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Centre for Excellence
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Powering businesses. Creating jobs.

CAUGHT IN THE MIDDLE?

Survey report on challenges faced by

URBAN NANO ENTERPRISES IN PUNE



The Context

The deAsra Centre of Excellence in Nano Entrepreneurship conducted a survey of more than 500 service sector nano enterprises in Pune and the PCMC area.

➤ What is a Nano Enterprise?

- a distinct segment within the Micro, Small and Medium Enterprises (MSMEs) as firms with an annual turnover less than INR 1 crore, characterised by their **hyperlocal roots** and focus.^[1]
- In this study, nano enterprises are narrowly defined as **all enterprises, registered or unregistered, with an annual** turnover between Rs 10 lakhs to 1 Crore.

➤ Rationale: **Why this cohort?**

Stable enough to have survived but small enough to scale and grow to provide employment.

- **But often Overlooked**
- Lower-income, rural or semi-rural segment is served by self-help groups (SHG) (MFI).
- Upper segment of the micro enterprise sector is served by banks under the MSME label.
- **Middle Segment—Perceived as too urban, centrally located, and non-poor—Attract less policy focus-**

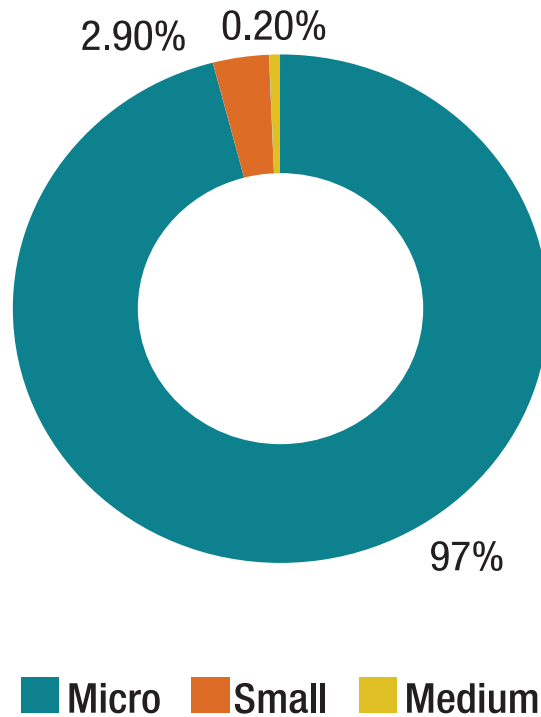
[1] <https://ifmrlead.org/wp-content/uploads/2023/01/Impact-of-Access-to-Finance-on-Nano-Enterprises.pdf>

The Context: Why Nano Enterprises?



Micro-business segment forms 97% of the MSME sector in India

Share of Micro Segment in MSME Employment in India (%)



Mid-tier micro-entrepreneurs is a large segment.

According to NSSO 73rd round, nano enterprises form more than 60% of micro enterprises.

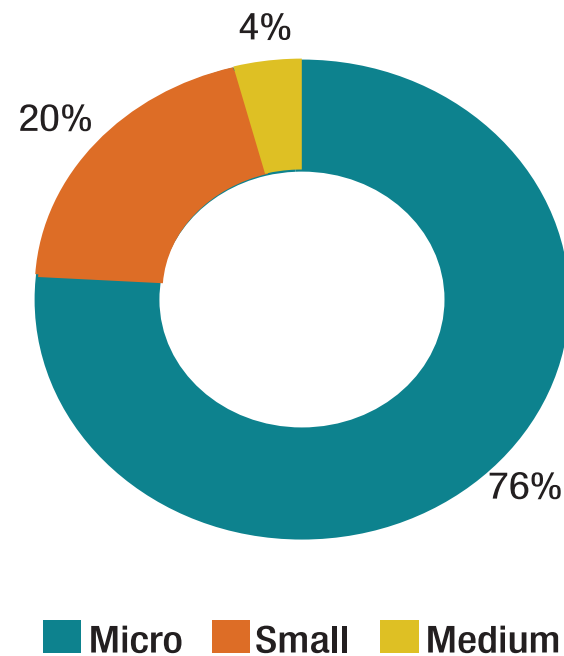
But are neglected due to one-size fits all treatment for the micro segment.

The Context:

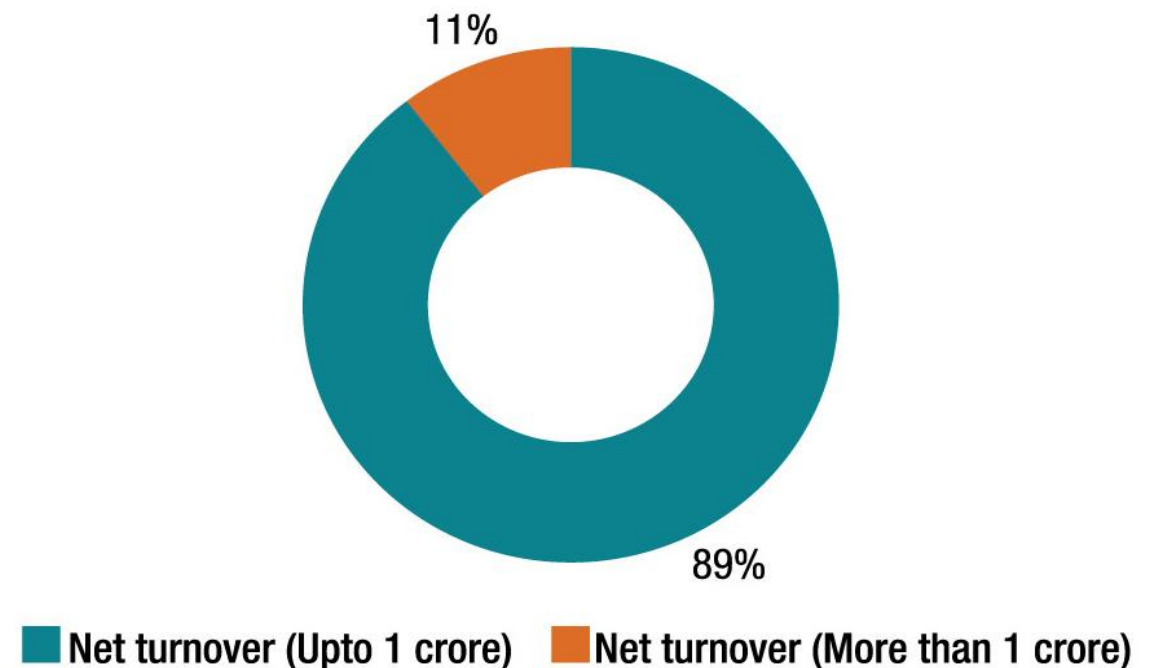
Maharashtra-Rank 1 in Udyam Registration

76% of the MSME sector employment in Maharashtra out of which 89% is generated by nano business less than 1 Crore turnover

Employment Share of Micro Segment in MSME Sector in Maharashtra (%)



Majority micro businesses have less than 1 Crore turnover



The Context: Why Pune?



Pune hosts the highest number of Udyam-registered micro businesses in India

Good accessibility to banks, government schemes, digital facilities, and institutional architecture is well established.

Given the availability of basic infrastructural facilities in Pune,

our study aimed at identifying the demand-side barriers to scaling nano enterprises

Importance of Nano Businesses in Pune District	Number	% of MSME Sector
Total Number of MSMEs in Pune	1,36,531	100%
Total Number of Micro Businesses	1,29,197	95%
Total Number of Nano Businesses in Pune (Less than 1 Crore Annual Turnover)	1,26,613	93%

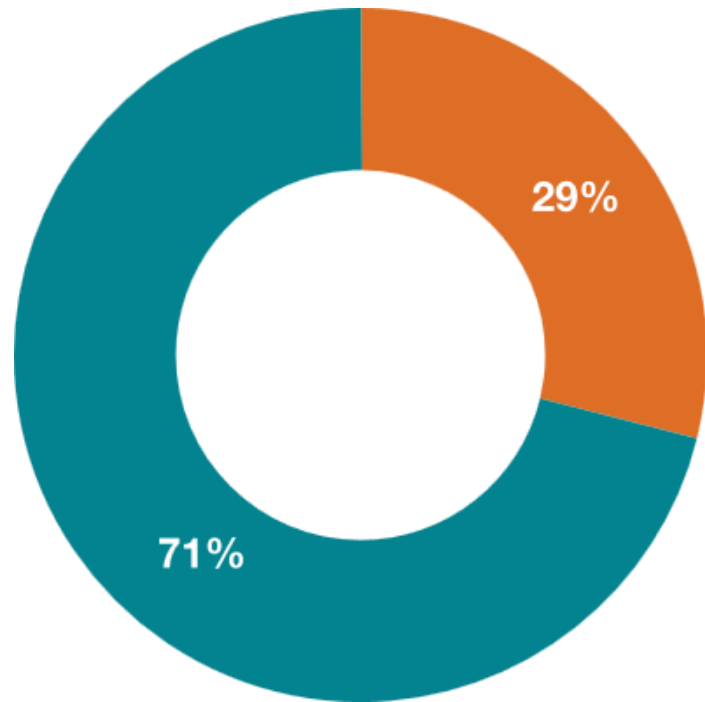
Source: Annual Report 2022-23, Ministry of MSMEs

Why Service Sector?



