WHY INDIA CANNOT AFFORD A WEAKENED MSME SECTOR

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Abstract- **Micro, Small and Medium Enterprises (MSMEs) have made a significant contribution to economies worldwide. They have been instrumental in economic growth, initiatives for sustainable development, job creation and provision of public goods and services. They have been acknowledged as key instruments of socio-economic stability as they help in poverty alleviation and reducing inequality. It is no different in India. This paper analyses the challenges being faced by this sector in India and the reasons for its stunted growth.**

Keywords: **MSME's, socioeconomic growth, employment, innovation, sustainability, and poverty alleviation**

Methodology:
The paper analyses existing research, government data and Annual Reports published by the Ministry of Micro, Small and Medium Enterprises to understand the underlying reason behind the slowing down of the MSME sector in India.

Introduction:
There is no fixed standardized international definition of small and medium-sized enterprise (SME). They are defined differently across nations as their definition is mostly dependent on their dimension vis a vis the size of the domestic economy in question. For statistical purposes, the OECD refers to SMEs "as the firms employing up to 249 persons, with the following breakdown: micro (1 to 9), small (10 to 49) and medium (50-249)". In India the Ministry of Micro, Small and Medium Enterprises laid out a revised classification of what would be deemed as MSME w.e.f 1st July 2020 using the Composite Criteria of Investment in Plant & Machinery/equipment and Annual Turnover **[1]**:

- MICRO: an organization that invests not more than 1Crore in its Plant and Machinery or Equipment and has an annual turnover of not more than 5 Crore.
- SMALL: an organization that invests not more than 10 Crores in its Plant and Machinery or Equipment and has an annual turnover of not more than 50 Crore.
- MEDIUM: an organization that invests not more than 50 Crore on its Plant and Machinery or Equipment and has an annual turnover of not more than 250 Crore.

The MSME has served as an effective backbone of most developed economies. Small and medium-sized enterprises (SMEs) are the foundation of the global economy, representing 90% of all businesses and accounting for nearly 70% of global jobs and GDP **[2]**. In the US, 99.9% of businesses are classified as small. These small businesses account for 48.55% of the GDP. Small businesses are responsible for 46.4% of employment in the private sector and have created 62.7% of net new jobs between 1995 and 2021 **[3].** These numbers exemplify the thriving innovation ecosystem in the US and highlight the importance of supporting MSMEs. These enterprises fuel industrial growth and efficiency and power the supply and distribution chains of key industries **[4]**. They have been pivotal to social inclusion and have been the principal job creators across the world. They also play a crucial role in bringing about social change by supplying goods and services to poor and underserved markets and providing employment and business opportunities to many women entrepreneurs **[5]**. This sector collectively has been in the powerhouse of agility and innovation. Their agility allows it to adapt to change faster, making them more open to offering fresh ideas and new products resulting in high growth potential **[6].** Their contribution to achieving sustainable growth has been acknowledged by all world economic forums and it consequently the UN too formally acknowledged their role in helping in the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). They do by promotion innovation for more effective growth parameters, promote inclusivity, help reduce poverty by creating jobs and are the key drivers of employment, decent jobs and entrepreneurship for women, youth, and groups in vulnerable situations. Since they constitute a majority of the world's food producers, they play a key role in the eradication of hunger. Their crucial role in driving medical innovation and products makes them critical players in eradicating disease. and play critical roles in closing the gender gap as they ensure women's full and effective participation in the economy and in society. The UN theme for 2023, "Galvanizing MSMEs Worldwide by Supporting Women and Youth Entrepreneurship and Resilient Supply Chains," underscores the importance of their role in achieving the Sustainable Development Goals (SDGs).
However, the slowing down of the global economy post COVID 19 pandemic amid rising geopolitical tensions and heightened environmental threat, increased disruptions in supply chains and decrease in aggregate demand continues to hamper investment and erode business and consumer confidence **[7]**. (Salisu & Vo, 2020). Increased disruption

caused by technology and the inability of MSMEs to innovate to adapt to these changes along with poor Government support systems have also marred the growth of the MSME in some countries **[8,9,10].**

