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A Conceptual Study on Policy Framework for MSME's Development in India

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Abstract:
In India the role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. MSMEs contribution towards GDP was 22% in year 2011-2012, and rose to 37.54%. In year 2012-2013 showing a consistency of 11% growth rate every year. The major advantage of these ctorisits employment generation at low capital cost. Its total employment in the MSME sector is 805.24 lakh in 2012-2013(Press Information bureau, GOI, Ministry of MSME, July 2014). This paper throws light on the policy framework for MSME's development in India. Also where the Indian MSME's should concentrate to get recognized in the global era?

1. Introduction

The Indian MSME sector is quite diverse, not only in terms of the size of the enterprises, but also in terms of the variety of products and the levels of technology. This sector is an integral part of the Indian economy, with its vast network of around 36 million units which employ about 80 million people, as on 2006-07, and manufacture more than 6000 products, ranging from traditional to high-tech items.

Based on their nature of activity, MSME's are categorized into either manufacturing or services-with 31.8 per cent of enterprises belonging to the manufacturing sector while a larger 68.2 per cent were engaged in services, as seen in Figure 1 below.

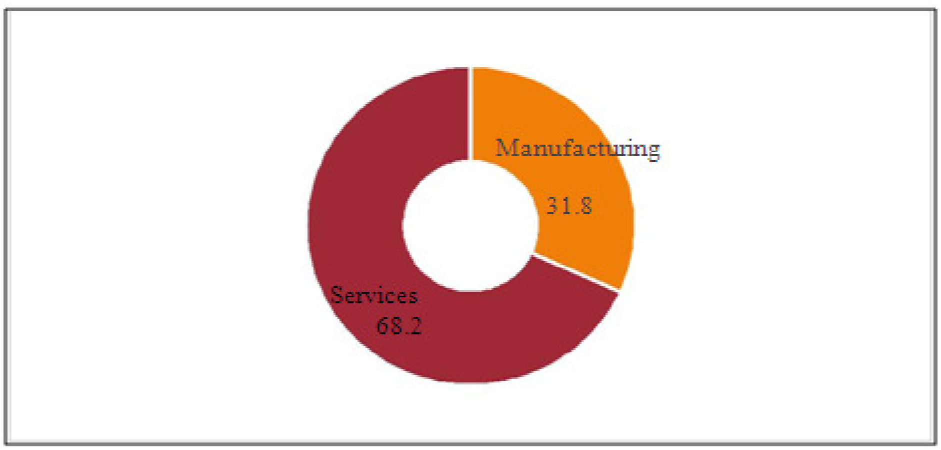

Figure 1: Activity based categorization of MSME (Percentage share of Total)
Source: Annual Report on MSME, 2013-14

The latest government estimates peg the share of MSME sector in the country's GDP, during 2012-13, at 37.54 per cent, out of which the contribution of manufacturing sector MSME's stands at 7.04 per cent while that of services sector MSME's is 30.50 per cent. The sector contributes greatly to the country' exports as well. As per the latest estimates, the share of MSME in India's total exports stood at 42.4 per cent, for the year 2013-14.

Today, with greater focus on the Make in India agenda, the importance of MSME sector has increased considerably. The MSME sector is endowed with unique advantages such as high labor to capital ratio, shorter gestation period, lower investment requirements and higher potential for innovation. Along with this, higher economic activity in the MSME sector ensures a more equitable distribution of national income while at the same time facilitating effective mobilization of resources of capital and skills which might otherwise remain unutilized.

