

## LITERATURE REVIEW OF FACTORS AFFECTING MSMES IN INTEGRATING IN GLOBAL VALUE CHAIN AND ROLE OF GOVERNMENT TO SUPPORT MSMES SUPPLY CHAIN

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### INTRODUCTION

The supply chain is related to the activities which are vital to get the goods from the point of origin to the final consumer. Thakkar et al. (2008) defined supply chain management in MSMEs perspective as "Supply chain in MSMEs is a set of business activities including purchase from open/spot market, manufacturing or processing of subcomponents/subassembly within the plant and delivery to large enterprises using hired transportation to enhance value of end product and in-turn to ensure long term regular purchase order". This supply chain becomes global value chain when these value-added activities cross the borders and reach to multiple places. Therefore, a global value chain (GVC) includes across borders value-added business activities. GVC has emerged as one of the leading antecedents for doing business internationally. It links organizations, employees and consumers from the different parts of the world. "Micro, Small and Medium enterprises of India were not able to exploit the opportunities generated by the emerging GVCs" (Masato Abe, 2015). Therefore, a need is felt to explore potential causes, which restrict MSMEs' participation in GVCs. Though, MSMEs in India have a remarkable contribution in the growth of India, but there is a requirement to give support to MSMEs of India to do the business across borders effectively. The present chapter investigates the challenges in the process of MSMEs integration in GVC and accordingly the policy initiatives which could be taken to create more market opportunities for them.

### FACTORS AFFECTING MSMES IN INTEGRATING IN GLOBAL VALUE CHAIN

"MSMEs in international market are required to fulfill many rigorous standards, certifications and conformity requirements" (ESCAP, 2007). MSMEs in global value chain are also need to upgrade their manufacturing methods, their management policies and procedures (Masato Abe, 2015). MSMEs face a problem of lack of access to finance (Harvie et al., 2013). Their integration in global value chain is also constrained by inadequacy of talent in the employees, which is very essential for facing competition in global markets (Asasen et al., 2003). MSMEs faces challenges like higher operational costs as compared to big firms, shortage of resources, deficient of access of knowledge, less research and development expenditure which makes them unable to compete against larger enterprises in global market in terms of innovation, lack of brand development and weak market access (Harvie and Charoenrat, 2013; Masato Abe, 2015).

In India, despite of remarkable contribution to the nation's economy, the MSMEs have faced many problems. Many empirical studies have been conducted to identify these problems. The challenges and problems in the process of MSMEs integration in GVC are as follows:

#### **Access to adequate and timely finance**

Finance is one of the most important antecedents distressing the growth and development of MSMEs. This problem results in the use of outmoded technology, obsolete machineries, lack of global

business orientation and finally attain low profit. The accessibility of sufficient finance on time is the vital factor for the survival of MSMEs. Therefore, lack of this factor is a major obstacle for MSMEs to grow in global markets. The MSMEs need to fulfill many conditions for taking loans from the banks. According to Economic Survey (2017-18), MSMEs sector is facing a major obstacle in regard to getting timely and adequate loan. This survey has also revealed that the MSMEs received only 17.4% of the total credit outstanding. Most banks are disinclined to give loan to MSMEs because of less experience of these firms, weak financial position, lack of security and infrastructure.

Therefore, the government of India needs to think to support MSMEs to compete in cross-border trade.

### **Skill, expertise and productivity of labour**

Though many MSMEs become digitalized, but they have a serious issue i.e. they have the shortage of talented employees. For MSMEs to survive and develop, both employees and technology need to update simultaneously. The lack of skill, expertise and productivity of the labour is the biggest obstacle for MSMEs to expand their businesses internationally. Therefore, MSMEs need to do investment in the training and development of their employees for participating in the global value chain across borders. It is very complicated for the MSMEs to give high salaries and other perks to the workforce and therefore they are not able to recruit employees for their enterprises. Thus, the MSMEs go through with less efficiency, less productivity and less profit.

The government should provide sufficient skill development schemes to MSMEs to encourage them to participate in global markets.

### **Innovation**

"In the current era marked by dynamic technology trends, access to updated technology is imperative to sustain in the global value chain and studies have also found that the level of innovation and value addition embedded into the products are still at

their nascent stage" (Mitra et al. 2009; Shiralalshetti, 2010). MSMEs need to update their technologies to maintain their research and development activities. The large price of updated technology, shortage of adequate and timely finance, deprived of communications facilities and elevated repairs cost of machinery act as obstacles for MSMEs to adopt latest techniques and technologies. Thus, the outdated use of technology is the imperative antecedent for the sluggish development of Indian MSMEs. The MSMEs are sometimes not aware of updated techniques and technologies to boost their efficiency in productivity.

Therefore, government should increase awareness among MSME owners regarding embracing of updated tools and techniques to face the competitiveness in global market.

### **Scale of operations**

The infrastructure facilities affect the growth of MSMEs in India. There is a lack of infrastructural facilities in the rural areas such as network, transport, electricity etc. Therefore, the MSMEs, which are in rural areas, face many challenges and problems in participating in international market. The MSMEs also face the major challenge i.e. outdated technology in rural areas. This technological inflexibility is the major antecedent behind the slow growth of MSMEs in international market.