The situation has not been any different in India. According to statistics from the Ministry of Micro, Small and Medium Enterprises, India has 7.9 million registered Micro, Small and Medium Enterprises (*MSMEs*) who contribute to roughly one third of the country's total GDP and accounts for around 120 million jobs across industries and regions. MSMEs sector has a major role in Indian economy as it accounts for approximately 45% share in national industrial output, approx. 70% in industrial employment and 40% in exports [12]. However, the sector has witnessed a slowdown as is evident from the latest statistics shared by the Ministry of Statistics & Programme Implementation fact that the share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) during the year 2019-20, 2020-21 and 2021-22 was 30.5%, 27.2% and 29.2% respectively [11]. Data revealed by the Union government in response to a question raised in the Rajya Sabha (upper house of the Indian parliament), as many as 10,655 micro, small and medium enterprises ceased operations in the financial year 2022-23 – the highest in the last four years. In 2021-22 it was reported as 6,222, in 2020-21 it was low at 175 and in 2019-20 it was 400 **[12]**. According to the data, the ratio of closures to new firms opening has also shown a downward trend. This decline in the face of growing population, increased economic disparity and highest unemployment ever is something that India can ill afford. This slide needs to be reversed with sincere efforts from all stake holders.

Reasons for the slowing down of the Indian MSME sector:

1. COVID 19 pandemic

The COVID-19 pandemic has the Indian MSMEs in a state of existential crisis **[13]**. India announced one of the strictest Lockdown that lasted well over three months exasperating its ill effects on MSME activity. The sudden announcement did not allow the sector to prepare itself for the long-drawn lockdown. The lockdown disrupted labour supply as labour rushed back to their native places in fear and the strict enforcement of the COVID protocol made many MSME's to let go of their labour force and close operations. Raw materials supply was interrupted due to break down of supply chains **[14]**. It has seriously affected the import of raw materials such as rubber, sports, goods, silk, etc. and their transportation from the docks to the production centres **[15].** Those depending on international suppliers ran short of material and could not find cost effective replacement domestically at such short notice forcing them to opt for closure or reduction in production. Many were stuck with produced stocks of goods with no takers. Producers of perishable products were hit the hardest. Increase in Transportation costs also added to their woes. The uncertainty and the growing supply crisis of raw materials made production capacity of this sector experienced dip from an average of 75% to just 13 percent. The lockdown created a complete squeeze of around 60 percent of economic activities that were carried out by the MSMEs in India **[16].** The tourism sector was the most badly hit. Studies reveal a loss of approximately nine million jobs in India's travel and tourism industry due to COVID-19 **[17]**. Closure of international borders led to huge losses in foreign exchange earnings. Severe liquidity crisis also changed the purchasing priorities of families and created lesser demand in the market. Lack of liquidity in the market also added to the woes of the MSME's who were used to cash transactions and were hesitant to go digital at such short notice. Moreover, in the absence of accurate transaction data and formal accounting procedures, they could not access business loans from the formal sector to tide through the crisis **[18].**

1. Demonetisation

Demonetisation was intended to cleanse the system of black money, stop fake currency circulation and to bring larger segment of India's population and its activities into the formal economy. The sudden announcement of it on 8th November 2016, unfortunately didn't give sufficient time for the MSME's to organise themselves for the change. the MSME sector in India is and was basically a cash-based sector, where income is based on their daily output. This sector also employs a large volume of daily wagers who were not equipped to adjust to the digital transaction culture which was imposed on them without any time to prepare and educate themselves.

According to an internal report prepared by All India Association of Industries, "8.58 lakh crores of Rs. 500 notes and 6.86 lakh crores of 1000 notes resulting in a total of 15.44 lakh crores being taken out of the system causing an acute liquidity dehydration" **[19]**. India's majority MSME sector is micro which is self-financed or depends on unsecured loans from friends and associates which began to dry up and they did not have the financial band width to bear the loss and were forced to shut or scale down. The statistics reported by the Ministry of Micro, Small and Medium Enterprises 2021-22, revealed that "out of 633.88 lakh estimated numbers of MSME, 324.88 lakh MSMEs (51.25 per cent) are in rural areas and 309 lakhs (48.75 per cent) in the urban areas of India" **[20]**. Demonetisation hit the rural segment more than the urban because even if they were in agreeable to make the transformation, lack of adequate and efficient banking systems, ATMs etc made them look at the change with a certain degree of powerlessness.

