percent).

Figure 3-C: Practices adopted in last 2 years and to be adopted in next 2 years

[N=610, Multiple Response Possible]



The following table lists out the priority areas for implementation of various sustainable practices for 2 years and the plan to implement them in next 2 years across enterprise types, industry sectors, etc. The priority was determined based on the higher proportion of firms reporting plans to implement ESG related activity.

Table 3-4: Category wise top practices - last 2 years & next 2 years

Practice adopted in last 2 years	Category	Planning in next 2 years
Elimination of paper usage (40 percent)	**Overall**	Use of renewable energy (36 percent)
	Enterprise type	
Elimination of paper usage (47 percent)	Small	Investment in green project (37 percent)
Conservation of water (37 percent)	Medium	Use of renewable energy (36 percent)
	Type of Industry	
Elimination of paper usage (40 percent)	Textile and Garments	Use of renewable energy (35 percent)
Elimination of paper usage (44 percent)	Furniture	Investment in green projects (40 percent)
Conservation of water (38 percent)	Processed Foods	Investment in green projects (39 percent)
Elimination of paper usage (46 percent)	Machinery & Auto Comp.	Use of renewable energy (37 percent)
Conservation of water (43 percent)	Fabricated Metal Products	Use of renewable energy (39 percent)
Dev. of recycling program (47 percent)	Sports Goods	Use of renewable energy (37 percent)
Elimination of paper usage (43 percent)	Light Engineering goods	Use of renewable energy (35 percent)
	Export Product	
Elimination of paper usage (38 percent)	Yes	Use of renewable energy (36 percent)
Elimination of paper usage (46 percent)	No	Investment in green projects (37 percent)

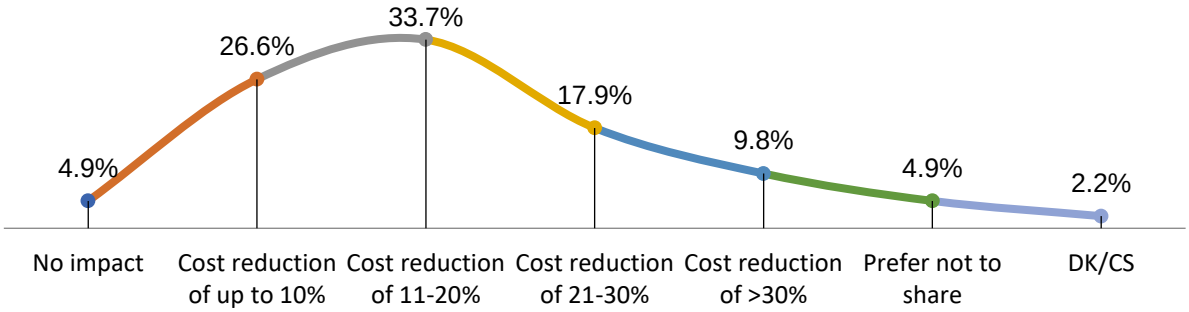
3.2.2 Impact on cost saving due to renewable sources of energy:

To evaluate the impact of switching to renewable energy sources, the annual cost savings for businesses were assessed. Respondents that have confirmed using renewable energy sources (N=184) were further asked to report the level of reduction they observed in their annual costs.

One-third of such respondents reported an annual cost reduction of 11-20 percent, while 27 percent reported a reduction of up to 10 percent. Additionally, 28 percent of respondents observed a reduction of more than 20 percent in their annual costs as a result of switching to renewable energy sources.

Figure 3-D: Impact on cost saving due to renewable sources of energy

[N=184]



The category-wise breakup of the cost saving across segments is provided below.

Table 3-5: Impact on cost saving due to renewable sources of energy - Category wise

[All figures in percentage]

