



Confederation of
Indian Industry

POLICYwatch

April 2014, Volume 3, Issue 1

Focus: Boosting MSME Manufacturing and Exports

The Government's increasing accent on growth in manufacturing and the fears over India's growing Current Account Deficit (CAD) have impelled concerted steps by the Government and industry to boost domestic Micro, Small and Medium Enterprises (MSME) manufacturing, and exports.

For decades, the MSME sector has accounted for over 40 per cent of the country's industrial output, exports and employment. But in recent years, this sector's share of manufacturing output and exports has been declining. Given that 90 per cent of the country's manufacturing enterprises belong to the MSME sector, any fundamental weakness in this sector is bound to have a negative impact on India's manufacturing and export growth prospects, and in turn, GDP growth prospects.

To avert a major crisis in the making, the Government constituted two Inter-Ministerial Committees (IMCs) last year to address the two big challenges, one on Accelerating Manufacturing in MSME, set up under the chairmanship of Mr Madhav Lal, Secretary, Ministry of Micro, Small and Medium Enterprises, Government of India and the other for Boosting Exports from the MSME sector, constituted under Mr R S Gujral, then Finance Secretary, Government of India. CII worked closely with both these IMCs and ensured that the feedback of the MSME membership was taken up to these Committees.

The key recommendations of the Madhav

Lal Committee include unlocking the over 30,000 vacant plots in established industrial estates for MSME manufacturing activities; encouraging State Governments to identify mid-sized land parcels close to the urban areas which may be developed with public funding and providing first generation manufacturing startups, in particular, with well-developed manufacturing facilities on lease.

Among other key recommendations to facilitate the financing of MSME enterprises, the Committee has called for increasing the tenure of SIDBI's India Opportunities Venture Fund and leveraging the India Inclusive Innovation Fund for providing risk capital to innovative ventures that address the needs of India's low income communities. Further, the Committee has recommended policy and fiscal incentives to raise the level of angel funding and setting up of a committee to facilitate angel funding to MSMEs; formal recognition of funds from friends and family which should be taxed at par with investment in the listed companies (returns are tax free) apart from tapping External Commercial Borrowings (ECBs). It has also advocated an open hub system to bring about convergence of information and R&D; upscaling programmes for incubating and the need to promote Technology Business Incubators.

Further, the Committee has suggested leveraging the technologies developed by the Council for Scientific & Industrial Research bodies; scaling up budgetary support to Technological Upgradation Fund Scheme operated by the Ministry

of Textiles, and Credit Linked Capital Subsidy Scheme; Government support for mass manufacturing of low technology import substitute products and creation of a playing field for such products; and upgradation of all MSME products to BIS standards and then raising the standards of BIS to those of US and EU levels.

The key recommendations by the R S Gujral Committee include suggested fiscal and non-fiscal incentives including enhanced interest subsidy of 4 per cent; providing an additional 2 per cent interest subvention to exporters who repay on a timely basis; increasing export credit limit to MSME units by 20 per cent automatically and, alternatively, setting credit limits in US dollars wherever possible; banks to aim to earmark 40 per cent of export credit by banks for MSMEs and the buyer's credit limit under automatic route to be increased from \$20 million to \$50 million; doubling the budgetary provisions for Market Development Assistance (MDA) / Market Access Initiative (MAI) schemes for MSMEs from the current level of Rs 50 crore / Rs 180 crore to Rs 100 crore / Rs 300 crore respectively.

CII is working closely with the two IMCs towards the implementation of the various recommendations in consultation with the relevant Ministries in the Government of India to adopt a coordinated approach for accelerating manufacturing and export growth. ■

Chandrajit Banerjee
Director General
Confederation of Indian Industry

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MSME are Tomorrow's Powerhouse

The MSME sector spans all sectors of the industry and is therefore very important for economic growth and job creation.

In order to understand the present state of affairs par rapport MSME development, the OECD index for enablers of the SME segment broadly classifies all aspects under ten heads ranging from social factors such as entrepreneurial learning and women's entrepreneurship to financial and regulatory factors, from innovation to sustainability to state support and global benchmarking. The Economic Survey of the Indian Government vividly talks about similar issues under five heads, viz. Regulatory Environment, Funding, Hard Infrastructure, Soft Infrastructure and Labour.

The present global economic scenario has been volatile and unpredictable. However, two major breakthroughs in India are bound to change the MSME business landscape in the coming days: FDI in Multi Brand Retailing and the recent developments at the 9th WTO Ministerial. In addition to that, there are a plethora of possibilities with the revised defence offset policies that have come into existence since 2012. It is very important to note that leveraging these opportunities is subject to several factors including effective deployment of the consequent Government policies and the capability of Indian MSME to match global standards.

Keeping in view the challenges, the Indian Government has taken up several measures to boost MSME capabilities. In the post-liberalisation era, the socio-economic indicators have shown the importance of manufacturing for overall industrial development. In India, the manufacturing sector contributes 16 per cent to the Gross Domestic Product (GDP). The Government's National Manufacturing Policy is one of the milestone programmes that aims to attain six quantitative and qualitative objectives such as enabling manufacturing to contribute at least 25 per cent of the National GDP and creating 100 million additional jobs by 2022. This ambitious project concentrates



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on increasing domestic value addition and technological-depth in manufacturing with inclusive approach towards rural migrants and urban poor.