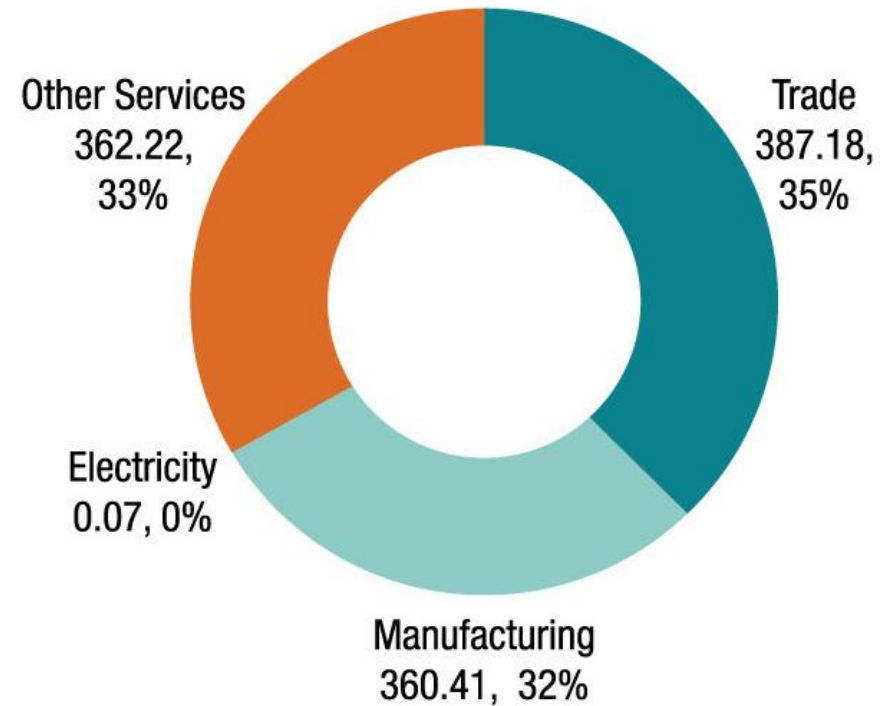
Within Micro segment 71% are in Service Sector in Maharashtra

Share of Service Sector in Micro Businesses Segment (Maharashtra)



■ Service Sector ■ Manufacturing Sector

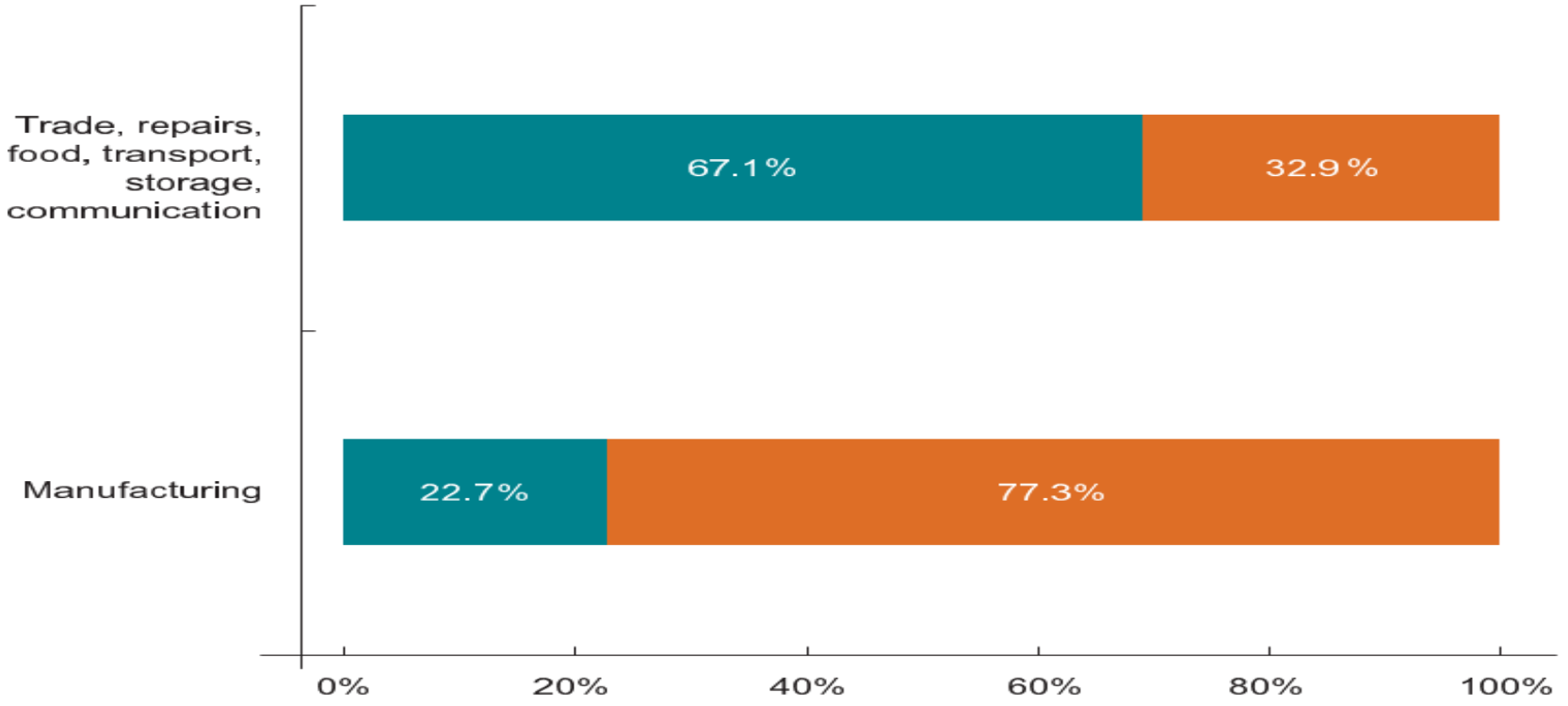
Share of Service Sector in Employment of MSME Segment (Maharashtra) is 68%



■ Trade ■ Manufacturing ■ Electricity ■ Other Services

Need for support—Majority service sector is informal & unorganized

Percentage of Informal Sector Vs. Formal Sector Micro Businesses (Manufacturing vs. Selected Service Sector Segments)



Organised / Formal Unorganised / Informal

Methodology



This survey covered both formal and informal nano enterprises.



Due to a paucity of primary and secondary data on nano enterprises in the public domain, the data for this survey was collected through **in-depth interviews with business owners of 504 small micro enterprises with the annual turnover of Rs 10 lakhs to 1 crore.**



The service sector business segments like food, restaurants, beauty, auto repairs, trade, etc. food, restaurants, beauty, auto repairs, trade were covered in the survey.



Questions guiding the survey were related to their business model, relationship with buyers, experience with technology, coping mechanisms and mitigation strategies, marketing efforts, the need for new technologies, funding, digitization, compliance, and other issues they felt to be the most pressing.



The survey, conducted over two months in 2022 from mid-July to the end of September, covered Kalewadi, Chinchwad, Pimpri, Bhosari, Nigadi, Baner, Balewadi, and Pimple Nilakh under PCMC, and Bund Garden Road, Bhandarkar Road, Fergusson College Road, Nana Peth, Sadashiv Peth, Hadapsar, Aundh, Katraj, and Susgaon under PMC.