Since the consumers of the products and services of the micro businesses themselves were facing a liquidity crunch, they were forced to prioritize spending on essential necessities only, drying up the demand for the products and services of the MSMEs. It is important to note, with a liquidity crunch in the market, consumers put services as low priority. This hurt the SMSE sector as 68 per cent of the MSMEs are registered in the service sector while only 32 per cent account for the manufacturing sector, according to government of India statistics **[20].**

Since most of the SMSE's employ contractual and daily wage work force who are paid in cash, lack of liquidity and their inability to make large withdrawals hurt their ability to retain labour and this impacted their smooth functioning. Many SMSE's were hurt by the breakdown in transportation and logistics which again was cash dependent, which meant that they could not transport their products to their target markets **[21].** It did not leave majority of the segments unscathed. While retail, real estate, construction and the agriculture were hit because they were cash based, tourism, gems and jewellery, media and entertainment, automobile sector etc. were hit as consumers did not prioritise luxury items and moreover, most of these luxuries were also cash based purchases **[22,23].**

2. Limited access to capital:

A report by the National Sample Survey Organization (NSSO) revealed that a mere 16% of MSMEs in India have access to formal sources of finance **[24].** It is important to note that the micro enterprises account for 95 per cent of the total MSME sector in India. Their conversion into small and medium enterprise has been very low [20]. There are still many out there who are not formally registered by the government. Because they are not formally integrated, most of these businesses do not have adequate paperwork and accounting procedures or proof of adherence to regulatory norms etc. This opacity due to poorly maintained or absent accounting records, lack of audited financial statements, or well-articulated business plans makes credit assessment by any financial institution very difficult. According to a 2018 report by the International Finance Corporation (part of the World Bank), the formal banking system supplies less than one-third (or about Rs 11 lakh crore) of the credit MSME credit need that it can potentially fund **[25].** Not much has changed since then. The MSME's failure to be formally integrated makes them rely on funding from informal sources. This fact is crucial because it explains why the Reserve Bank of India's efforts to push more liquidity towards the MSMEs have had a limited impact. The main problem faced by MSMEs in accessing institutional finance is their lack of collateral, which makes it hard for them to offer any security for bank loans (IFC 2012) [**26**]. Substandard credit histories are also a huge challenge in obtaining credit facilities from wary banks who see lending to them as a risky proposition. When bank lending is reduced, SMEs tend to be more vulnerable and affected than larger corporations (OECD, 2012) and credit sources tend to dry up more rapidly for small firms than for large companies during economic downturns (ECB, 2013a) **[27].**

MSMEs are dependent on small scale partners and contracts, especially as suppliers to larger companies. For instance, when there was a crisis at Maruti Suzuki India Ltd., the company itself did not default but several MSMEs that were dependent on its business defaulted on their bank payments due to liquidity problems. These MSMEs therefore were classified as NPLs by their banks **[28]**. Studies have shown that interest rates on SMSE loans are frequently higher than those on loans availed by larger corporates. This is because when lending norms and models applied to large enterprises are applied to MSMEs, the ratings obtained by MSMEs are lower, resulting in higher interest rates being applied to loans availed by them **[29].** Moreover, the MSMEs lack sufficient bargaining power with both, their suppliers, and customers, which puts a huge strain on their working capital and access to long term liquidity. They also face inconsistency and delays in timely collections which does not let them plan. "Either there would be delay in receiving collections from their purchasers which includes the government too or delay in receiving GST refunds etc." **[30].**

3. Failure to reinvent and adopt technology.

Digitization is here to stay. It has penetrated every nook and corner of the world and has become an integral part of our lives. The number of active internet users in the country grew by almost 10 per cent in 2022, according to the 'Internet in India Report 2022', jointly prepared by the Internet and Mobile Association of India (IAMAI) and KANTAR. The report estimates that India is likely to have around 900 million total active users by 2025. It estimates over 70% penetration in urban areas, the more significant observation is that an "estimated 56 per cent of all new internet users in India will be from rural India by 2025" **[31]**.