Similarly, the Ministry of Micro Small & Medium Enterprises (MoMSME) has set up Tool Rooms and Training Centres (TRTC) across India for enhancing technological capabilities and technology absorption. Several of these have been set up through collaborations with German and Danish agencies and the United Nations Industrial Development Organization (UNIDO). These technology centres have been providing technical and vocational training to approximately 100,000 trainees annually. The impact of this programme prompted the Planning Commission to recommend setting up of 100 such facilities during the 12th Five Year Plan period. The World Bank Group has come in to help set up this unique programme.

The National Manufacturing Competitive Programme is another important initiative of the MoMSME. It aims at increasing productivity, upgrading technology, conserving energy in the manufacturing process as well as expanding domestic and global market share of Indian MSME products.

Interestingly, India must take advantage of its geo-economic diversity by setting up regional industry clusters. The National Innovation Council has already designated Faridabad in Haryana as an auto component cluster, Krishnagiri as a food processing

cluster and Ahmadabad as a Life Sciences cluster.

CII's SME Vision

CII has formulated its vision and plan synchronised with market trends and demands as well as a futuristic vision. CII has a direct SME membership of over 5200, and indirect membership of 1,20,000 through Affiliated Industry Associations which primarily looks into SMEs. This huge number enables CII to understand the complexity and dynamics of the SME scenario.

With the help of its Centres of Excellence (CoEs) CII has reached out to a substantial number of SME and helped them transform their business processes. The Visionary Small & Medium Enterprises programme piloted by CII-Avantha Centre is one such successful programme.

CII has instituted several successful cluster formation programmes under different schemes and has now initiated the Golden Top Companies (GTC) 100 programme which aims to provide seamless end-to-end solutions for the entire business processes for SME. The objective of this programme is to help companies to graduate to the next level – small to medium and medium to large. The scope of this programme is large, therefore, CII is now formulating an apt design to address the entire business processes under its purview.

Another milestone programme for its SME membership is the setting up of a 'Finance Facilitation Centre for SMEs' in order to provide easy and guided access to finance and credit. This Centre will operate as a one-stop-shop, aggregating financing options from various major financial institutions. This Centre will match SME financing demands with Banks and Financial Institutions and also project large finance requirements across financial institutions. This Centre will also tie up with technical consultancy organisations and credit rating agencies for offering value-added advisory services. SME members of CII can easily approach



this Centre through an online interface for their credit requirement and the Centre will facilitate the SME with documentation and preparation of bankable project proposals. On the other hand, the exact KYCs will help Banks / FIs to render quick delivery.

At this point, we must understand that in a globally connected world, no country or industry can grow in isolation. Innovation and technology have been gaining importance. Not only do we have to look forward to meaningful transfer of technology, but we also need to help our workforce to develop technological capability to absorb them. Hence, under CII tutelage the Global Innovation and Technology Alliance has been created with active participation of the Department of Science and Technology. This agency helps Indian SME to undertake pre-competitive research and development with foreign companies in collaboration with domestic and foreign academia. Tens of projects have been instituted under this programme.

India and the World: the SME Perspective

In order to understand India’s position in the world business map we have two readily available material. The first one relates to the performance of business to governance and Government policies in a rational and quantifiable manner. This acclaimed Doing Business Report of the World Bank

Group scrutinize business environment in a perceptible and transparent way capturing both the strengths and weaknesses of a country. This impacts investment mood. In this context, we must admit that the Government has always been quick in taking measures to boost industry, including SME. The Inter-Ministerial Committee on exports and SME finance are recent examples of the Government’s willingness to assist SME. However, there are some policy related issues that prevent Indian SME from becoming globally competitive, such as the cost of funds and credit at a globally competitive rate or adjusting MSME definition as per the global standards. There are also some aspects related to financial institutions and taxation policy which require urgent attention to create a financially conducive environment for SME.

The other report is by the World Economic Forum which publishes the Global Competitive Report on the basis of comprehensive matrices to measure the competitiveness of countries. This report categorises 12 pillars under 3 broad heads, which define the Global Competitive Index Stages:

- 1st stage: primary and basic soft and hard infrastructure; primary education and health care and institutions
- 2nd stage: efficiency enhancers which include higher education, technology readiness, labour market efficiencies, financial market development, etc.

- 3rd stage: innovation and sophistication factors driven

The most important of all these pillars is innovation, which is giving an edge to advanced economies. In spite of India’s pockets of excellence, India is rated at the 1st stage. And on the world report card, India figures at 60 in the list of 148 countries.

Given the above situation, India needs to bank on its demographic dividend as well as concurrently improve all aspects mentioned in the above stages. We need to leap-frog and be highly innovative in our journey to cover this gap. We are improving productivity through technology adoption and incremental changes, but now industry must innovate products and processes to maintain a competitive edge and move toward higher value-added activities.