Objectives



- Identify the real issues, challenges, and pain points faced by nano entrepreneurs in the urban service sector
- Suggest interventions and policy recommendations for effective operational solutions to these problems
- Document and support this unrecognized yet crucial section of entrepreneurship by generating discussions on relevant platforms

Profile of the Respondents



Business profile

80% have annual turnover between 10 Lakh to 25 Lakh

Food and Retail sector forms 52% of the respondents

89% Proprietary Firms

92% of respondents are 10th pass or more, while 58.5% are graduates, post-graduates, and diploma holders



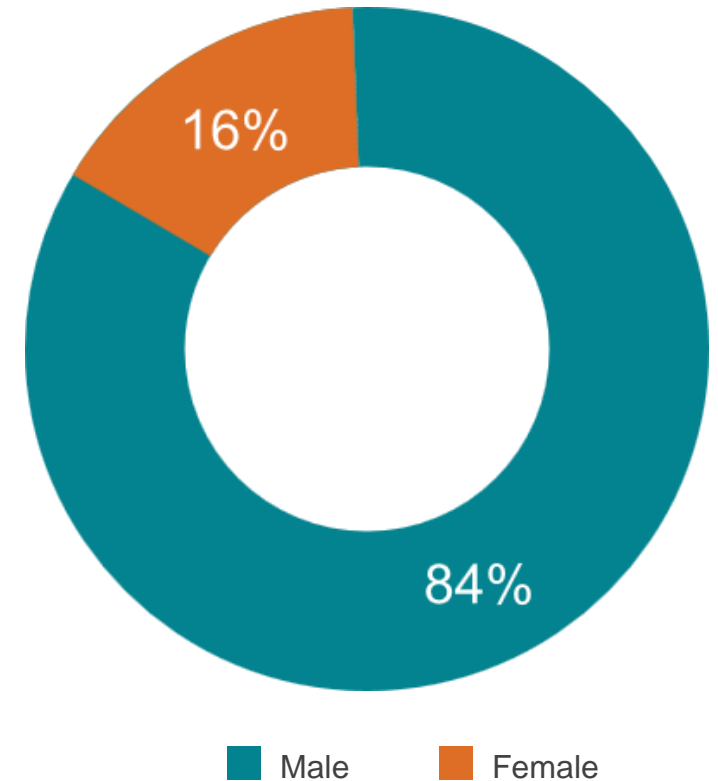
Demographic profile

83% of total women respondents have business turnover between 10 Lakh to 25 Lakh

Most women respondents in beauty business, food and fashion

Only 4% women nano entrepreneurs in finance and technology

Gender-wise profile of the respondents is similar to the average gender composition of micro businesses in India.



Findings

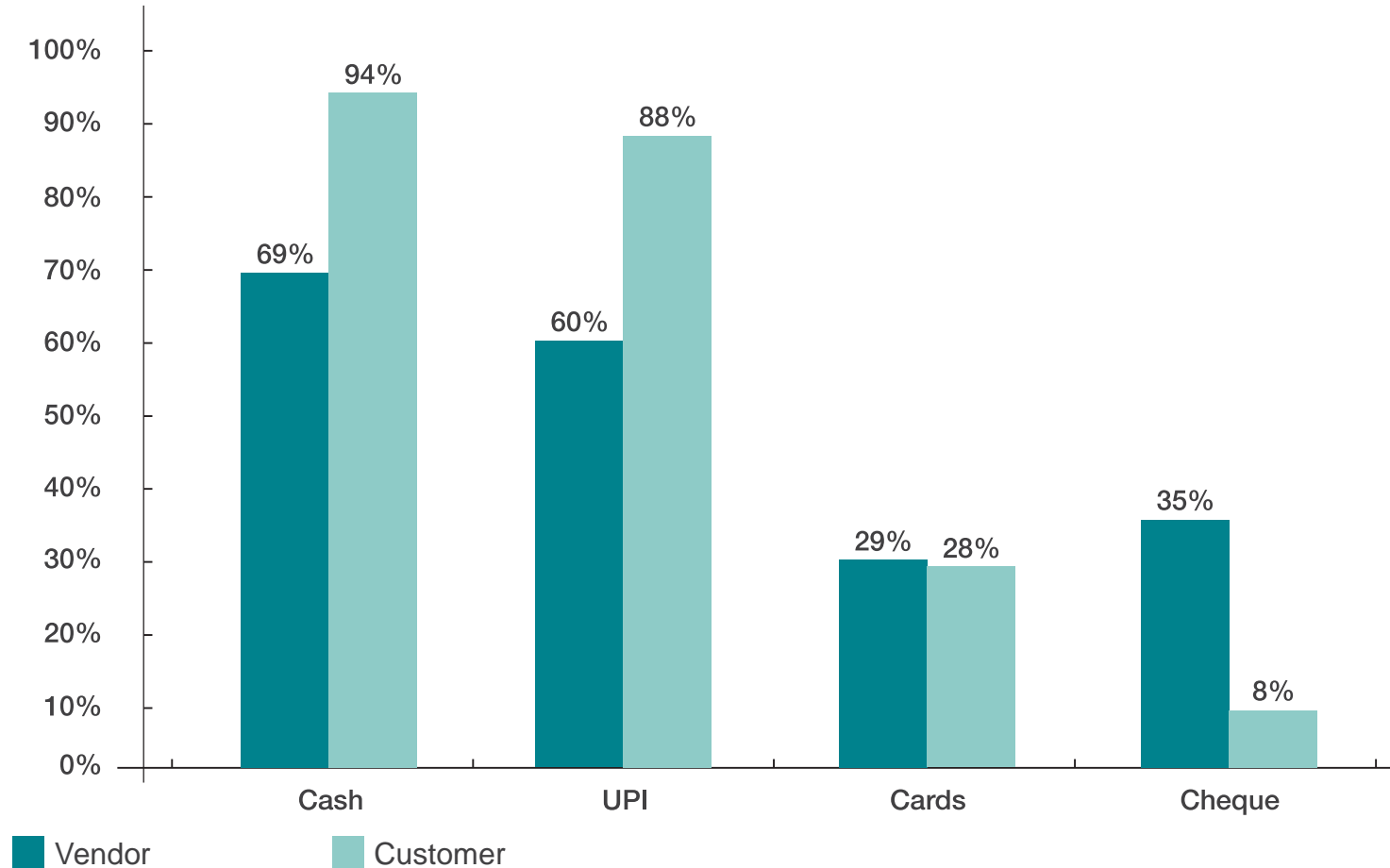
A horizontal purple bar spans the width of the page. On the right side, two overlapping gold circles are partially visible, extending from the edge of the page into the white background.

Digitalization



While use of cash still prevails, UPI is gaining the ground

Mode of Payment (% of Total Respondents)



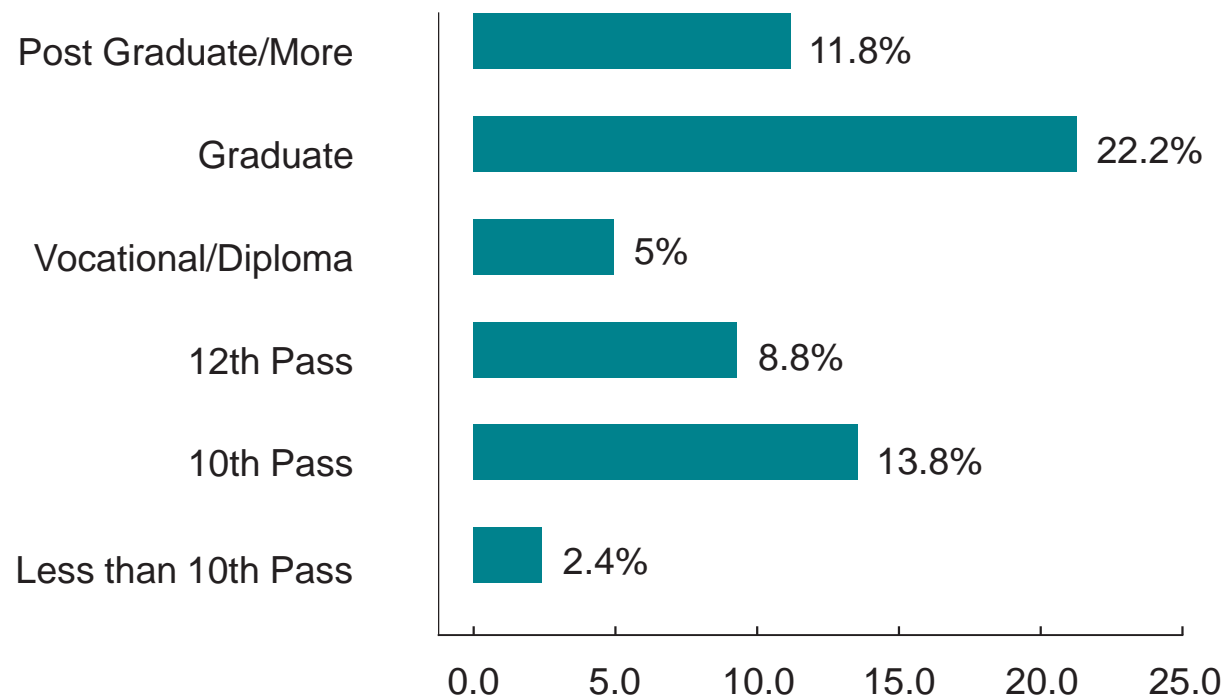
- Interestingly, 94% of transactions with customers and 69% with vendors are still in cash
- In case of B2B transactions, bank cheques and transfer are popular as reliable and feasible payment methods.