This digitalisation has transformed the business environment and there is no respite from it. the traditional structures of most of the existing MSMEs in India wall must adapt or unfortunately face existential crisis and perish over time. Until now the MSMEs particularly in the rural areas were not affected as such by this digitalisation and could work without entering the digital ecosystem. However, with the increasing penetration of mobile devices and internet users, the rural areas will also be exposed to greater access to suppliers of goods and services making the digital adaption of the MSMEs a necessity they might not be able to avoid. "Ideally, a well-integrated and connected digital ecosystem is optimal to build connections, and drive transformation, from entrepreneur identification, creditworthiness, delivery of schemes, access to markets, right skills mix for different firm stages, as well as enabling granular and cost-effective data collection in the sector" **[32]**. It also enhances their ability to compete with larger ecommerce players that are threatening their survival. It also helps simplify book-keeping and record keeping and help them receive fate and secure

payments at nominal cost opening their options to improve their credit history and worthiness. The wave of digitization has also proceeded to provide more income enhancing solutions for the small businesses, through inorganic digital revenue streams **[33]** (OECD, 2020).
Moreover, Social Commerce, which is simply ecommerce, enabled and discovered through social media is becoming a strong value proposition for consumers exposing them to a larger cohort of competitive suppliers and producers of goods and services. This becomes even more significant given the estimate that over 28% millennials are inclined to buy products because of social media endorsements as per the India Brand Equity report **[34,35]**. Thus, it is even more imperative that MSME's learn to use technology to their benefit. Unfortunately, most MSMEs in India continue to use manually operated systems and lack the skills to make this transformation, limiting their growth and scalability.

4. Unskilled manpower

In recent years, unexpected events such as natural disasters, financial crises, industrial accidents, trade embargoes, and geopolitical tensions and sudden "black swans" and "gray rhinoceroses" have led to a business environment that has become fuller of volatility, uncertainty, complexity, and ambiguity (VUCA) **[36,37].** The pandemic was one such example. The VUCA element of the business environment is also exasperated by the technology disruption which is transforming the business environment at a breakneck speed making it extremely difficult for the MSME's to keep pace due to limitation in resources, intent, and knowledge. Organizational resilience is the core capability of today's enterprises to cope with crises in a volatile, uncertain, complex, and ambiguous (VUCA) market environment **[38]**. It equips companies to stay ahead of the curve and responsive and adaptable to the external environment and adversities and meet its multiple challenges. This resilience is built by manpower engaged in the business. "The quality of human resources needed in maintaining business Quality becomes a way of life which permeates every part and aspect of the organisation" **[39]**.
Human capital has been the Achilles heel of the MSME sector. Lack of capital to pay better salaries makes them opt for unskilled labour that does nothing to help them reinvent and adapt to grow. At best they can help in maintaining status quo. Given the hard-pressed employment scene in India and its dependence on the MSME sector, just maintaining status quo does not help. Moreover, wages in MSME's across the world are estimated to be 20-30 percent lower than the national average in most countries. Research also shows that the working conditions are the most hazardous in the MSME sector **[40],** which naturally doesn't make them attractive for skilled manpower. Moreover, since most of the MSME sector in India constitutes the micro element, they are easily available to avoid mandated social security and provident fund covers due to low number of employees. Indian social security is broadly governed by the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 (PF Act) and schemes made thereunder, namely the Employees' Provident Fund Scheme (EPF) and the Employees' Pension Scheme (EPS). The Employees' Provident Fund Organisation (EPFO), a statutory body established by the government of India, administers social security regulations in India. Currently, Indian social security regulations apply mandatorily to an establishment in India employing 20 or more persons or where an establishment voluntarily seeks registration with the authorities **[41]**. Lack of compliance makes the labour force more vulnerable as they have no financial commitment to the company making the attrition rate very high. This high labour mobility, casualization of labour also does not motivate the employers to invest in their skill development. There must be a reason why the key role of effective people management was emphasised by the "founding fathers" (Crosby, 1980; Deming, 1986; Ishikawa, 1985; Juran, 1989) of quality management. They believed that "employees naturally care about the quality of the work they do and want to improve it as long as they are provided with the training, the appropriate tools, and a supportive managerial environment for their ideas to be developed" **[42,43,44,45]**. Many studies have revealed that "Work was more efficient and effective in companies that invested in employee skills" **[46]** indicating a direct correlation between employee skills and company performance. **[47].** Moreover, it is also found that highly qualified workers encouraged innovation and more advanced processes thus achieving better quality products **[48].** Lack or resources, knowledge, and the fear of poaching of trained manpower makes owners of MSME's avoid investing time and resources on upskilling their worker force which in the long term is a self-defeating exercise. This problem assumes much larger proportions given the volatility and the technical disruption of the business environment which demands skills.