Cost saving due to renewable energy *(cost reduction by)*	**Base (N)**	**No impact**	**Up to 10 percent**	**11-20 percent**	**21-30 percent**	**>30 percent**	**Prefer not to share**	**DK/ CS**
Overall	**184**	4.9	26.6	33.7	17.9	9.8	4.9	2.2
Enterprise type								
Small	**69**	7.3	33.3	34.8	13.0	8.7	0.0	2.9
Medium	**115**	3.5	22.6	33.0	20.9	10.4	7.8	1.7
Type of Industry								
Textile and Garments	**41**	2.4	24.4	39.0	22.0	12.2	0.0	0.0
Furniture	**36**	0.0	30.6	36.1	19.4	5.6	0.0	8.3
Processed Foods	**22**	9.1	22.7	40.9	13.6	9.1	4.6	0.0
Machinery & Auto Comp.	**25**	4.0	16.0	32.0	20.0	16.0	8.0	4.0
Fabricated Metal Products	**25**	12.0	28.0	24.0	8.0	8.0	20.0	0.0
Sports Goods	**14**	7.1	35.7	21.4	28.6	7.1	0.0	0.0
Light Engineering goods	**21**	4.8	33.3	33.3	14.3	9.5	4.8	0.0
Export Product								
Yes	**134**	3.0	20.9	39.6	20.9	11.9	2.2	1.5
No	**50**	10.0	42.0	18.0	10.0	4.0	12.0	4.0

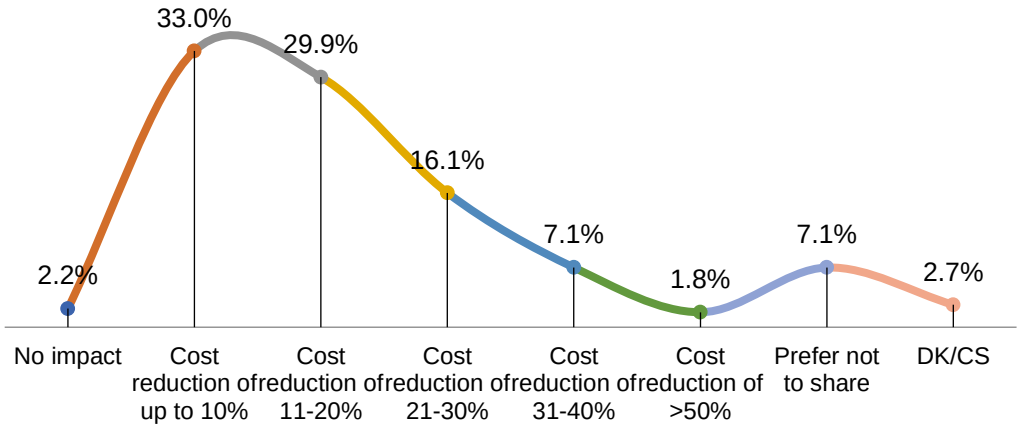
[The green, yellow and red colour indicates row wise highest, average and lowest values.]

3.2.3 Impact on cost saving due to water conservation practices:

To evaluate the impact of adopting water conservation practices, the annual cost savings in terms of water bills for businesses were assessed. Respondents that have confirmed adopting water conservation practices (N=224) were further asked to report the level of reduction they observed in their water bills annually.

One-third of respondents reported a reduction of up to 10 percent in their annual water bills, while 30 percent reported a reduction of 11-20 percent due to the adoption of water conservation practices. Furthermore, 25 percent of respondents reported a cost reduction of more than 20 percent in their annual water bills.

Figure 3-E: Impact on cost saving due to water conservation practices *[N=224]*



The category-wise breakup of the cost saving across segments is provided below.

Table 3-6: Impact on cost saving due water conservation practices - Category wise

[All figures in percentage]

Cost saving due to water conservation *(cost reduction by)*	**Base (N)**	**No impact**	**Up to 10 percent**	**11-20 percent**	**21-30 percent**	**31-40 percent**	**>50 percent**	**Prefer not to share**	**DK/ CS**
Overall	**224**	2.2	33.0	29.9	16.1	7.1	1.8	7.1	2.7
Enterprise type									
Small	**89**	3.4	47.2	28.1	11.2	2.3	1.1	2.3	4.5
Medium	**135**	1.5	23.7	31.1	19.3	10.4	2.2	10.4	1.5
Type of Industry									
Textile and Garments	**41**	2.4	26.8	43.9	14.6	7.3	4.9	0.0	0.0
Furniture	**39**	0.0	48.7	28.2	5.1	10.3	0.0	0.0	7.7
Processed Foods	**29**	3.5	34.5	20.7	27.6	3.5	0.0	10.3	0.0
Machinery & Auto Comp.	**32**	0.0	31.3	40.6	15.6	3.1	0.0	9.4	0.0
Fabricated Metal Products	**31**	0.0	29.0	25.8	12.9	3.2	3.2	25.8	0.0
Sports Goods	**23**	4.4	30.4	17.4	26.1	17.4	0.0	4.4	0.0
Light Engineering goods	**29**	6.9	27.6	24.1	17.2	6.9	3.5	3.5	10.3
Export Product									
Yes	**146**	0.7	26.7	33.6	20.6	10.3	1.4	4.8	2.1
No	**78**	5.1	44.9	23.1	7.7	1.3	2.6	11.5	3.9