In order to reach this goal, we must understand that given the size and complexity of our country, MSME are tomorrow’s power house. If we have to take advantage of our demographic dividend, we have to tap into the energy, talent and entrepreneurial skills of the youth and support them in starting businesses through incubators and supportive Government policies. On the other hand, MSME are major job creators. On a concluding note, we may say that MSME are hold the key to not only the economic success of the country but also to creating an equitable society. ■

International Opportunities for Indian MSME

Despite playing a pivotal role in the growth of the country's industrial economy, India's Micro, Small and Medium Enterprises (MSME) hardly have a global presence. According to a recent survey of 2012, only 39 per cent of MSME players export goods overseas. This implies that the Government needs to play a greater role with respect to regulatory compliances and availability of finance.

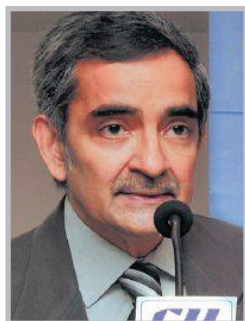
Every Indian company harbours the ambition of spreading its wings across the globe. In recent times, the easing of the overseas direct investment policy, coupled with the global economic slowdown, has spurred the growth of a new breed of companies which are referred to as Indian MNCs. These companies, in their quest for overseas market opportunities, frequently take the merger & acquisition (M&A) route. Globalization has become a two-way street as the companies are investing in geographies from which they will reap benefits in future.

MSME play a crucial role in the economic growth of a nation due to their contribution to production, exports and employment. It is usually assumed that an impetus to the MSME sector would create a multiplier effect for the overall economic growth of a country.

The MSME sector in India has been a vibrant and dynamic part of the country's economy over the last five decades. The performance of MSME is vital not only for the global economy but also for the Indian economy since the sector contributes 45 per cent to manufacturing output and 40 per cent to exports.

However, there are concerns about the concentration of MSME in few cities. More than 66 per cent of these enterprises are situated in six major states of India, namely, Tamil Nadu, Gujarat, Uttar Pradesh, Kerala, Karnataka and Madhya Pradesh.

Over the years, the sector has gradually gained importance because of the strong initiatives from the Government, corporate houses and public sector banks.



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Co-Chairman, CII MSME Council and
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According to the Ministry of Micro, Small and Medium Enterprises, (MoMSME) the sector employs more than 101 million people and produces more than 6,000 products, ranging from traditional to high-tech items. It has proved to be a major supplier of goods for mass consumption as well as a key producer of high-end products in the electronic and electrical equipment and the drugs and pharmaceuticals segments.

Increasing global competition is the greatest issue affecting Indian Small and Midsize Enterprises (SME), with 43 per cent citing it as a top concern (the global average is 26 per cent), the highest ranking among all countries featuring in a recent study conducted by SAP and Oxford Economics. Economic uncertainty (34 per cent) and shifting customer expectations (29 per cent) are distant second and third concerns.

Global expansion is touted as the key growth area by the MSME industry along with innovation, cost reduction and expanding products and services.

There's been a basic change in the mindset of the SME. Earlier, they did not look at inducting new technology, but a new generation is looking at it as a way of creating efficiencies. These SME adopt new technology faster than even their larger counterparts.

Understanding the need to adapt to an increasingly global marketplace, the vast majority of SME in India have either

recently completed, are in the middle of, or are about to begin a significant business transformation. A key reason for transformation is to capitalise on growth opportunities in expanding markets, while entering new geographic markets is seen as the key challenge of transformation.

Trends in Major International Markets

Previously, the Indian conglomerates were interested in outbound deals which were located in the UK, Western Europe, and the US region. However, this trend has started to wane in the last decade. Indian companies have actually started to buy companies from developing countries. As Indian companies aspire to become global, Africa has emerged as a favourable destination with over a billion population, young pool of talent, vast arable land and natural resources and a GDP growth rate of over 5 per cent. According to an estimate, more than 200 Indian companies are doing business in Africa across all sectors. Consequently, the trade between India and Africa has increased to USD 62 billion in FY2012 from USD 20 billion in FY2007, growing by an astounding 25 per cent CAGR in the last five years.

Moreover, companies in the field of automobiles, pharmaceuticals and IT are targeting Canada, the US and European market. The hospitality industry is eying the US and the European standalone properties which are easily available due to the economic slowdown. Outbound travel has been growing by 7-10 per cent in the last three years.

According to a survey by the Economic Intelligence Unit, many European SME are looking for collaboration in emerging markets, especially with Indian SME to increase their global footprint, find a new customer base and alleviate the sluggish growth of the sector in their country.

A unique trend has been observed in Indian companies investing abroad – they are investing more in intangible assets such as special knowledge, brand name, processes

or patents. Moreover, India has the highest FDI outflow to GDP ratio in the world and 26-41 per cent of this investment comes from the SME.

Export-Import

India's total trade (exports and imports) has increased over 94 per cent from INR 22,152 billion in FY2009 to INR 43,093 billion in FY2013.