Technology Adoption (knowledge of latest relevant methods/practices)



No association between education and technological know-how

Do **NOT** have technological know-how (% of Total Respondents)



- 11.80% of post-graduate and 22.2% of graduate respondents reported a lack of expertise in using new technology.
- Based on the Chi-square test, it was found that education was not a significant factor in determining technological know-how.
- Having formal educational qualifications does not necessarily ensure better adoption of technology.

Technology Adoption

(knowledge of latest relevant methods/practices)

Willing to Adopt but Lack Relevant Know-How



Qualitative Responses: Why to Use Technology?

Cost is not Perceived as Barrier for Technology Adoption

Perceived Barriers:

- Lack of information on how to adopt
- Lack of a well-planned digital transformation strategy
- Lack of basic IT skills

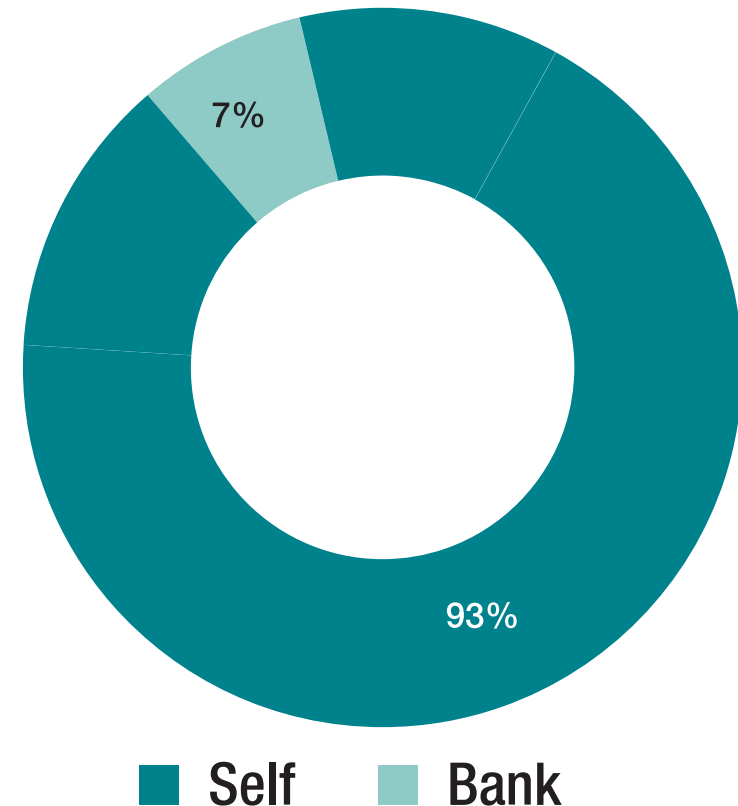
Disturbing Reality of Access to Finance



Despite high presence of Bank Branches, Dependency on Self-Finance Prevails

- 92.5% of respondents reported self-funding, borrowing from friends and family, as the primary source of financing.
- Self-funding including informal finance are prevalent in all business segments regardless of gender, education, or age.

Source of Funding (% of Total Respondents)



Disturbing Reality of Access to Finance



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”

Neeta (pseudonym) is a nano entrepreneur who runs a food store in Deccan Gymkhana, a busy business area in Pune. Her chakalis and chiwada have high demand among office workers, college students, and working women. Recently, Neeta applied for a loan to expand her business, but due to her rented premises, lack of credit history, inadequate accounting, and absence of collateral, getting a loan became a challenge for her. As a result, she is now planning to borrow from informal sources, despite banks and micro-lending NBFCs being readily available in the city, along with special schemes for women-owned enterprises. When asked why she chose informal sources, she mentioned the ease of obtaining funds and the flexibility of repayment terms.

"Agar jaldi paisa mil raha hai to itane zanzat me kyu padana?"

("If I am getting money immediately, why go to so much trouble?")

Disturbing Reality of Access to Finance



Why do Pune's nano entrepreneurs avoid bank loans?



Word Cloud Visualization of Sentiment Analysis

Qualitative Answers revealed that:

- **Insufficient collateral** hindered loan approval
- **Delays in the loan application process** made it frustratingly lengthy, uncertain and perceived by respondents as a waste of time
- **Respondents preferred informal sources of credit (community, friends, family)** due to lack of necessary documentation or a desire to avoid submitting it
- Perception that formal sources mean high **interest rates** due to strict terms, indicating a loophole in the system that requires policy attention