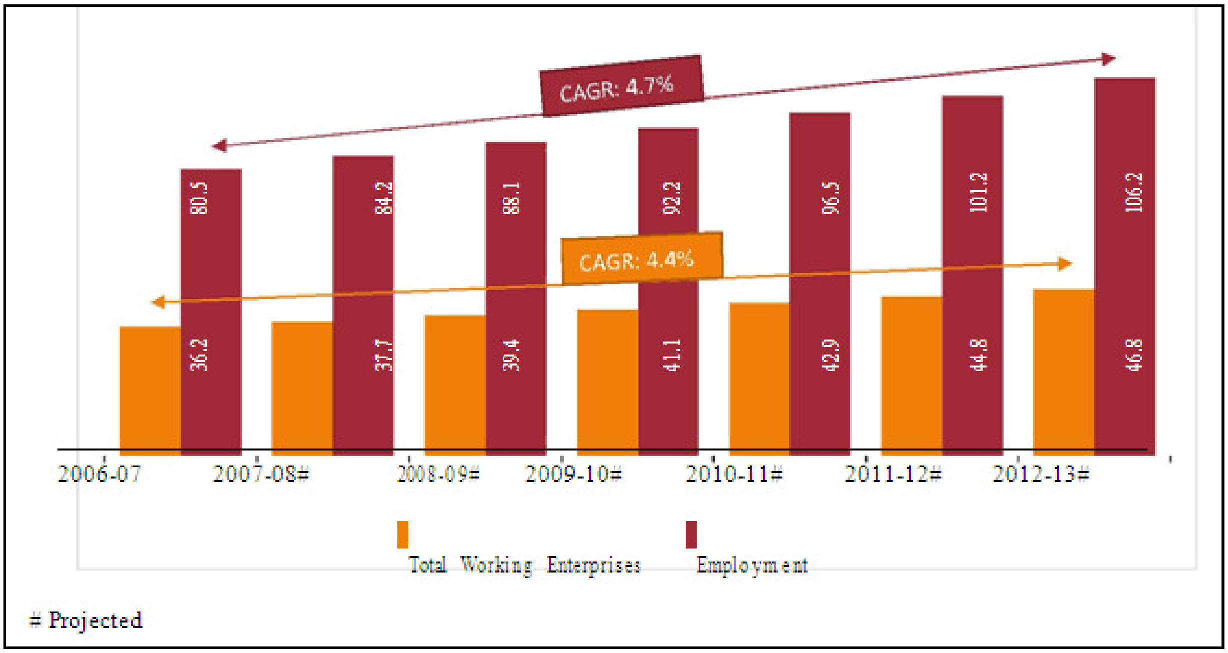

Figure 2: Total Working Enterprises and Employment (Number in Millions)
Source: Annual report on MSME, 2013-14

The MSME sector plays a pivotal role in employment generation, upliftment of rural area and economic empowerment. In India, MSME's are the second largest employer, after agriculture, with an estimated employment of 106.2 million in 2012-13. Also, the sector accounts for 45% of the total industrial production in India, with an estimated 46.8 million working units, as of 2012-13. Of these units, around 55.3 per cent are located in the rural area while 44.7 per cent were located in the urban area. The MSME sector is also a major player in the Indian exports, contributing more than 40% to the country's overall exports. A closer look at the export composition of the MSME sector, in Figure 3 below, shows that four commodities account for a total of 60% of the overall MSME export – indicating the immense potential for diversification of this current export portfolio, not only in terms of products and goods but also the regional coverage.