5. Poor Management

Management plays a pivotal role in driving the success of any business big or small. Since most MSME's in India continue to be proprietorships of a micro scale, it is normally one individual owner who constitutes the chief decision making senior most management, it is imperative that they have the skills to craft a vision, formulate a feasible effective strategy to achieve desired business goals, innovate and reinvent to face competition, ensure proper execution and utilisation of scarce resources to increase productivity and enhance profits. They need to formulate a well-structured work process, motivate, and encourage employees, supervise tasks, and pay a great deal of attention to customers' satisfaction. These functions have become even more challenging in a more globalised business markets that can penetrate deep into every nook and corner of the world and pose challenges to smaller domestic MSMEs owing to open skies policies. The challenge to adapt to a constantly and fast-changing changing market and to the new generation's changing trends and needs and to adopt and integrate new technological innovations puts a great deal of responsibility on the shoulder of the management **[49]**.

Unfortunately, most MSME's in India are owned are family-owned mom and pop shops who run the business themselves, a task they are not formally trained to do. Their reluctance to hire a manager/supervisor more qualified than them imposes severe limitations on how they can optimize their potential.

ILO's Sustaining Competitive and Responsible Enterprises (SCORE) points out that the Micro enterprises dominate the MSME ecosystem in India, with most businesses hiring less than five employees. Firms prefer to stay small to avoid archaic and stringent labour laws and complex GST systems. Some fear the government machinery and prefer to stay mall even if they have the capability to scale. This trend reduces their productivity. They have limited resource management ability and understanding of market trends beyond their restricted local customer and negligible problem-solving skills to push the growth of the business beyond the limited local areas. Since there turnovers are modest, they do not have the resources to hire skilled workers or offer them attractive working conditions. Poor management practises in Indian firms have been documented and is attributed to the poor productivity and competitiveness of MSMEs. While there is attention being paid to adoption of technology and access to finance, for optimal results there is a need to strengthen the entrepreneurial and managerial skills **[50]**.

6. Goods and Services Tax

The Goods and Services Tax, also known as the GST, has been the most significant economic reform in India. The GST Bill took effect from July 1, 2017. Meant to combine the large number of taxes into a single uniform system. It was meant to make India a single market, facilitating the ease of doing business. Though GST has helped by reducing the complicated indirect taxes system of yester years, has brought more unorganised players into the formal economy and helps the Government identify tax evaders, it has also brought in a fair share of challenges.