Marketing: Moving on with the Digital Era

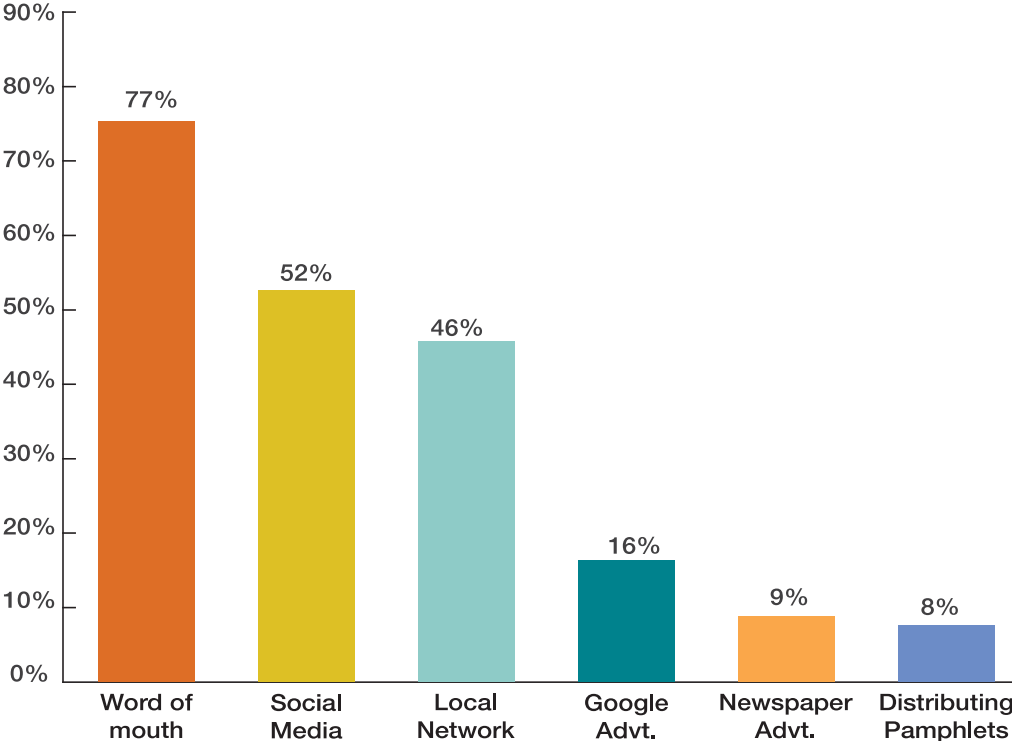


Well-versed with Social Media

77% Believe in Word of Mouth

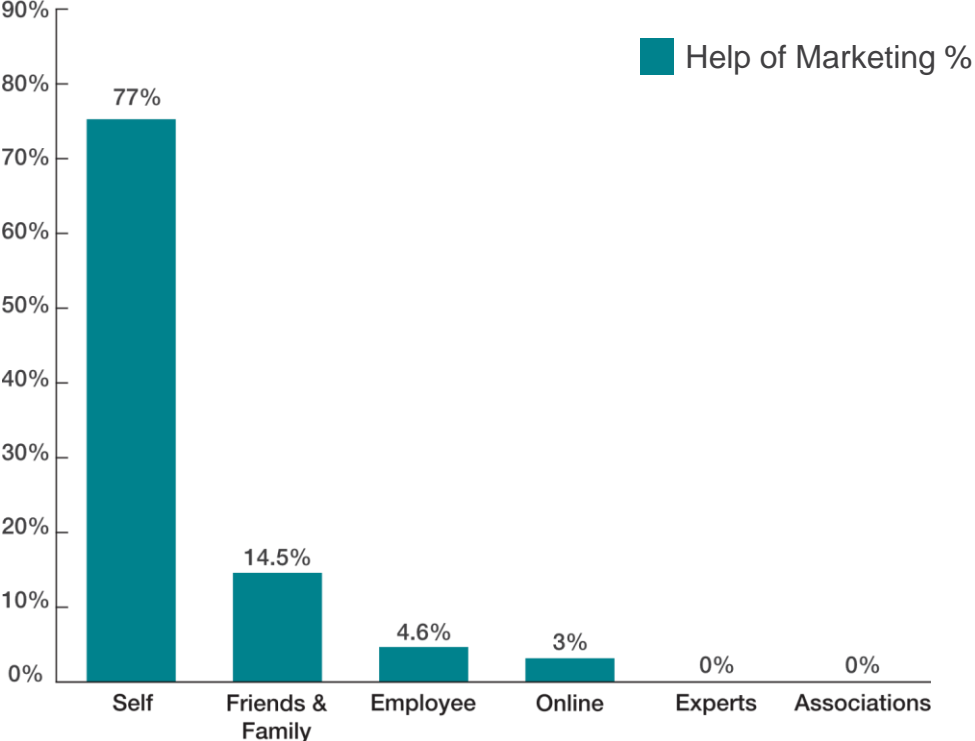
52% respondents reported using social media platforms such as Instagram, as a marketing strategy-appoint freelancers to work as food and fashion bloggers to reach wider audience

Preferred Modes of Marketing (% of Total Respondents)



Who Helps in Marketing?

Top Source of Marketing Assistance (% of Total Respondents)



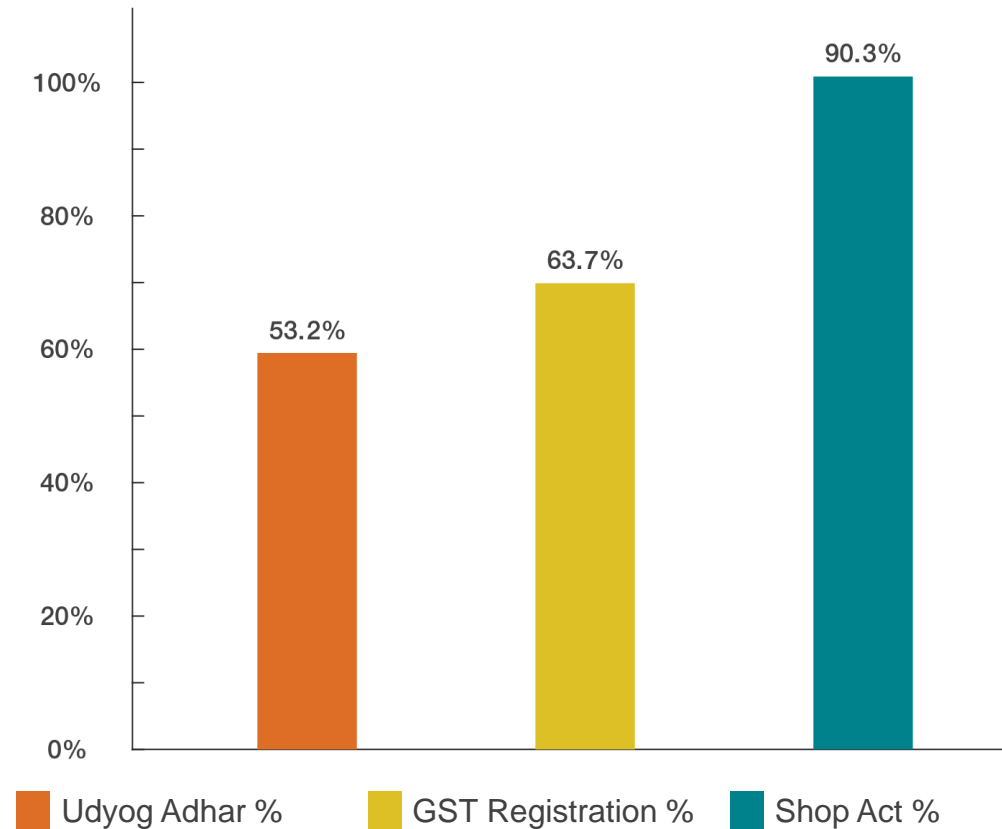
Government and the Nano entrepreneur: Give & Take



Taxes and Compliance

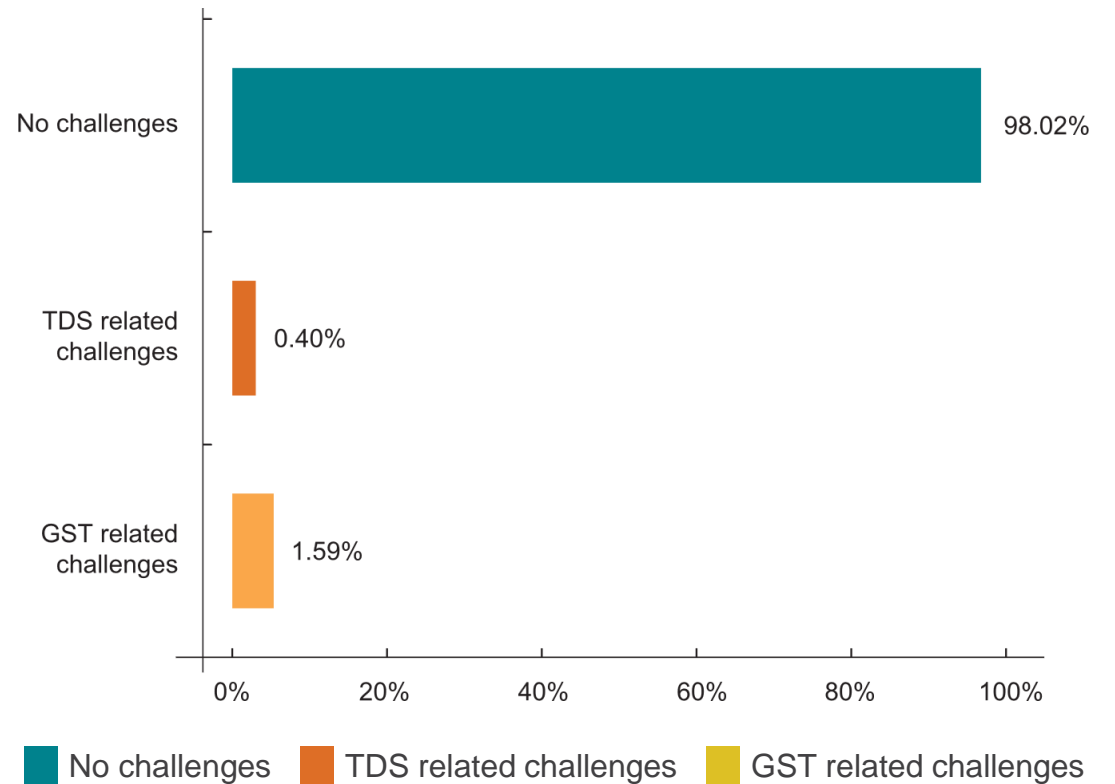
Tendency to avoid voluntary formalization

Percentage of Compliances and Documentation (%)



98% found GST to be easier and less cumbersome as compared to the earlier system

Any challenges while paying taxes?(%)