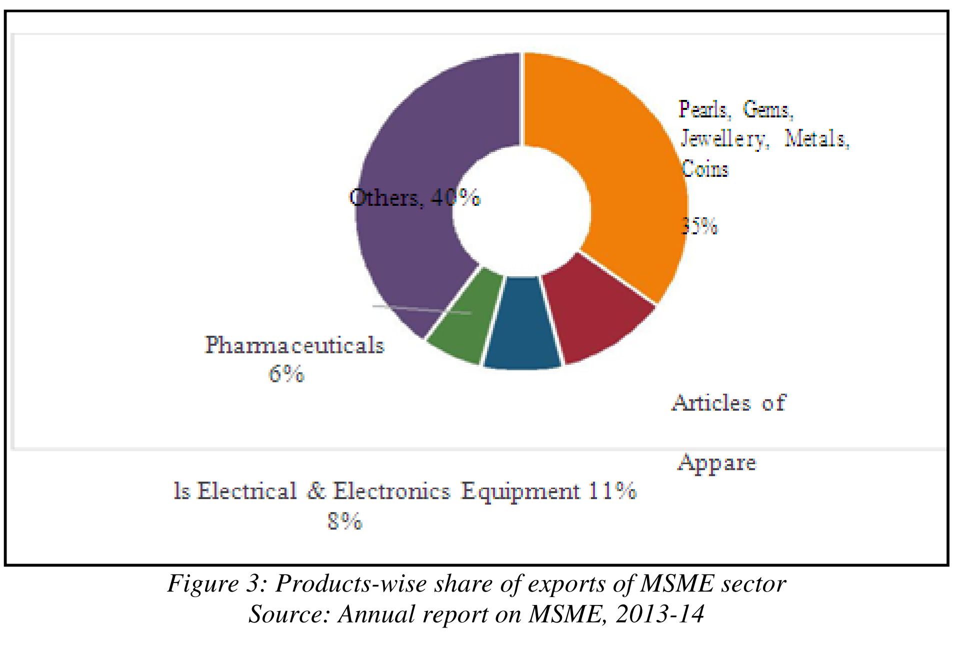

Figure 3: Products-wise share of exports of MSME sector
Source: Annual report on MSME, 2013-14

It is widely felt that the sector still has a lot of potential for further growth. This is because unlike large enterprises, SMEs have the inherent capability to use resources efficiently and satisfy local needs. Their size gives them agility, innovation-orientation and an ability to adapt to changes. Such advantages have helped many units to rise above the constraints posed by a difficult external and operational environment. Over the years, many SMEs have emerged out of the shadows to become big names in corporate India. Examples include Hero, Bharti, Infosys, among others. And many more have the capability to become global players by taking recourse to technological up-gradation and funding.

However, despite the successes, the fact remains that most SMEs are small and vulnerable. This is also borne out by the fourth census of micro, small & medium enterprises (MSMEs), which states that almost all those covered are either proprietorship or partnership enterprises and 95% units are not even registered, which means they are not covered by any formal data collection exercise like the Annual Survey of Industries.

The recent data trend indicates a slow pace of growth, CAGR of 4.4 per cent, in the number of enterprises of the MSME sector, during 2006-07 to 2012-13. Additionally, if we go a level deeper and study the trend in manufacturing MSME's we notice the steady decline in the Gross value of manufacturing output of MSME's as a percentage of both, total manufacturing output and GDP. As per provisional data, the share of manufacturing MSME output to total manufacturing output has declined from 42 per cent in 2006-07 to 37.5 per cent in 2011-12 while that to GDP fell from 7.7 per cent to 7.3 per cent during this period. This is a cause of concern as MSME's, particularly those into manufacturing, are among the biggest employers and would need revived focus in order to create viable employment options for our youth.