Indian exports are heading towards the Asia and Africa regions. Asia has become a key destination of the country's exports. According to a report by Exim Bank of India, the share of Asia, Africa and Latin American countries (LAC) has increased sharply.

Major exported products in FY2012 were petroleum products which generated INR 3,370 billion, followed by gems and jewellery with INR 2,829 billion. Moreover, pharmaceutical products (INR 1,445 billion), transport equipment (INR 1,264 billion), machinery (INR 843 billion) and readymade garments (INR 843 billion) constitute a large proportion in exports for India.

According to the latest data of Exports, UAE (12.4 per cent) is India's largest export destination closely followed by the US (12.3 per cent) and Singapore (4.8 per cent).

India's import bill is inflated by the imports of crude petroleum with INR 9,329 billion in FY2012. Imports of gold and silver amounted to INR 3,732 billion and electronic goods (INR 1,987 billion), pearls and precious stones (INR 1,866 billion) are also key

import items for the country.

India's major import source is China (11.7 per cent) followed by the UAE (7.3 per cent), Saudi Arabia and Switzerland.

The MSME contributed around 36 per cent in the export of the country in FY2013 and it has been contributing a major share from the last five years.

OPPORTUNITIES

Manufacturing Sector

According to the Global Manufacturing Competitive Index (GMCI) 2013 of Deloitte, India ranked fourth in the world. This report includes over 550 survey responses from CEOs around the world and provides their perspectives on the key drivers of manufacturing competitiveness for a country, their ranking of the most competitive nations today and in five years from now; and the public policies creating a competitive advantage or disadvantage for key countries and regions around the world.

The study also reveals that developed nations such as Germany, the US, South Korea and Canada will fall out of the top 10 manufacturing competitive nations in the next five years whereas India will move up from fourth to second position in the same period.

Services Sector

The Services sector of India has been the apple of the country's eye in the last decade.

The IT & ITeS sector has seen overseas mergers and acquisitions of USD 1.4 billion in 2012 with major deals happening in Europe (USD 640.4 million) and North America (USD 591 million). The notable deals were Infosys acquiring Lodestone, Mphasis Ltd's acquisition of Digital Risk Llc and Wipro Ltd's acquisitions of Promax. The analysts have opined that the acquisitions made were more for getting a new geographical foot print, adding a specific industry or acquiring a new skill set.

Technological Leverage

Adoption of newer technology is the catalyst for the growth of any industry. However, for MSME in India, advance technologies have become difficult to access due to the high initial costs which in turn leaves them behind in the race of competitiveness. A major obstacle in MSME development is the inability to access timely and adequate finance. There are several reasons for low credit penetration such as insufficient credit information on MSME, low market credibility of enterprises, low awareness of the benefits of technology, lack of skilled manpower and poor infrastructure.

Technology adoption is a key differentiator in the MSME space. The Small and Medium Business Development Chamber of India states that MSME have spawned several innovations in manufacturing and service sectors. In fact, 17 per cent of MSMEs have developed "new-to-the-world innovations".

The Government of India, on its part, has laid heavy emphasis on addressing skills shortage and has established a comprehensive institutional structure for skill development via the National Council on Skill Development. Several programmes have been initiated, including entrepreneurship development training, skill development training, and entrepreneurship-cum-skill development training and training-the-trainers. The aim of the scheme is to establish a Centre for Excellence – a virtual university – at the national level to standardize the training curriculum and train 500 million people by 2022.

In July 2013, the Government launched Project Baadal, a cloud computing platform for MSME, in order to make them more productive and globally competitive.



Information Technology (IT) has been a key enabler for many MSME in India. These companies are willing to invest in new IT solutions to improve their output and efficiency. In the last two years, Indian SME have been adopting Enterprise Resource Planning (ERP) coupled with Customer Relationship Management (CRM) and Supply Chain Management (SCM). Software as a Service (SaaS), Infrastructure as a Service (IaaS), BusinessObjects, Kautilya and Site Catalyst are some of the IT products which have become very popular among Indian SME.