Lack of awareness has made it difficult for MSMEs to navigate the frequent changes to the ITC regulations and increased compliance costs. The system requires technical skills and availability of computer systems for filing returns which were not available in most MSMEs, making them wary of the process. Most MSMEs complained about software malfunctions and no local coordinating agency to address their issues making it important to hire tax consultants and accountants at an extra expense. Ambiguity around certain clauses led to varied interpretations, sometimes inviting litigation. leading to differing interpretations and resulting litigation **[51,52]**. The ambiguity around appropriate GST rates/classification of specific goods and services is another challenge. The GST was originally developed to simplify the whole tax structure and therefore a single tax rate was proposed. While most countries kept only one slab/plate in the Indian context there is 0% slab, 5% slab, 12% slab, 18% slab and 28% slabs making. This creates unwarranted complexity of different GST slabs and numerous cesses and exceptions not found in countries with simpler, flatter, and broader tax structure in other countries. Thus, Traders and shop-owners selling multiple products are concerned how they would maintain bill books due the variety of tax slabs **[53].** As SMEs have to pay tax before they get their returns, it blocks additional funds and the flow of their capital. Dependence on the supply chain for input tax credits is creating massive interdependence between MSMEs and the supply chain **[54,55,56]**. There is a general perception that the Government law and policies make growth counterproductive for the micro firms and that they will not gain from the extra effort and attract more liabilities in the bargain.

One of the reasons why firms stay small in India is because of the law and policies that discourage businesses from growing. The government has come up with many schemes to help micro and small industries. This sentiment was voiced by Animesh Saxena, President of the Federation of Indian Micro and Small & Medium Enterprise (FISME) – “There is no voice or special schemes for them. "The moment you become medium, you don't get the advantages available for small and micro industries,” said Saxena. “You are suddenly competing with the large corporate houses that have a lot of finances to spare. Also, the legal framework for the medium and large is the same. So, it is very hard to survive, and here the dwarf mentality sets in” **[57].**

7. Competitions from large corporates and aggregators

The debate on the co-existence of organized and unorganized sectors in a developing country like India heated up with small MSME' s seeing an existential threat with large corporates and E commerce giants threatening to kill their businesses. Online marketplaces (so-called e-commerce aggregators), such as Flipkart and Amazon have made large inroads in India and impacting the business of the traditional brick-and-mortar sellers. The latter are not able to compete with the scale, financial power and reach of the former. By providing benefits to consumers in terms of ease of shopping, saving travel time, providing after-sale services, etc **[58]**, they have an unfair advantage making it tough for the smaller businesses to keep pace. they are readily passing the savings that accrue to them from not having to run a physical set up to the consumers in terms of discounts, which the regular retailers who bear the expense of a physical infrastructure and its maintenance cannot afford. The complaints and appeals to trade associations point out that these aggregators are attempting to marginalise them, through predatory pricing, deep discounting, cashback policies and preferential terms for select sellers. Decline in profit margins for physical retailers will make the business unviable. “A section of business users of platforms, consisting primarily of manufacturers and omnichannel retailers (i.e., retailers having both online and offline presence), were of the view that the size of the pie has not increased significantly, but shift of business from the physical to the digital space is taking place at a rapid pace” **[59]**. As has been discussed earlier, most MSME’s in India are not skilled to turn this change in the marketplace to their advantage. In a globalised marketplace, cheaper and better-quality goods have made an easy entry into India, making it difficult for the MSMEs to function with their traditional limitations of poor technology and infrastructure. there is a dire need for them to upgrade their own capacities and ability to deliver quality at a competitive price, which their current financial situation may seem like a tough ask.

8. Poor infrastructure

The MSME sector in India has been plagued by poor infrastructure that has a direct bearing on their production capacity and cost and supply chains. Lack of a steady and reasonable electricity had a direct impact on manufacturing capability and cost. Poor quality road and transportation infra structure hampers the operations of the MSMEs in the rural areas, which constitute more than half the total MSME’s in India. Ports and aviation also are not cost effective and well connected. Rising fuel prices have made transportation very expensive so poor access to this infra structure all adds up to the cost. The substantial deficit it steady Irrigation, clean water supply, and sanitation systems impact a large of MSMEs that need these necessary inputs urgently **[60]**.

9. Poor supply chain integration and non-availability of raw materials:

Non availability of key raw materials hampers the MSMEs production. Poor quality supply chain integration does not allow them to access these from non-local sources at a cost-effective price. Dependence on cheap good quality imported raw material was severely disrupted by the pandemic and this disruption has not fully reversed. Supply chain management is the integration of material and service procurement activities, conversion into semi-finished goods and end products, and delivery to customers **[61].** (Heizer and Render, 2010). In the absence of a dependable and cost-effective supply chain integration, businesses are severely incapacitated both in terms accessing raw materials for production and in terms of supplying their finished products to target markets, both of which are equally crucial **[62,63,64]**.