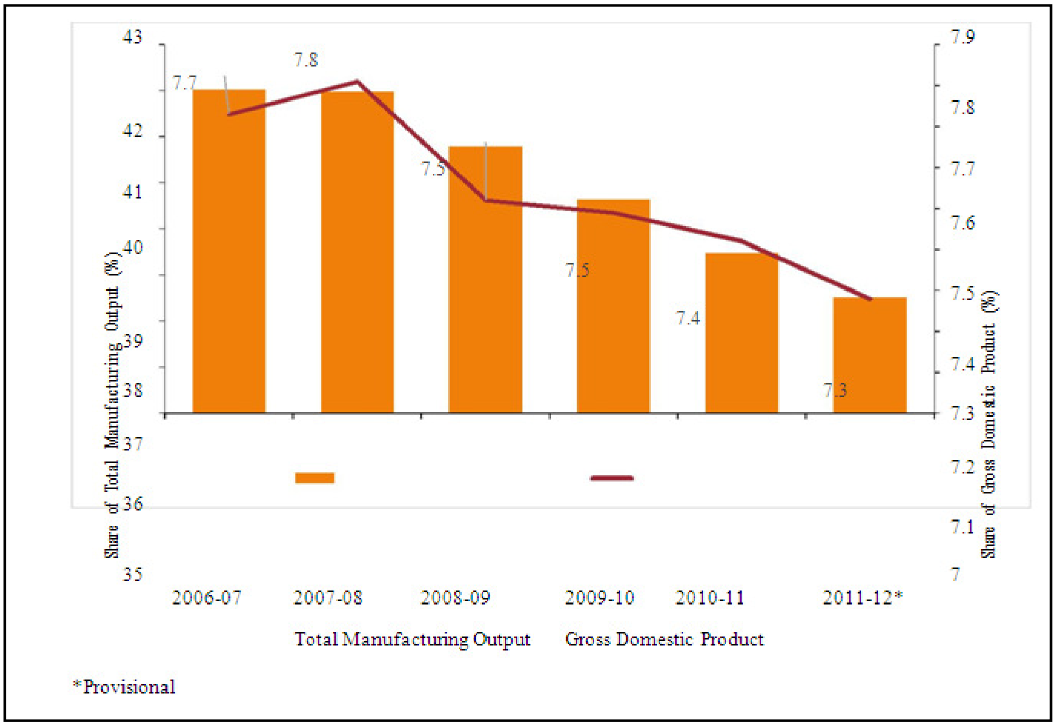

Figure 4: Contribution of manufacturing output of MSME's to overall manufacturing output and GDP (at 2004-05 price)
Source: Annual report on MSME, 2013-14

Also, as seen in figure 5 below, the market value of fixed assets as a share of nominal GDP has fallen from a high of 22 per cent in 2006-07 to 13.5 per cent in 2012-13- indicating a sharp fall in new investments in the MSME sector. This was reflective of the weak demand environment, in the aftermath of the global financial crisis, which impacted our industry at the grass root level.

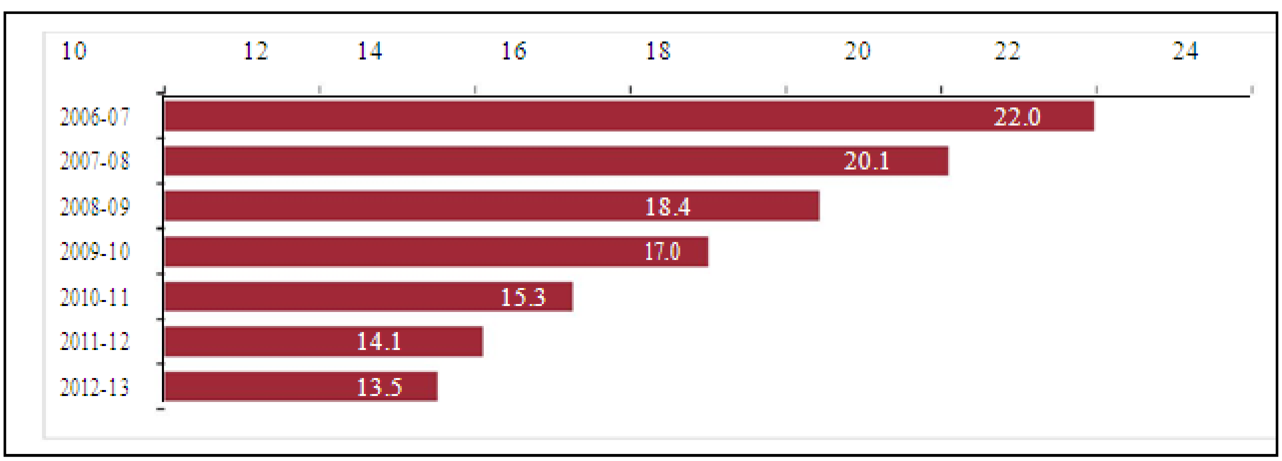

Figure 5: Market Value of Fixed Assets as Percentage of Nominal GDP
Source: Annual report on MSME, 2013-14

2. International Comparison

2.1. Definition of MSME's

The definition of MSME's varies widely across countries. In India, MSME are defined based on the investment in plant and machinery which is further differentiated on the basis of the sector, manufacturing or services, in which they operate. Listed below are definitions of SME for a few countries, both developing and developed economies:

S. No.	Country	Definition of SME sector			
1	India	Enterprise	Investment in Plant & Machinery		
		Category	Manufacturing Sector	Services sector	
		Micro	< INR 25 lakhs	< INR 10 lakhs	
		Small	INR 25 lakhs to 5 crores	INR 10 lakhs to 2 crores	
		Medium	INR 5 crores to 10 crores	INR 2 crores to 5 crores	
2	Vietnam	SMEs are independent production and business establishments, duly registered according to the current law provisions, each with registered capital not exceeding VND 10 billion or annual labor not exceeding 300 people.			
3	Indonesia	Fewer than 100 employees.			
4	Philippines	Enterprise	Headcount	Asset Size	
		Category		(Philippine peso)	
		Micro	1-9	Up to 3,000,000	
		Small	10-99	3,000,001 – 15,000,000	
		Medium	100-199	15,000,001 – 100,000,000	
		Large	More than 200	> 100,000,000	
5	Thailand	Depends on the business sector. Different criteria based on number of employees and fixed capital size.			
6	Russia	Enterprise	Headcount	Turnover	
		Category		(in Russian Ruble)	
		Micro	1-15	< 60 million	
		Small	15-100	< 400 million	
		Medium	101-250	< 1000 million	
7	Argentina	Enterprise	Headcount	Turnover	
		Category		(in Argentine peso)	
		Micro	< 5	0.6 - 2 million	
		Small	5-99	4 -10 million	
		Medium	100-499	24.1 - 111.9 million	
8	European Union	Enterprise Category	Headcount	Turnover (in Euros)	Capital Investment (in Euros)
		Micro	<10	<= 2 million	<= 2 million
		Small	<50	<= 10 million	<= 10 million
		Medium	<250	<= 50 million	<= 43 million
9	UK	Enterprise Category	Headcount	Turnover (in Pound Sterling)	Capital Investment (in Pound Sterling)
		Micro	<10	<= 1.7 million	<= 1.7 million
		Small	<50	<= 8.2 million	<= 8.2 million
		Medium	<250	<= 41 million	<=35.2 million
10	Canada	Enterprise Category	Headcount	Turnover (in Canadian Dollar)	
		Micro	< 5	N/A	
		Small	5-99	< 5 million	
		Medium	100-499	< 25 million	

Table 1: MSME definition across select Countries
Source: Report of the Inter-Ministerial Committee for Boosting Exports from MSME Sector, July 2013; CII-KPMG Report on MSME-The new wave Indian MSME, 2014

2.2. Indian MSME's in a Global Context

It is widely known that the MSME's play a pivotal role in development of the emerging economies and the MSME sector in India can be one of the key drivers for India's transition from an agrarian to an industrialized economy. However, when we compare the MSME scenario in India with the rest of the world we notice that there is still a lot to be done in terms of development of this sector.

Figure 6 below shows that India is still heavily dependent on the non-SME sector for its GDP contribution, even as its peers like Brazil, Russia and South Africa have contributions to GDP from MSME sector in the 20 per cent to 60 per cent range.