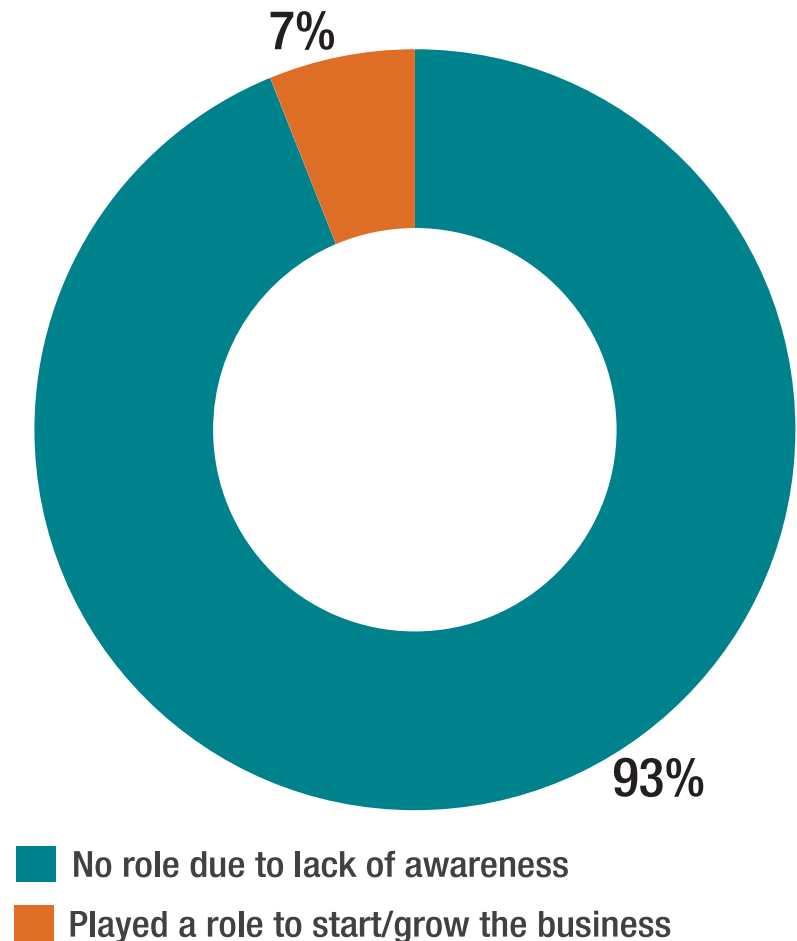


Government and the Nano entrepreneur: Give & Take



Government Schemes and Subsidies

Do you think government schemes play in the growth of your business? (% of total respondents)



Apathy Regarding Government Schemes

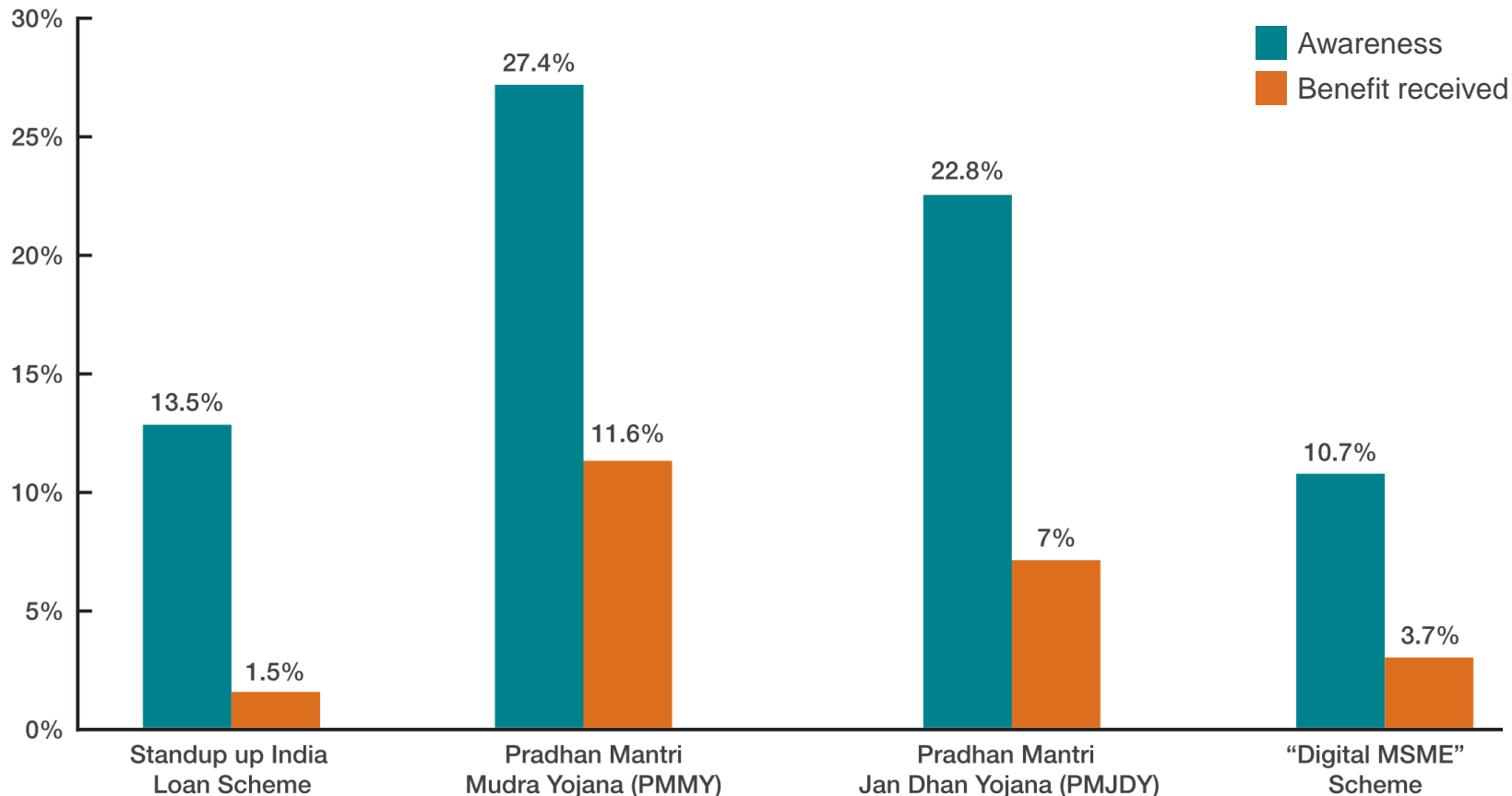
- Only 7% of entrepreneurs claimed that government schemes played a role in starting or growing their businesses, mainly through the help they received from a government scheme or training program
- 93% of businesses said that the government schemes had no role to play in growing their businesses
- As shown on the next slide, when we probed further it was evident that they were not aware of the details of how to apply and did not know whom to contact if they wanted to apply for the schemes.

Government and the Nano entrepreneur: Give & Take



Alarming Ignorance & Disinterest in Government Initiatives

Awareness and Benefits Received from Government Schemes (% of Total Respondents)



1. Reasons for apathy— Qualitative insights:

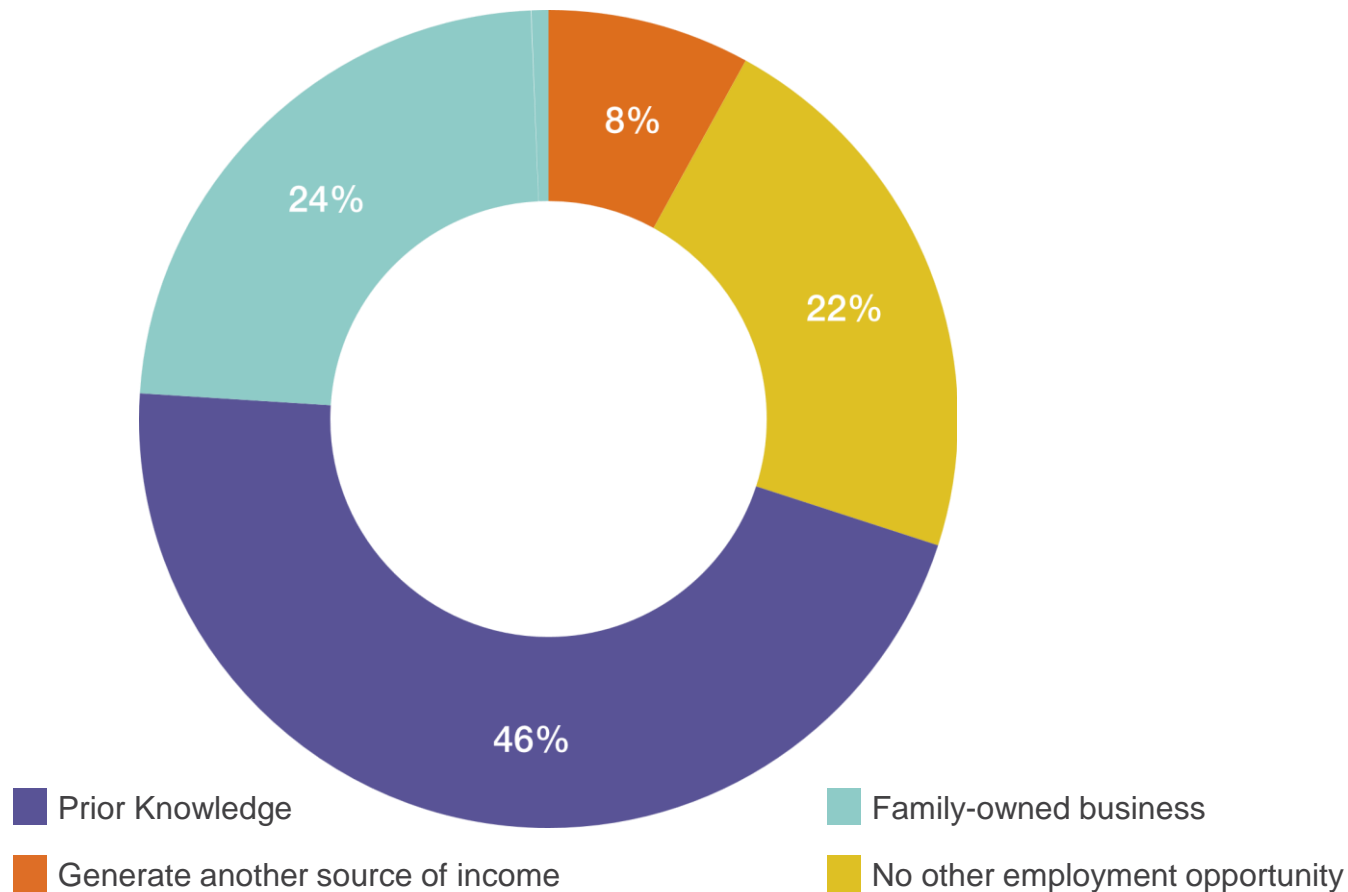
- Disconnect between the targeted beneficiaries and the implementing agencies
- The apathy is rooted in the distrust and lack of confidence in the mechanism
- Do not register for programs as are unsure of receiving the benefits without being embroiled in endless bureaucracy
- Revealing information and cumbersome documentation as the deterrent to receive benefits
- Community support more comfortable than the hassles of getting embroiled in red-tapism