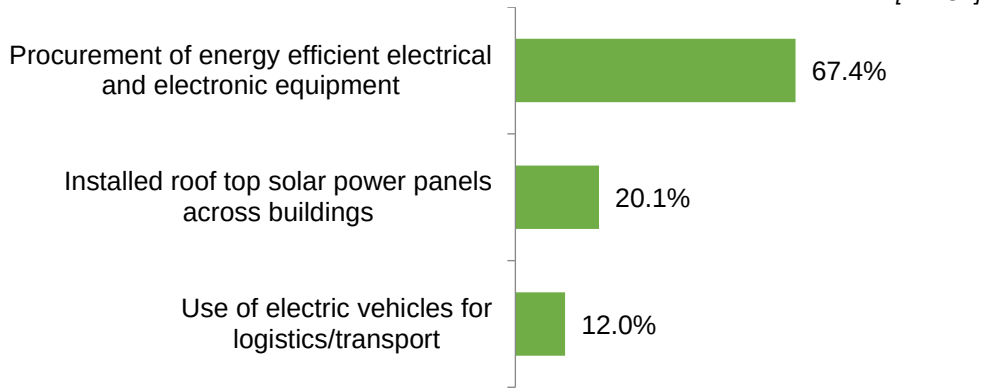
[The green, yellow and red colour indicates row wise highest, average and lowest values.]

3.2.4 Steps taken to conserve energy:

The respondents who confirmed using renewable energy sources (N=184) were asked about the measures they had taken to conserve energy. Two-thirds of respondents (67 percent) mentioned the procurement of energy-efficient electrical and electronic equipment, while 20 percent reported installing rooftop solar panels on their buildings. Additionally, 12 percent reported using electric vehicles for logistics and transportation purposes.

Figure 3-F: Steps taken to conserve energy

[N=184]



In terms of measures that businesses are taking to reduce their carbon footprint (steps towards energy conservation and reduced wastages), respondents have shared that mostly exporters are primary adopters of sustainability practices driven by the demands of foreign buyers who require sourcing from sustainable vendors. However, SMEs catering to the domestic market are not actively implementing sustainability practices.

3.2.5 Realignment of business to incorporate sustainability practices:

In view of importance of sustainable practices, respondents were asked if they have realigned their business as per buyers' requirement to incorporate sustainability practices.

64 percent of respondents have reported realigning their businesses to incorporate sustainability practices in line with their buyers' requirements, while about 36 percent have responded otherwise. Findings suggest that a significant proportion of enterprises are actively responding to the growing demand for sustainable practices among buyers.

Across industry sectors, more than 60 percent of respondents confirmed that they have realigned their businesses to incorporate sustainable practices as per the requirements of their buyers, with the exception of the fabricated metal products and light engineering goods sector.

Similarly, compared to their counterparts, a greater proportion of respondents from medium-sized enterprises and exporting firms have adjusted their businesses to include sustainable practices in response to the requirements of buyers.

Table 3-7: Realignment of business as per buyers need for sustainable practices

[All figures in percentage]