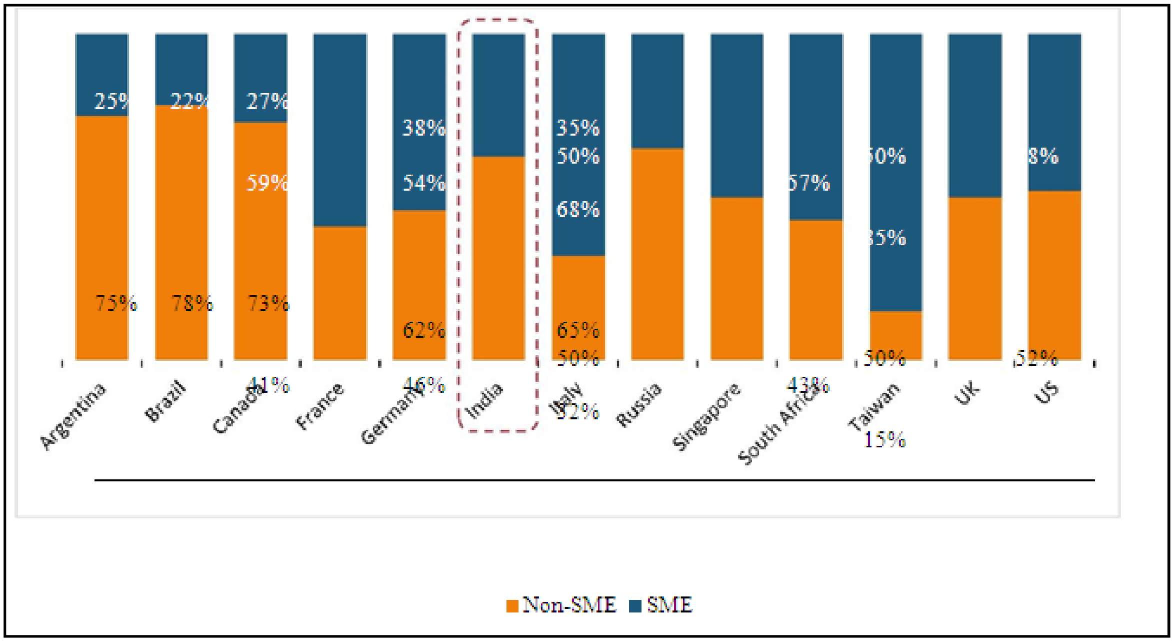

Figure 6: Global GDP contributions by MSME's

Note: Non-MSME Sector Includes – Un-organized / Unregistered enterprises, Large Enterprises including (PSEs, large industrial houses, MNCs)

Source: CII-KPMG Report on MSME- The new wave Indian MSME, 2014; Ministry of Micro, Small & Medium Enterprises, India

MSME sector has the unique capability of creating large employment opportunities by becoming a part of the industrial ecosystem while acting as ancillary units to large enterprises. This has also been seen in India, where MSME employment is about 21 per cent of the overall employment. However, as we are met with the target of generating employment for 10 to 15 million people annually, MSME is one sector that promises a lot of potential in the years ahead.

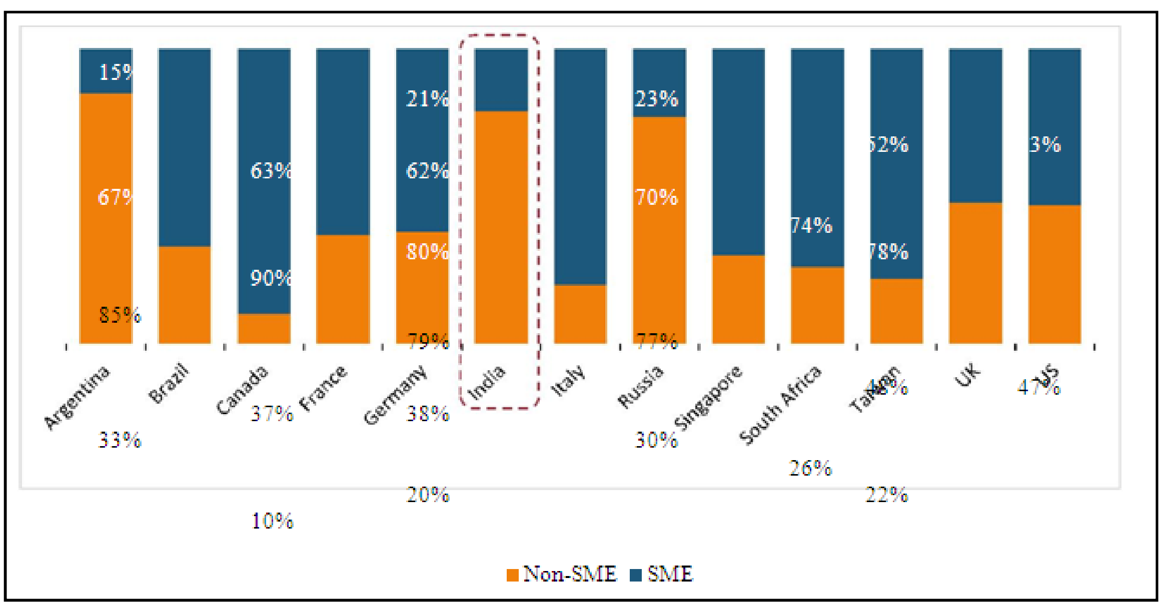

Figure 7: Employment generated by MSME as a percentage of overall employment globally

Note: Non-MSME Sector Includes – Un-organized / Unregistered enterprises, Large Enterprises including (PSEs, large industrial houses, MNCs)

Source: CII-KPMG Report on MSME- The new wave Indian MSME, 2014

3. Key Problems and Constraints

The prevailing scenario of slowing growth and declining factory output has posed a big challenge for the Indian MSMEs, many of which have been assiduously building their capabilities to move up the global value chain. There are a number of constraints which inhibit the growth of the MSME sector and encourages them to remain small. Some of the major constraints inhibiting the growth of the MSME sector are as under.

