

## Global Value Chains and MSME

MSME is the pillar of Indian economy and has been instrumental in building its Brand India image, especially MSMEs in the services sector the IT and ITES have proved to engage this statement truly. The Indian MSME sector has been sincerely contributing to main economic health indicators such as the GDP about 8% contribution, job index ie 1,061.52lakhs of total employed and exports about 40% of the total exports. The strength of MSME sector in western Maharashtra stands as 20% wrt entire Maharashtra. There are about 18 MSME associations representing this sector from western Maharashtra alone . Western Maharashtra is very conducive to the development of this sector having presence of shipping and industrial infrastructure for last 3 decades. There are about 13 special economic zones and the MIDC has set up subsidized infrastructure in about 7-12 places in western Maharashtra. The proposed New Delhi Mumbai freight corridor also will open up domestic logistics and supply chain .

MSMEs in this region consist of the manufacturing and the services sector. Large units like L & T Mahindra and Mahindra, Infosys, Accenture, HUL etc in the course of their evolvement of their businesses have always found value addition in procurement of certain inputs from the MSME. The cost incurred upon labor and permanent infrastructure is 30% higher and is saved when procurement from MSME is in place, this makes the MSME sector an attractive destination for procurement and outsourcing for the large industrial, IT and ITES houses. This decreases the maintenance liabilities on their balance sheet as well. Problems arising from procurement for manufacturing and IT and related service MSME sector are different from each other as one being plant and machinery intensive and the other human resource intensive. The MSME sector has always profited from this option only when the tie up is with the A group companies. However at the same time the manufacturing sector MSME needs to mandatorily comply with the product standards as desired by the company. Non compliance to standards has always led to rejection of the supplied product. At the same time, it is very important to note that companies like Varun Agro Ltd which supply tomato paste to HUL have been awarded several times for their compliances even after working from a remote village in western Maharashtra. A group companies have strict audit measures in place hence are more preferred by MSME especially for their on time payment measures. The MSME sector basically survives on small revenue earnings and in any mismatch in their balance sheets leaves a large margin for serious losses. Assured market and returns is a back bone of this sector as the risk appetite of this sector is weak due to nearly nil or small reserves. It is difficult to maintain reserves in this sector as the entrepreneur is a starter and has nearly exhausted his reserves for setting up the infrastructure. Any mismatch thus results in losses and finally closure of the unit. Economic distresses are first borne by this sector and hence for this sector , it is very essential for the Government to insulate against potent economic distraught. In absence of monetary reserves and most of the time collateral , this sector is constantly in search of funding to fill up accounting gaps resulting due to working capital requirements due to varied product requirements or for growth requirements or upscale of machine infrastructure etc. This sector is known to fund itself @15% premium in event of no collateral and in times of distraught however losing its profitability in due course. 60% of the cases suggest there is no recovery leading to business losses leading to the MSME being treated as NPA.

In order to bring about stability and sustainability the MSME sector needs skilled and cheap labor, ready market and funding . It is observed that the MSME owner plays a diverse role of man management , marketing, finance management and procurement management and while handling so many portfolios single handedly if he is subjected to torture of spending unnecessary time in resolving Government mandates on licenses which are prevalent in our system, he feels harassed and may lead to uncontrolled issues in handling the business. Hence, the Government policies need to clear cumbersome procedures so as to allow the MSME owner to focus on International standardization of his business to ensure that he does not encounter the risk of rejection of his product.