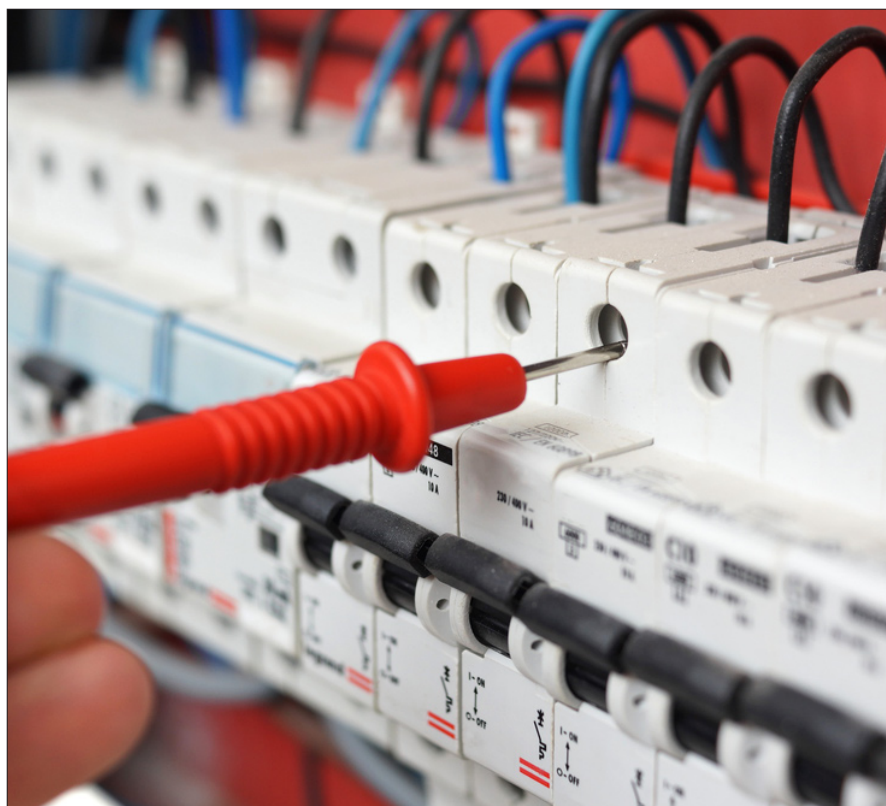
Most of the Indian SME are using internet as a very effective tool to reach out to their potential clients. Success of the e-commerce industry bears testimony to this changing trend. Indian SME are roping in professional website developers and search engine optimization (SEO) experts to make an impressive online presence.

The Road Ahead

The MSME sector has been predicted to be the sunrise sector of India and its growing contribution to the country's exports is ample testimony to this fact. The sector is perfectly suited to utilize the strengths of the country's traditional skills and knowledge through the efficient use of technologies and innovative marketing practices. Post global economic crisis, this is the ideal time to launch pending projects and to look for new developmental programmes.

Despite some challenges, the sector's outlook is promising. The positive outlook is primarily based on a few crucial features of the Indian industry and demand structure. For instance, varied production methods and demand structures will guarantee long term sustenance of layers of demand for consumer products.

In our opinion, the consumer product and process market in India is expected to flourish and to provide huge opportunities for the growth of the MSME sector. The demand structure of the Indian economy would allow complimentary existence of diverse forms of production units. The Ministry of MSME is hopeful that the share of MSME in the country's total export would increase to 50 per cent by 2017 from the current 36 per cent. The surge is expected to be driven by increasing demand for Indian



products from the overseas markets and the positioning of Indian MSME as a favorable destination for cost-effective products.

Moreover, the Government's initiatives to propel the industry have enabled MSME to improve their infrastructure and increase technological efficiencies. The capabilities of the sector in the global market place are well reflected by its share in national export.

The Government is making it mandatory for large companies and global multi-brand retail to procure 30 per cent from MSME manufacturing units to boost the industry.

The launch of Project Baadal will make the sector more technology savvy and help enhance its web presence globally. It has been observed that cloud computing may provide the requisite IT solutions to MSME like e-commerce, e-marketing, sourcing for value chain, and managing supply chain, among others.

In the recent past, the MSME sector has performed better than the large enterprises, with a better growth rate. During 2001-2006, companies with a net turnover of INR 10-500 million had a higher growth rate of 701 per cent, as compared to 169 per cent for large companies with a turnover of over INR 10 billion.

The MSME sector in India has proved to be globally competitive. Export of products such as leather goods, processed food and readymade garments has been especially noteworthy, in terms of share in the sector's total export. The concept of export promotion and import substitution has been given high priority in the MSME sector. The Government has simplified export procedures and is providing incentive schemes to enterprises to facilitate export. Further, the Government has undertaken steps to formulate several new policies for the MSME sector, though timely implementation of such policies has been a matter of concern. With effective implementation of these policies the sector is likely to scale new heights.

Further, policy reforms, large investment programmes, and India's general economic growth have generated several latent business opportunities for this sector. Even though the MSME sector continues to go from strength to strength in India, it is beset by certain fundamental weaknesses and systemic problems which require policy reforms and massive resource allocations.

Finally, the future of Indian SME in the overseas market is looking bright, as both the national Government and the industry are trying to push the sector onto the global platform by addressing the basic concerns of the sector. ■