Entrepreneurial Aspiration: Unlocking Success



What motivates the entrepreneur to start their business?

Reasons for Getting into Business (% of Total Respondents)



- **Prior knowledge and skills:** 46% of the total respondents
- **Out of the total respondents in finance & technology 62% had prior knowledge while in beauty business segment 30% had prior knowledge**
- **Family-owned business:** 24% which is most common in clothing-related businesses
- **22% of respondents reported starting their business due to the loss of jobs, lack of skills, low educational attainment, and family pressure**

Entrepreneurial Aspiration: Unlocking Success



Aspiration to grow business: Qualitative insights



How do they want to grow?

ENTREPRENEURIAL ASPIRATIONS



96%

Want to increase their customer base. The three common ways are by rendering quality service, digital marketing and mouth publicity



53%

Believed that they want to establish their own brand by having online presence, improving packaging and give better quality service



46%

Want to expand business infrastructure to increase business



33%

Claimed that they do not take any marketing effort to expand their customer base

Entrepreneurial Aspiration: Unlocking Success



Drivers of Entrepreneurial Aspiration: Logit Regression

1. **Women entrepreneurs** showed higher aspiration to grow
2. **No statistically significant association between education and entrepreneurial aspiration while age shows negative association.** Younger respondents show greater aspiration to grow their business.
3. **Newer business** has higher aspiration to grow
4. **Profits** and aspiration to grow show a positive association
5. **Having prior expertise** in the field shows positive association with entrepreneurial aspiration
6. **Implications:**
 - Capacity-building efforts designed specifically for women, young entrepreneurs, and those demonstrating serious business practices such as strategic planning,
 - Professional training specific to the business sector may be more effective for supporting the scaling of companies than emphasizing traditional degrees

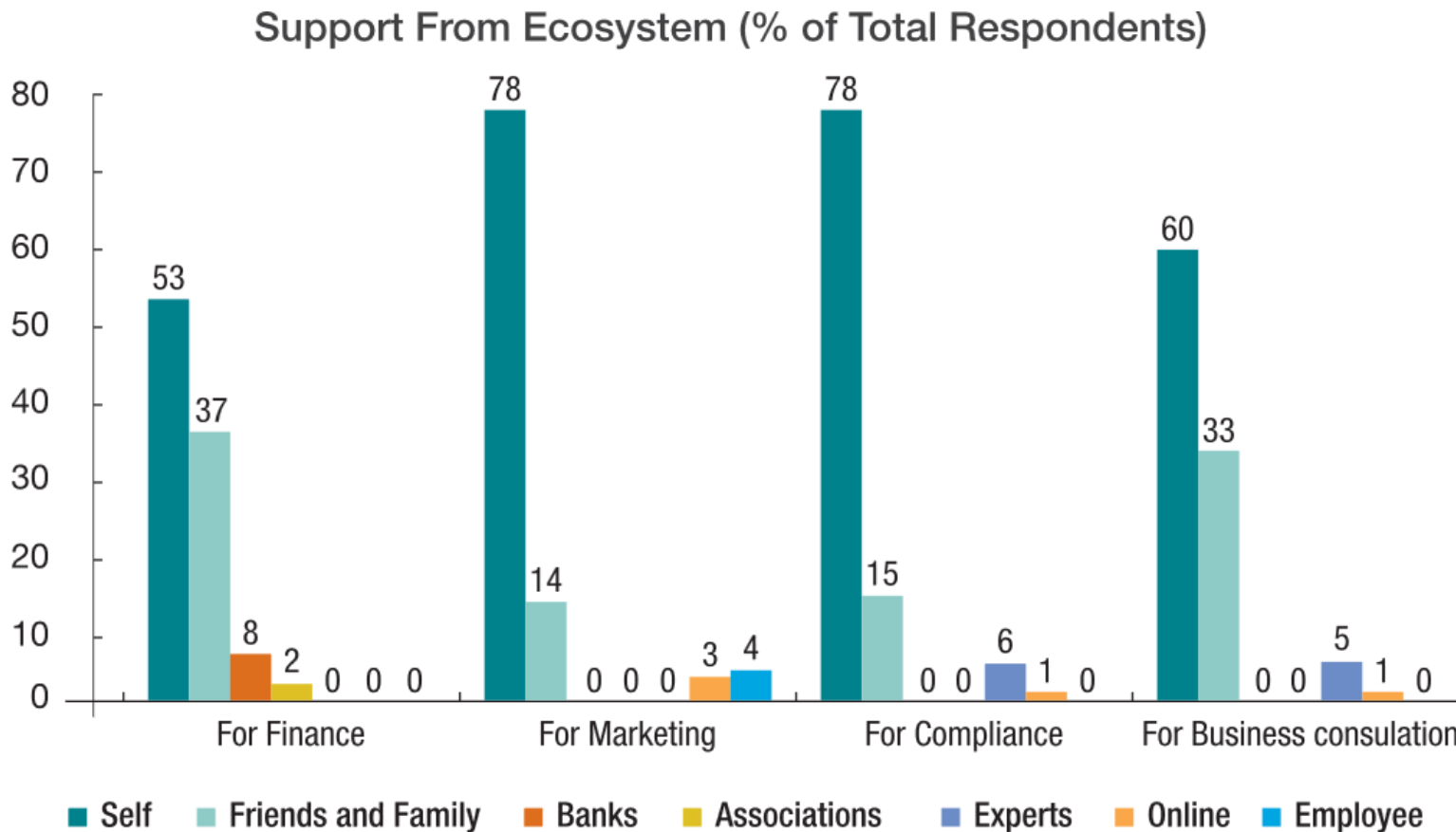


Nano entrepreneurs in Business Management Seminar for Beauty Business

Entrepreneurial Ecosystem: Need for better connect



Pandemic Shock—A litmus test of the ecosystem in supporting the nano entrepreneur
It revealed that the nano entrepreneurs are lonely. They are neither seeking nor getting help.