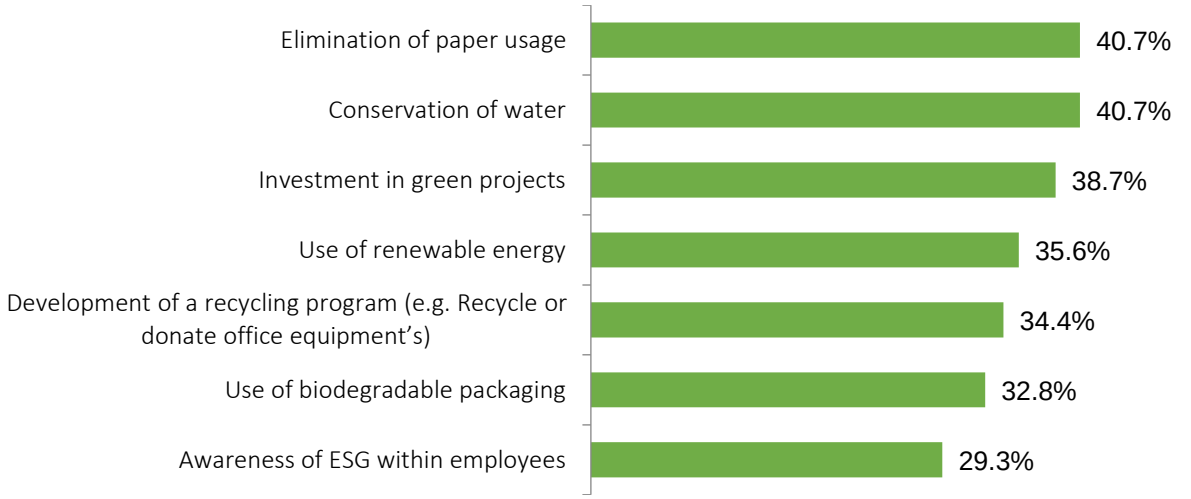
Realignment of business as per buyers need for sustainable practices	Base (N)	Yes	No
Overall	**610**	**64.4**	**35.6**
Enterprise type			
Small	**247**	58.7	41.3
Medium	**363**	68.3	31.7
Type of Industry			
Textile and Garments	**119**	61.3	38.7
Furniture	**118**	67.8	32.2
Processed Foods	**77**	63.6	36.4
Machinery and Auto Components	**94**	61.7	38.3
Fabricated Metal Products	**72**	58.3	41.7
Sports Goods	**51**	88.2	11.8
Light Engineering goods	**79**	58.2	41.8
Export Product			
Yes	**428**	75.0	25.0
No	**182**	39.6	60.4

The respondents were also asked about the specific types of changes they had made in their processes.

Most of those respondents (41 percent) reported that they had stopped using paper in their processes, while a similar proportion had implemented water conservation measures. Other changes included investing in green projects (39 percent), using renewable energy sources (36 percent), and establishing recycling programs (such as recycling or donating office equipment) (34 percent) among others.

Figure 3-G: Changes made to incorporate practices as per buyer's requirements

[N=393, Open-ended, Multiple Response Possible]



3.3 Key challenges faced in adopting sustainability practices:

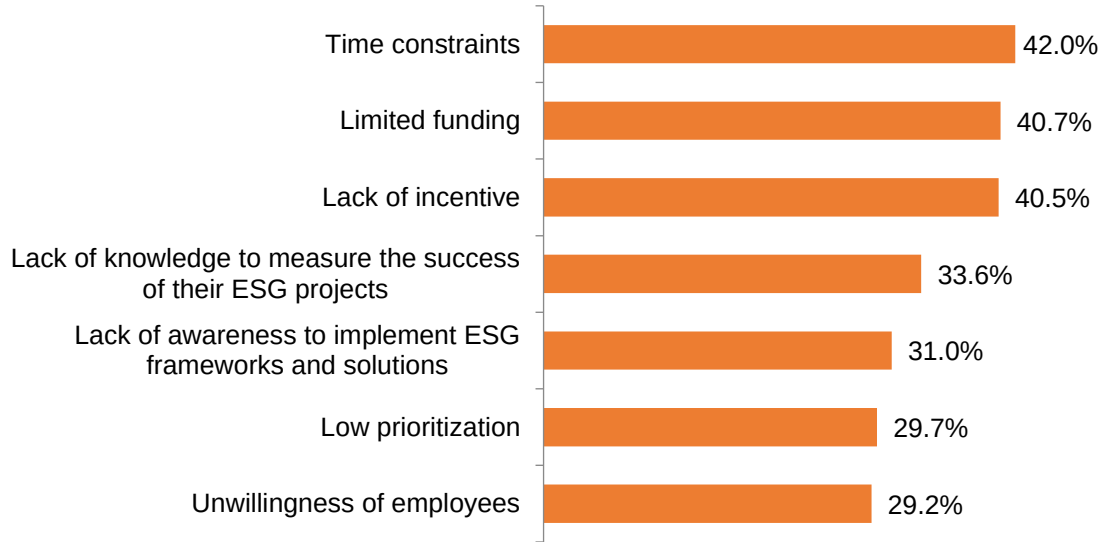
Although the benefits of implementing sustainable practices are evident, there are several challenges that firms may face while implementing them. Some of the key challenges include lack of resources or funding, limited knowledge and expertise in sustainable practices, resistance to change within the organization, and difficulty in measuring the impact of sustainability efforts, etc.