10. Lack of marketing and branding capacity:

In a globalised integrated marketplace, the MSME’s have to compete with large corporates and large multinational enterprises who have huge marketing and branding budgets. Lack of resources and skills to plan marketing and branding strategies for themselves have affected the reach to their consumer targets. Marketing and branding itself has gone through a sea of change with digital technology and media and increased dependence on marketing analytics for feedback as trends change a lot faster in the current times than they would earlier. Dues to lack of resources and skilled marketing manpower, the MSMEs have failed to exploit the more innovative channels of marketing to extend their reach beyond local markets which restricts their capacity and revenue. Their advertisement and sales promotion are comparatively weaker than the multinational companies are **[65]**. The ineffective advertising and poor marketing channels lead to very poor selling **[66]**. This lack of branding ability has not helped in removing the perceptions that goods from micro suppliers are not of good quality and do not meet national and international standards. This creates a huge disadvantage as the MSME’s are not able to go to niche markets or high growth and demand markets where they could get better returns for their products.

Moreover, with the advent of social media, consumer expectations have changed in terms of how they and what kind of engagement they expect from brands. “Instead of a one-sided conversation, where a brand simply posts and ghosts, brands now need to interact with customers and respond to customer needs” **[67]**. This is where the MSMEs have failed significantly. Failure to adjust makes them sell out to larger brands for survival which doesn’t let them grow in the long run as the bigger brands push them into the corner through predatory pricing norms, making them compromise for survival.

11. Lack of R& D support for technology integration and innovation

Lack of funds and knowledge to engage in R&D to integrate technology and bring in innovation to improve both their production and operations and increase their product offerings and value, have been a major shortcoming among the MSMEs. Innovation plays a critical role in shaping the industrial and firm competitiveness of any nation. Many of these barriers are related to public policy, funding constraints, shortage of skilled research and development (R&D) workforce, and weak linkages between institutions and the firms, among others. Developing economies have failed to create a government supported capacity building for R&D foster innovation support mechanisms. Modern concepts such as cluster development are often underutilized or ignored. **[65].** This innovation could be on product innovation, process innovation, product quality and standardization, savings or more efficient use of inputs, use of alternative material in production, and installation of new more energy efficient and modern machines. SMEs generally lack the financial capacity and staff to undertake structured and sophisticated R&D and hence adopt quick fix innovative practices that do more harm than good at times.

Smaller firms tend to use technology will be locally sourced as they don't have enough information on international sourcing and are suspicious to deal with companies, they don't have direct access to. "Indian SMEs' exposure to global technological advancements and innovation systems remains very limited, unlike in the case of developed economies" **[65].** The main limiting factors continue to be lack of financial resources, information, and skilled labour to adapt to better and more advanced technology. Sources of information for SMEs normally include conferences and trade fairs, journals and technical publications, and industry and professional associations which most micro businesses in India do not have access to. Moreover, failure to integrate, promote and fund academia universities, colleges, and government and public research institutions which are a key source of industry relevant innovation and research in developed countries is missing in India.

Conclusion:

The MSME has been the driving force in most global economies and a decline in their during and in the aftermath of the pandemic has become a global talking point so much so that the crucial need to enhance MSME resilience has been prioritized in the General Assembly resolution recently **[68]** and emphasised upon in the Secretary-General's report **[69]**. Like the rest of the countries the MSME sector is the backbone of the Indian economy both in terms of revenue earning and in terms of an important employment source, a county with the world's largest youngest population cannot afford to ignore. The MSME sector in India employs over 100 million people and accounts for 45% of manufacturing output and over 40% of the country's exports **[70].** "It contributes significantly to the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture" **[71].**

The sluggish growth of the MSME sector has become a matter of concern for all stake holders and remedial measures need to be adopted on an urgent footing before matters spiral out of control. As discussed earlier this sector has been troubled by poor access to finance and marketing reach, slow and sluggish integration of innovative technology, unskilled human resource, lack of strategic management, financial literacy, talent retention and poor-quality logistics and infrastructure, none of which is beyond redemption.