Key CII Recommendations for MSME

Issues	Recommendations
Accelerating Growth of SME in Manufacturing	<ul style="list-style-type: none"> • Revise definition of MSME • Address issue of delayed payments • Develop industrial infrastructure for SME • Promote ICT adoption in MSME sector • Provide easy access to finance • Strengthen SME exchanges • Implement Public Procurement Policy in an effective manner • Promote Branding and Marketing of MSME • Tackle taxation issues pertaining to MSME • Promote cluster development, etc • Implement a single window mechanism with special emphasis on MSME in Jharkhand • Facilitate rapid industrialization of Chhattisgarh with special emphasis on MSME • Expedite the processing of applications through a single window system in West Bengal • Induce large industries in Odisha to give priority to MSME • Increase public procurement from MSME in West Bengal and provide a price preference of 15 per cent to these units • Exempt MSMEs from the requirement of furnishing security deposit and earnest money
Promoting MSME Exports	<ul style="list-style-type: none"> • Key areas to be looked into for accelerating MSME exports are: taxation, access to finance, risk mitigation for exporters, export promotion / marketing activities, technology adoption, building competitiveness, FDI by NRIs in MSME sector, policy and procedural issues, and infrastructural development for MSME sector
Institutional Credit Flow to MSME	<ul style="list-style-type: none"> • MSME face high cost of capital and lack of access to timely credit. The situation is compounded by insufficient data on the sector's credit requirement. MSME need both equity and debt funding. Currently, debt funding accounts for over 80 per cent of the sector's instruments. There is an urgent need to strengthen the institutional credit flow to the sector <p>Increasing Credit Limit for MSME in the Credit Guarantee Fund Scheme for MSE</p>
Strengthening Infrastructural facilities for MSME	<ul style="list-style-type: none"> • Set up quality testing laboratories for MSME in industrial hubs that will help the MSME meet global standards • Set up a state-of-the-art Tool and Technology Development Centre for MSME in Puducherry • Create land banks within a radius of 25 km of industrial hubs for MSME in Gujarat • Set up an IPR Facilitation Cell in Puducherry

Issues	Recommendations
	<ul style="list-style-type: none"> Given the large working capital requirements of the aerospace industry, CII Karnataka as part of the GoK-CII Joint Taskforce on Aerospace suggested the establishment of Common Finishing Facilities leading to reduction in capital requirements for MSME in this industry Establish land banks in every district under the chairmanship of the District Collector with representation of local industrial organisations Ensure and certify basic infrastructure facilities before allotment of plots in industrial areas developed by Rajasthan State Industrial Development and Investment Corporation (RIICO) Manufacturing sector in Zone 2 with investments between 1 to 10 crore may be given due incentives on Fixed Capital Investment (FCI). These incentives should be immediately extended to the industrial zones as per the approved town plan, where industrial expansion is likely The existing units making fresh investment and capacity expansion may also be given equal benefits under the State's (Punjab) Industrial Policy Modernisation by existing units as per modernisation schemes approved by DIC should be covered for incentives under the State's (Punjab) new Industrial Policy Implement the MSMED Act 2006 in totality in Chandigarh and notify price preference and purchase preference policies Create a time-bound, online process in Uttar Pradesh for SSI registration, licensing, pollution control, fire prevention, industrial plan, etc
<p>Tax Regulation for MSMEs</p>	<ul style="list-style-type: none"> Abolish the 5 per cent stamp duty on purchase of rehabilitation of sick industries in Chhattisgarh to encourage medium and large industries to buy out sick units Increase public procurement from MSME in West Bengal and provide price preference of 15 per cent to these units and exempt them from depositing security and earnest money Karnataka government has been urged to continue calculating the PF based on Basic & DA and effect no changes in the current scheme. Reduce stamp duty on industrial land in Rajasthan at par with neighbouring states. Proposed luxury tax in Himachal Pradesh should be on actual amount charged rather than the rack rate for the hotel rooms. GST should be reduced to 1 per cent for existing industries and 0.50 per cent for new industries till introduction of GST. Ensure time-bound clearance of VAT refunds. Reduce VAT rate to 2-3 per cent to make MSME competitive.



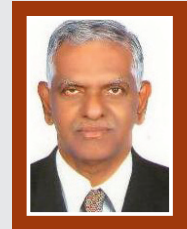
A strong MSME is essential for a vibrant economy as they play a very important role in the economic ecosystem of a country. In today's highly competitive environment MSME have to move away from the traditional way of doing business and focus more on innovation and effective financial management to create higher value added products to sustain and grow. Innovation can be achieved with a strong cross collaboration between industry, academia and research institutions. Also, looking at alternate means of financing rather than traditional bank funding, like R&D funding, fund raising through SME exchange, FDI etc, can help in effective financial management.

Ramesh Datla

Chairman, CII National Committee on Intellectual Property and Chairman & Managing Director, ELICO Limited

MSME has been a growing and dynamic sector of the Indian economy over the last five decades. MSME not only play a crucial role in providing large employment opportunities but also provide stability to the supply chain and thus is the backbone of the economy.

The MSME sector is the base of the economy, which needs to be nurtured and supported with favourable policies of the Government and the regulatory bodies backed by sound infrastructure and other facilities. MSME should be made aware about the new innovative products, technologies, internationalization of business, skills etc. to reach the next level.



K K M Kutty

Co-Chairman, CII Gulf Committee and CEO & Managing Director, Sealings & Jointings



The MSME sector has been adversely affected on account of a stagnant economy, badly hit on account of the high interest rates on borrowings and inordinate delay in payments against products and service rendered. It contributes almost 40 per cent to manufacturing nationally and generates employment for the bottom-most strata of society, serving as the country's 'skill development centre.' Many skilled workmen later migrate to large enterprises or other countries. Global competition, especially from Chinese products is a nightmare for Indian MSME. Competitiveness has now become history and Indian MSME are left to defend themselves. Good and adequate handholding by Financial Institutions and specific policy changes and absolute implementation is the need of the hour, especially with regard to technology upgradation and long-term loans; interest subversion scheme; equity participation; prompt payment to MSME and 100 Mile Policy as in the US which mandates that all MSME within 100 miles of any large private/public/government establishment will get preferential supply for procurement and immediate payment provided the MSME is pre-qualified to effect good-quality supplies at reasonable prices.