According to the survey, majority respondents (42 percent) have indicated that time constraint is among the key challenges in adopting sustainability practices, followed by limited funding (41 percent) and a lack of incentives for implementation (41 percent). Furthermore, more than 3 out of 10 respondents reported a lack of knowledge on how to measure the success of implemented ESG projects (34 percent) and how to implement ESG frameworks and solutions (31 percent) as other challenges in adopting sustainable practices.

In order to overcome these challenges, enterprises may invest in sustainability training and education, define clear goals and metrics for sustainability efforts, and establish partnerships and collaborations with other stakeholders in the industry.

Figure 3-H: Challenges faced in adopting sustainability practices

[N=610, Multiple Response Possible]



3.4 Suggestions to improve adoption of sustainability practices by SMEs:

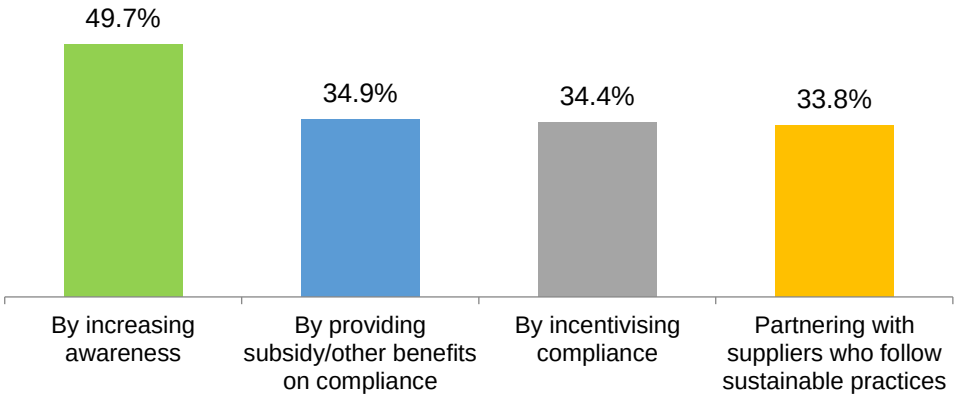
Approximately half of the respondents suggested increasing awareness about sustainability and ESG practices. This can be achieved through targeted campaigns, training programs, and other awareness-raising initiatives.

Providing subsidies or other benefits to incentivize compliance was suggested by 35 percent of respondents. This could include tax breaks or other financial incentives for SMEs that prioritize sustainability and ESG practices.

Other suggestions included providing incentives for compliance and partnering with suppliers that follow sustainable practices. This would involve SMEs collaborating with suppliers that have established sustainability and ESG practices in order to improve their own sustainability and ESG performance and align with the sustainability goals of their customers.

Figure 3-I: Suggestions to improve adoption of ESG practices

[N=610, Multiple Response Possible]



Suggestions made by respondents include:

1. **Awareness and Education:** There is a need to create awareness and educate SMEs about the benefits of ESG practices beyond just being environmentally conscious and demonstrating moral responsibility. SMEs must be made aware of the potential cost savings, improved efficiency, and access to new markets that can result from adopting sustainable practices. Additionally, the misconception that ESG is only for big corporations or foreign companies needs to be removed.
2. **Incentives and Support:** The government and buyers can provide incentives and support to encourage SMEs to adopt sustainable practices. This can include financial incentives, tax benefits, access to funding for sustainable initiatives, and technical assistance in implementing ESG measures, etc.
3. **Capacity Building:** SMEs often lack the resources and expertise to implement ESG practices effectively. Capacity-building programs can be designed to train SMEs on sustainable practices, waste reduction, energy efficiency, and other relevant aspects. These programs can be organized for SMEs by the government and industry associations.
4. **Market Differentiation:** Educating SMEs for highlighting the value of ESG practices in differentiating products and services in the market. By promoting their sustainable initiatives, SMEs can attract environmentally and socially conscious customers.
5. **Integration of ESG in Auditing and Reporting:** Government should encourage SMEs to integrate ESG considerations into their auditing and reporting processes. This can help them track their progress, identify areas for improvement, and demonstrate their commitment to sustainability.
6. **Promote Circular Economy Principles:** SMEs can be encouraged to embrace circular economy principles, such as reusing, repurposing, and recycling materials, which can reduce waste generation and resource consumption.
7. **Facilitate Policy Framework:** Work with policymakers to develop a supportive policy framework that promotes sustainability and ESG practices among SMEs. This may include setting sustainability targets, providing access to green technologies, and streamlining compliance processes for SMEs in India.