- **53%** relied on savings, **37%** of the respondents relied on friends and family for finance
- **60%** did not seek any help for business advice
- **78%** of the respondents relied on their own marketing efforts
- **78%** managed compliance work on their own

Entrepreneurial Ecosystem: Where the Nano Meets Macro

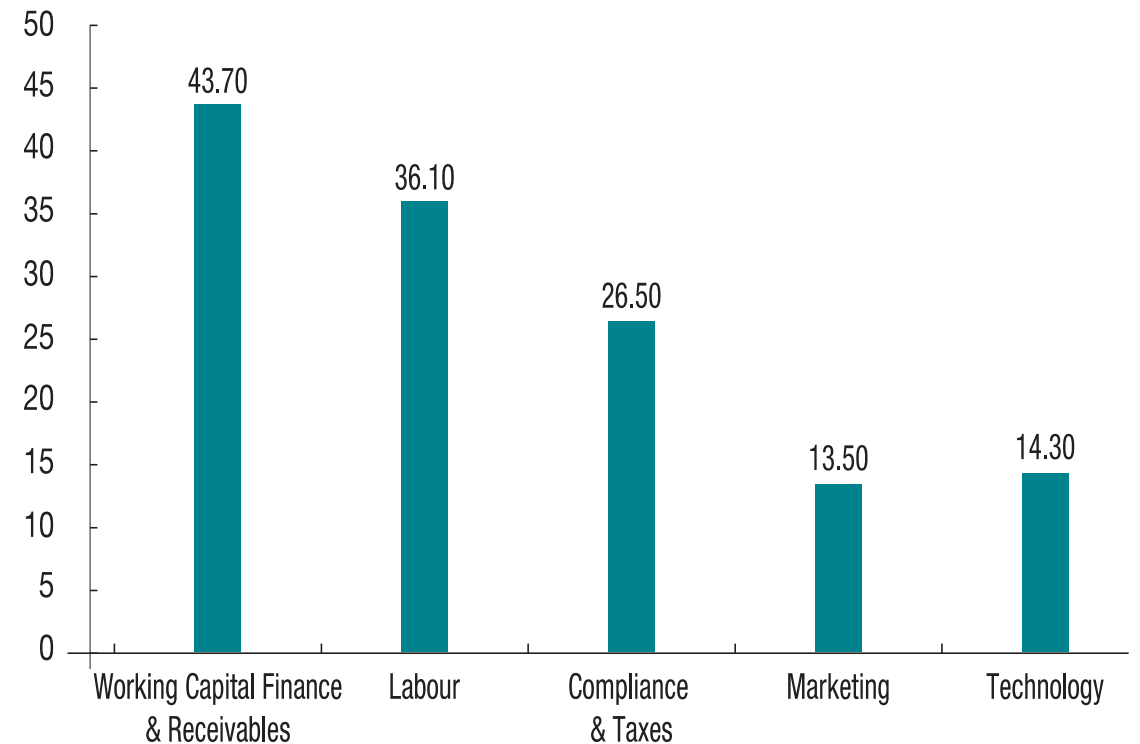


Top Five Challenges to Growth:

1. **Delayed payments, working capital management**, and disrupted supply chains leading to liquidity problems
2. **Difficulty in hiring skilled labourers**
3. **Compliance-related issues**
4. **Marketing issues** due to fragmented sector
5. **Technology adoption** due to lack of training in access and use of new technology

They faced five major challenges hindering their growth


Top Five Challenges for Business (% of total respondents)



Key Findings:

Need for Hands-on Training in Industry-specific Technology




Theme	Gaps	Action Points
 Digitalization and technological adoption	<ul style="list-style-type: none">● Need to leverage digitalization for marketing and operational efficiency: digitalization does not go beyond use of UPI-based payments● degree and diploma holders admitted that they lack knowledge about new technology● Out of those who lacked technological know-how, 71% were women.● Lack of a well-planned digital transformation strategy	<ul style="list-style-type: none">● Industry-specific technology training & hand-holding by private-sector under CSR: While the current CSR regulations prioritize technology provision and training for youth and start-ups, they have proven to be insufficient for established and mature nano businesses. It is crucial to introduce effective initiatives that cater to the unique requirements of existing businesses within the nano business segment.● Tantra Mitra Fellowship for Youth: Introducing the "Tantra Mitra fellowship program," which will provide one-year fellowships to skilled youth to train and mentor nano business owners in specific technological skills and strategies. For example, a fellowship holder with an MBA or MSc in Agriculture degree can provide training and guidance to nano businesses in the food processing industry on forming technology adoption strategies and integrating them into their business processes.

Key Findings:

Bank loans perceived as complex and time consuming



Theme	Gaps	Action Points
 Sources of funding	<ul style="list-style-type: none">● 92.5% respondents depend on self-funding and informal financing● Hesitation to apply for bank loans due to the perceived complexity and delays in the loan application procedures	<ul style="list-style-type: none">● Introducing Bank Sakhi and Bank Mitra for urban micro businesses to facilitate use of special lending schemes by nano businesses● Digital Ledger Applications: The utilization of digital ledger applications in the micro-lending interface of fintech banks is an underexplored area in Indian micro-lending policy. Encouraging the adoption of digital ledger applications can be the initial step towards moving in this direction.● Introducing Priority Sector Requirement for Fintech Lenders

Key Findings:

Need for Support in Marketing for Expanding Customer Base




Theme	Gaps	Action Points
 Marketing efforts and business expansion	<ul style="list-style-type: none">● 78% rely on self for marketing● No backing of association or marketing expert	<ul style="list-style-type: none">● Establishing disruptive platforms through public-private partnership: private sector digital Platforms play a role to aggregate the services of self-employed professionals like beauticians, electricians, plumbers, etc. Some of these private platforms are unregulated and exploitative. This initiative will leverage the power of digitalization beyond use of UPI by providing market linkage, bringing informal sector service providers into the formal ecosystem, providing support for upgrading, and professionalism● Online platforms for matching and connecting Indian SMEs to companies across the world

Key Findings:


Need for Connect between Government and the Nano entrepreneur



Theme	Gaps	Action Points
 Formalization, taxes, and compliance	<ul style="list-style-type: none">● Indifference for voluntary formalization e.g. Udyam Registration● No role of Government schemes● Disconnect between the targeted beneficiaries and the implementing agencies	<ul style="list-style-type: none">● Introduce solid fringe benefits for Udyam Registration:<ul style="list-style-type: none">(a) Free capacity building and digital training(b) Partnering or impaneling government with associations like Business Network International (BNI), Rotary Club, etc. to subsidize their membership for Udyam registered entrepreneurs● Government-recognized grading and accreditation for service industries● Monitoring and evaluation of Government schemes by third-party agencies (e.g. PMMY)

Key Findings




Theme	Gaps	Action Points
 Entrepreneurial aspiration	<ul style="list-style-type: none">● Positive association between women owned enterprises and entrepreneurial aspiration but inadequate capacity-building efforts for existing businesses● No linkage between formal education and entrepreneurial aspiration shows need for sector-specific professional training	<ul style="list-style-type: none">● Forming Business Affinity Groups (BAGs): To reduce the disconnect between the nano entrepreneurs and the system. Each Business Affinity Group can be attached to a larger association at district and state levels to work on various issues faced by nano entrepreneurs.● Establishing business turnaround support centers and initiating the process of scaling for SMEs● Enabling public-private partnerships for capacity building for women, and young entrepreneurs

Key Findings:



Disconnect between ecosystem and nano businesses

Theme	Gaps	Key Findings
 Ecosystem	<ul style="list-style-type: none">● Disconnect between ecosystem and nano businesses● Most rely on friends and family or self-support for finance, consultation, compliance, and marketing● Delayed payments, working capital management and disrupted supply chains	<ul style="list-style-type: none">● Mandatory service contribution for IT postgraduates and CAs and ICWAs for hand-holding for one year in IT skills and tax, compliance and accounting, respectively.● Encourage collective federations of Nano entrepreneurs to enhance collective power of nano entrepreneurs to tackle the problem of delayed receivables

NEXT STEPS



For Ecosystem Enablers: Action Points for Regulators, Policy makers, Large Industry, Banks & Fintech and NGOs.

Large Industry

- Priority engagement of nano-enterprises for various service needs, e.g. Canteens, stationery supplies, cleaning/sanitary services, repairs, etc.
- Timely payments to nano business suppliers

NGOs/CSR

- Forming Business Affinity Groups (BAGs)
- Encouraging the formation of federations of nano entrepreneurs.
- Facilitate forming cluster specific conglomerates of micro businesses to increase their collective power

Regulators, Policy makers

- Establishing disruptive platforms through public-private partnership
- Priority Sector Requirement for fintech lenders
- Encouraging public-private partnership with fintech and AI for consolidating data and removing data gaps
- Implementing a mandatory one-year service by for IT postgraduates, CA s and ICWAs
- Government-recognized grading and accreditation for service industries
- Establishing business turnaround support centers
- Online platforms for matching and connecting Indian SMEs to companies across the world



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Key takeaways for enablers:

- Removing the disconnect
- Changing the narrative and rebranding the nano enterprise sector



Our next projects



- Reconsider the current official MSME classification to offer a new definition of the nano enterprise.
- Conducting a systematic literature review on nano enterprises.
- Analyze receivables and the working capital management problem.
- Conduct cluster-specific studies to explore the potential of action points like Business Turnaround Support Centers and online platforms for export connect with the global market.
- Project on green microbusinesses for sustainability and employment generation(CSD, at GIPE)