S R Ganesh

Executive Director, Glass & Glazing Systems Pvt. Ltd

The sudden decline of MSME share in national exports from 40 per cent to an estimated 36 per cent has prompted major Government steps to strengthen the sector's global competitiveness. While the dip is chiefly attributed to continuing contraction of global markets, Indian industry is aware that inadequate market development, limited R&D and innovation, and physical infrastructure bottlenecks have also contributed to the slowdown. MSME sector has a key role to play in boosting India's export growth, especially in the wake of the country's exports declining by about 2 per cent to \$300 billion in 2012-13, way below the targeted \$360 billion. Worse still, trade deficit touched an all-time high of \$190.1 billion in 2012-13, and current account deficit scaled 6.7% of GDP in the third quarter of last fiscal – worrisome developments for both Government and industry.

Yet, estimates suggest that less than 0.5 per cent of Indian MSMEs are engaged in exports. In comparison, 25% of European SMEs participate in exports, and the corresponding figures for Asian economies like Taiwan, South Korea, Singapore, and Malaysia are even higher where SMEs drive their export boom. To expand the base of exporting MSME, Government could identify export-worthy MSME and provide them robust market intelligence, training and capacity building in relevant areas, while MSME need to focus on R&D and Innovation.



Raman Saluja

Managing Director, Oriental Engineering Works Pvt Limited



Entrepreneurship has been considered the backbone of economic development. It has been well established that the level of economic growth of a region, to a large extent, depends on the level of entrepreneurial activities in the region. The myth that entrepreneurs are born doesn't hold good anymore; entrepreneurs can be created and nurtured through appropriate interventions. While capable entrepreneurs are making use of the opportunities that liberalization, privatization and globalization and IT revolution offer, people in the industrially backward regions/rural areas generally lag behind in taking advantage of these opportunities. There is a need to provide skill development and entrepreneurship development training to such people in order to mainstream them in the ongoing process of economic growth. Entrepreneurship development and training is, thus, one of the key elements for the development of micro and small enterprises (MSE), particularly, the first generation entrepreneurs. Eastern India has to tread miles to develop a conducive environment to nurture, sustain and develop MSME.

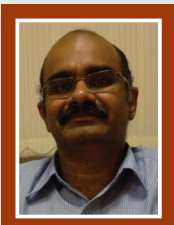
There is a need to change mind sets, and focus on financing, existing taxation structure, technology and innovation to make MSME competitive.

Dr A.K. Chattopadhyay
Managing Director, Tata Refractories Ltd

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a dynamic sector of the Indian economy over the last decade. It has played a crucial role by creating huge employment opportunities and has also been pivotal in industrialization of rural and backward areas. MSME have been one of its kind skill training institutes which have provided hands-on experience to workers helping them to migrate to higher paying jobs in large industries. The sector is an important component of the industrial value chain and a catalyst for balanced industry development. The State Governments have specific policies or significant chapters under major policies which focus on MSME growth in their respective State. With increasing globalization and technology adoption, the role of MSME will be evolving even further.



Vipin Mullick
Managing Director, Inspros Engineers Pvt. Ltd



The pre 1991 era, with all the controls in place, encouraged the Indian MSME to remain small and just "survive". But today the MSME sector is growing day by day due to its resilience in a changing scenario, which is indeed its biggest strength. The Indian MSME need the following changes to reach the next level - stop being comfortable with "being small"; becoming a part of value chains of global multinationals. MSME will be forced to think global - while Indian MSME are inherently innovative, structured product innovation will be necessitated. MSME have to develop a strong second line and develop robust management systems and adopt newer market access strategies like social media and internet to reach the next level.

K P Gopal
Co-Convenor, MSME Panel, CII Tamil Nadu and Director, Stuser Tools Pvt Ltd

There are many factors affecting the growth of the Indian MSME, which need to be changed for the upliftment of MSME. Loans should be made readily available for MSME at globally competitive interest rates; if the Credit Rating System cannot be made as per MSME working, than abolish the same; redefine MSME after taking inflation into account; minimum wage should be divided for metro, NCR cities and for others to maintain uniformity; minimum wage increase should be linked to inflation and limited to a certain percentage only to maintain India's competitiveness. The labour laws should be redefined on the basis of performance; they should have a clause where if any intentional harmful activity is done causing monetary, disciplinary or image damage, penalty including termination can be levied. Also, overtime hours should be increased and the amount should be just a single salary.