4. GROWTH PERFORMANCE OF SMEs AND OUTLOOK

In recent years, global economies have faced significant uncertainties including rapid spread of Covid-19, Ukraine crisis, etc. Such unforeseen events have severely disrupted supply chains, led to inflationary pressures, and adversely affected the growth of businesses. However, with improved situations, now economic recovery has started, and it is gaining pace.

4.1 SMEs Experience during last 2 years:

As per respondents, the experience of SMEs over the last few years has been mixed. While government has introduced various schemes and initiatives to support the MSME sector, there have been challenges in their implementation and reach. For instance, the Credit Guarantee Fund Trust for Micro and Small Enterprises Scheme (CGTMSE scheme), which offers collateral-free loans up to Rs. 5 Crores with government assurance has not been effectively accessed by SMEs. The banks have been showing hesitancy in providing financing to SMEs. It is suggested that lending to the MSME sector should move to cash-flow based lending which replaces lending based on physical asset as collateral, with information-based system lending.

The impact of developments over the last few years has varied across industries, with some industries being more impacted than others. During the COVID-19 pandemic, government provided support through various schemes and measures, which has benefited small and medium industries. .

However, there have been some issues faced by SMEs especially related to credit defaults, and delayed payments, etc. The need for better coordination between the government, banks, and SMEs to address these challenges and provide more effective support was highlighted by the respondents.

The respondents have also highlighted the need for improved government policies and support mechanisms to address the challenges faced by businesses, particularly in the SME sector. They have suggested the need for greater transparency, improving efficiency of existing mechanisms and platforms for resolving payment issues, and providing financial relief measures that adequately address the needs of businesses impacted by delays and defaults. Additionally, there is a need for consideration of the long-term consequences of financial difficulties on creditworthiness including negative impact on CIBIL score, long-term repercussions and difficulties in accessing future loans.

4.2 Expected performance during next 2 years:

Respondents were asked about the business outlook in next 1-2 years

They highlighted the following challenges that need to be addressed to utilize the potential of SMEs.

Electricity supply: One of the key challenges faced by industries is electricity supply issues, including power tripping. While some improvements have been observed, power tripping remains a concern in certain regions.

Land Leasing and Ownership Challenges: SMEs face hurdles related to land leasing and ownership. In the case of industrial lands leased from the government, transfer through supplementary deeds is not permitted upon the owner's demise. Moreover, changing ownership formats, such as transitioning from proprietorship to partnership, necessitates costly re-registration at prevailing market rates and levy of additional stamp duty charges. These challenges act as roadblocks to the development of SMEs.

4.3 Suggestions for SMEs growth and enabling them to scale up:

1. **Implementation of Government Schemes:** The government has introduced several schemes for SMEs, but the focus should be on effective and timely implementation. Proper monitoring and adequate budget allocation are crucial to ensure benefits of these schemes to beneficiaries.
2. **Simplified Processes and Self-Certification**: Government approval, processes and compliances should be simplified. Self-certification should be considered sufficient for certain requirements (non-technical and non-budgetary). This will reduce the administrative burden on SMEs and enable them to focus more on their business operations.
3. **Digitalisation and Single Window System:** Creating a single window system, where all required registrations and certifications can be obtained at the time of starting a business will enhance ease of doing business for SMEs.
4. **Capacity Building and Skill Development**: Government should encourage skill development and capacity building programs tailored for SMEs. These initiatives will help entrepreneurs and employees acquire the necessary knowledge to improve overall business efficiency.
5. **Access to Land and Infrastructure:** Since land is a crucial requirement for operating any manufacturing business, the government should focus on creating industrial zones and parks with easy access to land and necessary infrastructure.
6. **Timely Dispute Resolution Mechanism:** There is a need to strengthen the dispute resolution mechanism under the MSMED Act to ensure that SMEs receive timely payments and justice in case of disputes with larger companies/ buyers.
7. **Technology Transfer:** Government should establish International Alliances for Technology Transfer with various developed and developing countries that give high priority to innovation and technology. This institutional mechanism will enable knowledge exchange on latest technologies, thereby facilitating innovation driven entrepreneurship in the country. The Technology Centres established by Ministry of MSME can play an important role in this mechanism.

