

SMEs face many human resource challenges

Shortage of skilled labour and managerial incompetence emerge as key hurdles



Panelists: (from left) G Rita, GM, SBI, S V G Nandgopal, CGM, western zonal office, Sidbi, Sanjay Sethi, IAS, development commissioner (industries & secretary MSME, Govt of Maharashtra, Shobhana Subramanian, resident editor, FE, Manas Kumar Nag, CGM, SME, SBI, Yogesh Dixit, head, Crisil SME Ratings, Crisil, Chandrakant Salunkhe, president, SME Chamber of India

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SHOBHANA SUBRAMANIAN
—Resident Editor, *Financial Express*

Good evening ladies and gentleman,

This is the first of a series of several panel discussions we will be having across the country and the initiative has been taken by the State Bank of India and FE. The idea is to come up with solutions to the problems that the SME sector faces today.

Our panelists are: **G Rita** from SBI, **Nandgopal** from the SIDBI; **Sanjay Sethi**, chief of MSME department, Maharashtra government; **Manas Kumar Nag**, CGM, SME, SBI; **Yogesh Dixit** from Crisil; **C Salunkhe**, from the industry.

As you know the SME sector accounts for about 45% of industrial production and roughly 40% of exports and generates jobs for just under 30 million. The fact that India's GDP is expected to grow at 8% per annum alone tells you how much the industrial output is going to grow and therefore how much the small sector can contribute. It is in that context that we are having this panel discussion today and I think the challenges are very well-known: the lack of credit, specially, equity, skilled manpower, technology and infrastructure. Besides, a 1% interest rate hike hurts the profits of SMEs on an average by about 15%. So the idea is to try and come up with solutions. Each of you can tell us what you feel needs to be done.

SHOBHANA: Nag since you have been lending to SMEs through years and belong to the country's largest bank with the largest portfolio, could you tell us the key challenges that SMEs face today?

MANAS KUMAR NAG—CGM, SME, SBI: Ok. Actually I have a small laundry list of critical areas for SMEs. The first of course is the availability of capital, both debt and equity. Now debt capital can only follow equity and the absence of equity capital makes it difficult for many SMEs to raise debt. We lack private equity players and angel funds to finance startups, and we need a framework to woo them. The second challenge is technology and the third is marketing. The

fourth area that I think needs to be looked at is skill development. There is no formal structured skill imparting mechanism in this country.

SHOBHANA: You mentioned that access to credit is important but you particularly stressed on the infrastructure and marketing. We have Sethi here who will tell us from a state government point of view. Do you think it is possible to create or help create some kind of an infrastructure?

SANJAY SETHI—IAS, development commissioner (industries & secretary MSME, Govt. of Maharashtra): I need to share with you that the work on clusters might help us understand how we can make SMEs competitive. I think the real gap here is that value addition as an approach is not there. The value addition in SMEs is dismal. The main issue here is credit, as SMEs on their own cannot reach that level of

technology sophistication required for value addition.

Also, the mortality rate is high among MSMEs. Out of 1.53 lakh registered small units, about 60,000 are closed, but those are not declared sick or declared anything by the financial institutions. The issue is, basically, we need to understand the project development cycle of an SME, not just its credit needs.

SHOBHANA: Nandgopal, when a project is conceived, like Sethi said, there is too much accent on credit, but not on the project in its totality. So, in your experience are projects not being appraised properly?

SVGNANDGOPAL—CGM, western zonal office, Sidbi: Yeah, we definitely do that well, but before I answer this question I would like to put the demand for credit from the MSME sector in perspective. We had this 4th All India Census of the MSME sector which relates to



2006-07 and after that five years have elapsed. Now as per the census there were 26 million units, 60 million employment and you will be surprised to know only 5% of these 26 million units have any credit from institutional sources. Unfortunately, the sector is perceived to be very risky, so a typical manager would avoid giving loans to a small scale unit.

A reason for this is that there is a big information gap between the manager and the entrepreneur about the project. In most cases, the entrepreneur depends on a consultant for his project report

and he himself doesn't do any homework.

SHOBHANA: Madame, could you tell us in your experience how good is the project appraisal since that seems to be a very big problem here. How do we improve project appraisals?

G RITA—GM, SBI: Sometimes an entrepreneur will say the project will be completed within a time-frame, but you point out that it is definitely not possible because you have taken so many givens: that I will be able to get this land within this time, development will take place, machine will come, and so on. He is new, he needs more time to settle down... We are prepared to give him time but most of the time he doesn't listen. If I were to say the main problem with our medium entrepreneurs is they think that after we give credit our role is over. It is not so, we are partner in their progress and most of the time we do not get to hear their

problems until it is blown up to an extent when salvaging is difficult.

SHOBHANA: Dixit, since you'll rate SMEs, the problem that Rita pointed out is that they are overconfident. They don't even know what machinery they are going to buy yet they first want the loan approved. Any ideas?

YOGESH DIXIT—head Crisil SME Ratings, Crisil: If I list out the challenges I would say management confidence is the biggest challenge. Management has to be extremely competent and we have moved a lot of distance from I think the way we used to set up enterprises and run enterprises 20 years back. But the way the volatility is increasing in the economy, a person who is managing the enterprise has to be extremely competent. So it is very important for us to look at management competence and there it could be anything. It could be mentoring initiative where entrepreneurs could be mentored, it

could be mentoring by specialist, or smaller enterprises can be mentored by larger enterprises.

SHOBHANA: Salunkhe, since you represent the industry you have heard that while an entrepreneur has the ambition, he is not necessarily realistic about his business. He does not understand his business clearly. Do you have any ideas?

CHANDRAKANT SALUNKHE
— president, SME Chamber of India: Other than finances, an enterprise has to take care of several factors like management, marketing, exports strategy, branding, promotion, HR management, etc. Still, only 60% of the enterprises goes down because of entrepreneur's mistake. Other reasons could be the lack of infrastructural development or skilled labour. The main thing is that SMEs are not getting skilled labour from the market because all skilled labour is going to the big companies. Another problem is leading to the SME sector.

SHOBHANA: Do you have a solution?

SANJAY: We have experimented with strengthening the industry-academia linkage, where some 20 clusters have signed MoUs with engineering colleges. They get into some formal kind of agreements with either clusters, industry associations or chambers. I will cite the example of Agel Karanji in Kolhapur, where this college by the name of DKT Institute helped the enterprises not only in selecting machines but also in marketing, with successful results. To sustain such relationships, the industry will have to have a system where some of the returns are shared with the institutions. Institutions cannot be taken for granted, beyond a point it must be a commercial relationship also, that could be one sort of suggestion.

SHOBHANA: I think we had a really stimulating discussion, we have identified problems, many of which weren't debated before, and I hope all of you enjoyed the discussion. I would like to thank our media partners UTV Bloomberg, our sponsors SBI and also our knowledge partners. On behalf of *The Financial Express* I thank you all for coming here and sharing your time with us.