Dr Alka Kaul
Vice Chairperson, CII Delhi State Council & Director - QMS and HR, Horizon Industrial Products Pvt Ltd





I would identify 3 factors as being critical to enable Indian SME to reach the next level. One, by mitigating financial challenges faced currently. Banks and Institutions can help greatly by granting SME preferential interest rates, relaxing collateral requirements and opening up avenues of low cost capital raising like the SME exchange. Two, achieving operational excellence through a combination of process techniques (like lean manufacturing) and technology (by using automation, software tools) to enable SME to realize their full potential. New technologies and practices like Cloud Computing & Software as a Service (SAS) now enable lower cost of technology adoption. And the last – there has to be a considerable emphasis on skill development. Lack of training and adequate facilities for skill development are significant barriers for an SME in its growth stage. Industry associations and SME themselves have to look at this with greater focus.

Anish Rajgopal

Convenor CII Maharashtra MSME Panel & Director, Chemtrols Industries Ltd

On the journey of building a company the toughest challenge an SME faces is to deal with change and transition. I believe that most companies can learn to scale if they are willing to take a step back and admit to themselves that the old ways are no longer going to work! The need of a growing business requires synchronous renewal and adaptation of business capabilities from the erstwhile entrepreneurial persona to that of an executive personality. SME that scale upwards are the ones that have shed habits and skills that have outlived their usefulness and adapt to new challenges along the way. Our government and industry standards have done well to augment this within SME by providing monetary incentives and vendor recognition. Finding the optimal growth rate for an SME is a difficult and crucial task. The greater the returns to a company scale, scope or the size of its customers base, the stronger the case for pursuing rapid growth. When scale causes profitability to increase considerably, growth soon pays for itself. SME that scale thrive on rapid growth and do not shy away from the occasional crisis and firefighting that accompany it. They build increased entrepreneurial tolerances in response to its growth pangs, so as not to be limited by stress and discomfort. It's on rare occasions that companies rise to the scaling challenges without any special effort.



Pramod K Sethi

Convenor, MSME Panel, CII Karnataka & Manganga Director, Poly Fluoro Ltd



CII should continue its endeavor to align longstanding MSME to reasonable global industry standards and also nurture the new age MSME by assisting them through the creation of formal growth incubators. These efforts, coupled with change of policy within Government to start thinking of MSME as preferred partners for growth, will eventually lead to prosperity for all in our nation.

This approach has proven itself in various developing nations and has been successful where applied diligently. We believe this is the way forward for exponential growth of MSME and, eventually, the nation's fast track progress.

Rajesh Khatwani

Co-Convenor, CII Maharashtra MSME Panel & CEO, Industrial Plants & Waste Treatment Corporation

For the Indian economy to move beyond low cost export and global commodity price related variability, it is important to enable an eco-system that promotes entrepreneurship and innovation for long term stability and gains through measures such as: enabling incubators to play a vital role to provide business support services; making them the hub of innovation and connecting them with research and funding sources; discovering best practices among incubators and allowing this information to be disseminated; supporting the development of business angels through tax policy or by matching finance through co-investment funds; facilitating the provisioning of debt with minimum collateral for early stage companies and allowing tax incentives for research and development.



A Kathir Kamanathan

CEO, Chella Software Ltd



SME are the engine for economic growth. They provide better opportunities for employment with less investment and export opportunity. Let us work for graduating SME to large medium and large industries with technology upgradation and emphasis on quality production at competitive rates. Finance at low cost in time bound limitation; incentive for promotion of MSME in food processing, consumer based and downstream industries and ancillarisation with maintaining highest standard of quality is the need of the hour and this needs timely payment and topmost care and nursing from the corporate sector to ancillaries.

A K Srivastava

Partner, A K Industries

Couple of recessions in the last five years have been challenging for MSME. With contribution greater than 40 per cent to India's GDP, it is imperative that the underserved MSME is prioritized and developed further. Shortage of labour, access to finance, infrastructure, access to new markets, etc. continue to be problems with access to finance being the key. MSME entrepreneurs manage the whole show singularly which requires service to be provided to him at his doorstep. With quick and easy access to finance, major problems can be resolved. Impetus to finance through policy easing can go a long way in setting the MSME on the growth path.



Shilpa Pophale

Managing Director, Electronica Finance Limited



Indian MSME represent about 40 per cent of the Indian Business sector and their growth would add value to overall development.

MSME currently lack two major aspects to achieve growth: primary being finance and the other being resources. It is now mandatory that the MSME be provided increased capital finance from the banking sector, whereas MSME have the capability to strive for collating resources and deliver.

An effective focused allocation including providing assistance towards resources sharing, assistance in modern techniques covering material management, effective leadership techniques, client centricity, business agility, technology effectiveness, people performance, process performance and quality assurance will increase the deliverables of MSME multifold, besides steering them to compete in international markets.

MSME, to grow to the next level, need an efficient working model based on financing, client parity and product performance clarity.

Sunil Desai

Managing Director, Richfield Engineering India Pvt Ltd



For suggestions please contact Priya Shirali, Corporate Communications at priya.shirali@cii.in

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Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi-110003 (INDIA)
Tel: +91-11-24629994-7, Fax: +91-11-24626149; Email: info@cii.in; Web: www.cii.in