The MSMEs of India are not able to provide goods at reasonable price in the international market, due to which they lose their competitive edge in the global market. Therefore, it is very difficult for Indian MSMEs to face competition in the international market and to fulfill strict product standards and quality required for participation in GVCs.

### **Knowledge, awareness and networking**

Lack of information of global markets is also a biggest obstacle for MSMEs for integrating in global value chain. A lack of knowledge affects the MSMEs capability to compete in the global market. MSMEs face finance and profit uncertainties because of less

experience in international markets. Therefore, Indian MSMEs are not able to formulate its appropriate strategies in the international market. This, in turn, converts into their incapability to formulate the appropriate industry model to face competition in the global markets.

Therefore, it is central for the Indian MSMEs to enlarge relations with various stakeholders to gain from networks and able to survive in an international market.

## GOVERNMENT MEASURES TO SUPPORT MSMEs SUPPLY CHAIN

Despite a remarkable share of MSMEs in the GDP of India, MSMEs face many problems and challenges that confine their entry into the international market. Therefore, government has taken many initiatives and steps to support the MSMEs integration with global value chain.

### Government Initiatives to Address the Challenge of Access to Adequate and Timely Finance

- Public Sector Banks (PSB) Loans In 59 Minutes: This initiative of the government has been taken to ease the access of credit to MSMEs. It provides sanction to loans of MSMEs up to one crore in fifty-nine minutes from PSB.
- Cash Flow-based Lending: The loan is given to the MSMEs on the basis on their current and future cash flows rather than on the basis of adequate collaterals. Further, the timing of the return back of loan is depending on the timings of cash inflows of the MSMEs.
- Trade Receivables Discounting System (TReDS): This initiative helps in quick financing for the MSMEs. It is an online platform where MSME's can trade their pending account receivables such as invoices. Therefore, it is an easy method to

obtain the collateral funds at discounted rate of interest.

- Lending to MSMEs under PSL: The Reserve Bank of India has stated that the PSL norms will be followed while giving loans to MSMEs. Under PSL rules, 7.5 percent of bank credit must go to micro firms.
- Credit Guarantee Schemes: This initiative has been taken by the government to give loan (limit is 100 lakh) to the micro and small enterprises without any collateral and the guarantee by the third party.
- Venture Capital Funding for MSMEs: Indian MSMEs majorly depend on the informal sources of finance, i.e. funding from personal savings and funding from relatives. They also take loan against ancestral property and jewellery. This funding for micro and medium small-scale enterprises is a source of equity financing for growing MSMEs. Venture capitalists give funds to MSMEs after vigilantly verifying their projects.

### Government Initiatives to Address the Challenge of Innovation and Access to Global Market

MSMEs face challenges in terms of higher supply chain costs, limited access to international market, limited awareness, lack of networks etc. The government of India is helping MSMEs by providing many facilities related to digital/e-commerce platforms for connecting in international markets.

The National Resource Center (NRC) & The Export Facilitation Centers (EFCs) – This NRC and EFCs guides the MSMEs about the types of products in demand in international market, expected requirements by the consumers in terms of quality, packaging, labeling, price etc. It also gives information to the MSMEs regarding the available schemes of the government which are beneficial for them while integrating in global value chain. It also gives details to the MSMEs regarding the bilateral and multilateral agreements so that MSMEs can

avoid double tax and take advantage of many other subsidies. It has also developed a handbook especially for the MSMEs exporters which provide the practical information to the exporters. A call centre is also established by these centers which provide all the information related to international market and other enquiries. It has also developed an online platform which provides the details related to the products in demand country wise, information related to loan and finance provided by various banks and financial institutions. It has also done partnership with various international agencies so that MSMEs can easily enter in the international market.

## CONCLUSION

The government of India is taking many initiatives and drafting many new policies that support MEMEs in the integration with global value chain. The Reserve Bank of India is also relaxing their conditions with regard to providing loans to MSMEs. Many banks have set up for providing loans to MSMEs without any collateral. Therefore, this chapter highlighted that many problems of the MSMEs get solved by the efforts taken by the ruling authorities and the Reserve Bank of India. The owners of the MSMEs should take advantage of these opportunities and put their steps in the integration in global value chain across borders. This integration will help MSMEs to customize their goods according to the requirements of the international market and they can transport the goods at rapid pace. Therefore, MSMEs need to focus on innovation, development of new products and partnership with the suppliers and other key stakeholders for remain competitive, grow and prosper in international market. "The main objective of supply chain management is to provide right product to the right consumer at the right place, at the right cost, at right time, with right quantity and quality" (Basher, 2010). The MSMEs won't be able to fulfill this objective without adopting digitization. Therefore, the MSMEs should also take steps towards redefining its supply chain by adopting complete digitization in the supply chain. Digitization is very important for the MSMEs

for their survival and sustainable growth in the international market. It also helps MSMEs in improving their supply chain efficiency and also helps in increasing competitiveness in global market.

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