The Government of India on its part has tried to make amends but a lot more could be achieved. It could serve the government well to prioritise the growth of this sector in the upcoming budgets by offering extension of credit schemes announced amid and post the pandemic to ensure adequate working capital, make the necessary changes to simplify the GST and reduce the number of slabs to bring greater clarity and ease of doing business. There needs to be government sponsored programs in various districts to train the MSME teams in vernacular languages and there should be nodal IT support staff to ensure that their software problems are resolved at a faster rate without added expense assigned to hire experts that could put extra burden on their manpower cost. Focus on devising and implementing policies to lower input costs, increase liquidity and promote financial inclusion by offering small firms with affordable financial products, will go a long way in reducing the resource crunch that is hurting this sector. The RBI needs to implement its own idea to digitalise KCC (Kisan Credit Cards) and SME loans to ensure speedier and less cumbersome loan processes. This would encourage the smaller players with ambition to scale their growth with capital infusion.

Replacement of surety bonds by insurers in place of bank guarantees (BGs) for public procurement can also help avoid blocking of capital which impacts the overall productivity of the MSME **[72]** may be a welcome move. Implementation of the Draft National MSME Policy of 2022 in true spirit would also lead to greater focus in promoting and ensuring the upgradation of technology to increase competitiveness, supporting innovation, improving the infrastructure framework and dedicated credit support and the procurement of MSME products. Tax exemptions and financial incentives for setting up businesses in rural areas can help promote greater financial inclusivity and more balanced economic growth. Experts also recommend extending Production Linked Incentive (*PLI*) schemes targeted at the major manufacturing industries to MSMEs also to encourage scaling. The government should identify key areas for reduction of tariffs and duties on imports and exports to make it more affordable for MSMEs to participate in international trade **[73]**. Studies reveal that "those developing countries that lowered tariffs sharply in the 1980s grew more quickly in the 1990s than those that did not" **[74]**. "New jobs are created for unskilled workers, raising them into the middle class. Overall, inequality among countries has been on the decline since 1990, reflecting more rapid economic growth in developing countries, in part the result of trade liberalization" **[75,76].**

Restructuring the education and skill development institutions and promoting and funding innovation that is industry relevant has been the key to most of the developed world where the academia has worked very closely with the industry. The same pattern could be adopted in India. the Skill India project was a step in the right direction but not amalgamated in the current higher education system which meant that investments were made in the stand-alone training centres and startups which eventually did not yield expected results. There also seems to be a need for a system where SMEs have access to a pool of skilled people for conducting specialized work while addressing concerns about trade secrets **[77].** The formidable challenge by bringing down the cost of innovation and increasing the availability of innovation capital by creating regional innovation banks could be a useful step. "The government has a critical role to play in every sphere of innovation including access to finance and technology, capacity building and human resources, market linkages, availability of research facilities, and access to key information, among others, via different policies and schemes. It would not be wrong to say that the government is the single biggest factor governing the innovation ecosystem of SMEs, especially in the case of developing economies such as India" **[77]**. Besides this a greater focus on improving infrastructure for the SMSEs and bringing down logistics cost could be helpful. The Government has to work harder to change the perception among the MSMEs that see the government as a barrier, rather than a facilitator. These steps will go a long way in ensuring the success of the government's Make in India program and its vision of Atmanirbhar Bharat. These lofty objectives require greater momentum in the MSME sector. To achieve this the government may have to extend and help to individual MSMEs. It is suggested that "the government ensures through sufficient procedures and tracking mechanisms to reach every stakeholder in the MSMEs sector **[78]**. The MSMEs on their part also need to shed their inhibitions and be open to adopt new technologies, modernise their operations, be more open to digital payments and better record keeping, focus on product development to be more competitive, make an effort to learn the nuances of the fast changing marketing landscape and stay more well informed to learn latest competitive practices to gradually expand in size and scale and can become core pillars economy.

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