5. MSMEs CATEGORIZATION

The Government of India has established defined criteria for MSMEs based on investment in plant and machinery or equipment and turnover. The definition of MSMEs was recently revised by the Government in 2020. As per the new definition, the criteria for defining MSMEs in India[2] are as follows:

Micro Enterprises: Enterprises that have an investment of up to Rs. 1 crore in plant and machinery or equipment and Rs 5 crore turnover.

Small Enterprises: Enterprises that have an investment of up to Rs. 10 crore in plant and machinery or equipment and Rs 50 Crore of turnover

Medium Enterprises: Enterprises that have an investment of up to Rs. 50 crore in plant and machinery or equipment and Rs. 250 Crore of turnover.

The MSMEs are eligible for various benefits such as subsidies, tax exemptions, access to credit, and other government schemes. The Government of India has been taking various measures to promote and support the growth of the MSME sector, recognizing its significant contribution to the economy.

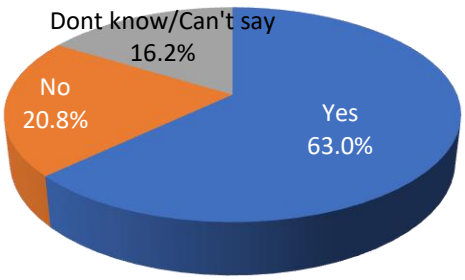
5.1 Satisfaction with the defining criteria of MSMEs by Government:

Respondent satisfaction was assessed on the current definition of MSMEs.

63% of the enterprises were satisfied with the current definition of MSMEs and 16% did not offer any views; from the 21% who felt a change was required, the primary suggestion was to change the current twin criteria of investments in plant & machinery and turnover to the criteria of either investment in plant & machinery or turnover. It was suggested that turnover could be a better indicator as authorities can readily check the data on turnover through platforms such as GSTN. Such ease is not always offered in case of value of investments plus one also has to contend with differences between old and new enterprises as the comparison will be between historical investments and current investments.

Figure 5-A: Satisfaction with defining criteria of MSMEs

[N=610]



[2] *Source: https://msme.gov.in/know-about-msme*

6. RESPONDENT PROFILE

6.1 Nature of enterprise

Table 6-1: Nature of enterprise

[All figures in percentage, multiple responses]

Nature of enterprise	Overall	Enterprise type	
		Small	Medium
Base (N)	**610**	**247**	**363**
Manufacturing Sector	100	100	100

6.2 Industry sector wise segregation

Table 6-2: Industry sector wise

[All figures in percentage]

Industry sector	Overall	Enterprise type	
		Small	Medium
Base (N)	**610**	**247**	**363**
Textile and Garments	**19.5**	20.7	18.7
Furniture	**19.3**	23.1	16.8
Machinery and Auto Components	**15.4**	12.2	17.6
Light Engineering goods	**13.0**	14.2	12.1
Processed Foods	**12.6**	14.2	11.6
Fabricated Metal Products	**11.8**	10.5	12.7
Sports Goods	**8.4**	5.3	10.5

6.3 Type of firm wise – as per Udyam registration

All of the enterprises that participated in the survey were registered as MSME (i.e., Udyam Registration) with the Government of India.

6.4 GST registration of firm

Table 6-3: GST registration of firms

[All figures in percentage]

GST registration	Overall	Enterprise type	
		Small	Medium
Base (N)	**610**	**247**	**363**
Yes	**95.3**	94.7	95.6
Prefer not to share	**4.8**	5.3	4.4

6.5 Export of products by enterprises

Table 6-4: Export of products by enterprises

[All figures in percentage]

Export products	Overall	Enterprise type	
		Small	Medium
Base (N)	**610**	**247**	**363**
Yes	**70.2**	57.9	78.5
No	**29.8**	42.1	21.5

6.6 Geographical Distribution

The survey among enterprises was conducted across 14 cities.

Table 6-5: Geographical location

[All figures in percentage]

	Overall	Enterprise type	
		Small	Medium
Base (N)	**610**	**247**	**363**
North (Jaipur, Delhi, Meerut, Agra, Ludhiana, Saharanpur, Jalandhar)	**57.4**	67.6	57.4
East (Kolkata, Guwahati)	**20**	8.5	20
West (Mumbai, Ahmedabad)	**11.3**	11.4	11.3
South (Hyderabad, Chennai, Bangalore)	**11.3**	12.5	11.3



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