3.1. Limited Access to Funds

It is well known that the availability of credit at cost effective rates remains a major challenge for the micro, small and medium segment. According to data from the RBI, out of total outstanding credit to industry, over 80 per cent is to large industry while the micro, medium and small sector gets less than 20 per cent. The micro and small sector which is covered under priority sector guidelines receives a larger share of 14 per cent while the medium sector receives only about 5 per cent of total credit flow to industry. This acts as a dampener in meeting their needs for working capital, purchasing machinery, equipment and raw materials, funding technology upgradation and providing finance for marketing. Clearly, as a small unit becomes medium in size, i.e. crosses the limit of Rs. 5 crores investment in plant and machinery, it hits a crunch in credit availability. More needs to be done to increase the credit availability for this size of enterprises.

		Mar 22, 2013	Mar 21, 2014	Mar 20, 2015
Non-food Credit		49642	56572	61423
Industry (Micro & Small, Medium and Large)		22302	25229	26651
Industry as % of gross bank credit		44.9	44.6	43.4
Micro & Small		2843	3517	3835
Micro & Small as % of total Industry		12.8	13.9	14.4
Medium		1247	1274	1278
Medium as % of total Industry		5.6	5.1	4.8
Large		18211	20438	21538
Large as % of total Industry		81.7	81.0	80.8
Priority sector		15398	18781	20222
Micro and Small Enterprises		5623	7511	8066
(y-o-y growth rate)			(33.6%)	(7.4%)
-	Manufacturing	2843	3517	3835
-	Services	2779	3659	4232

Table 2
Source: RBI

The RBI prescribes that banks have to lend 7.5 per cent of their adjusted net bank credit (ANBC) to micro, small and medium enterprises, with medium enterprises a recent addition. Data till
March 2015 shows that the growth in credit to micro and small enterprises has slowed down to 7.4 per cent from a growth of 33.6 per cent in the previous year.

3.2. Regulatory Issues

India fares poorly in the ease of doing business and this affects smaller units much more than larger ones, as they cannot dedicate resources to negotiating bureaucratic bottlenecks. Several reforms are required to facilitate registration of MSMEs and getting various clearances so that they can conduct their business without any hindrance. Administrative time and effort required for filing of taxes and meeting regulatory compliances need to be reduced. The Finance Minister in his Budget speech had mentioned his intention to appoint an expert committee to draft legislation which will replace the need for multiple prior permissions with a pre-existing regulatory mechanism.

MSMEs find it particularly difficult to meet the requirements of the labour laws. Almost every Act requires the employer to maintain a set of registers, submit periodic returns and display certain notices near the main entrance of the establishment. Submission of one annual return should be sufficient. Similarly, there should be one coordinated annual inspection to combine all inspections including labour inspection, factory inspection, ESI inspection, EPF inspection, welfare inspection, statistical inspection, etc. Labour laws have often been held responsible for India's "missing middle", as these laws become applicable once the unit exceeds a certain size.

Difficult regulations for exit of loss-making companies are another disincentive towards taking any risks. A bankruptcy code is needed that will help entrepreneurs to exit the business without any personal financial loss and give them a second chance at creating a business. The Finance Minister, in his Budget speech, mentioned that a comprehensive Bankruptcy Code will be introduced in fiscal 2015-16, that will meet global standards and provide necessary judicial capacity.

3.3. High Cost of Infrastructure

MSMEs can be much more competitive with the availability of good quality infrastructure. While this is also true of large companies, they can overcome some of the disadvantages by making their own investments. This is why most countries in the world have programmes to provide infrastructure support to small units in the form of clusters with shared infrastructure. In India, the high cost and limited availability of power is a key disadvantage for small players. Large players use DG sets to generate their own power. While this too increases the cost of power, the availability of power does not become a constraint. For small businesses the only way out is to set up businesses in clusters where shared infrastructure in the form of power, water or road and rail connectivity is available.

Land is a key input for all businesses, be it in manufacturing or in services. Here again, readily available land in industrial parks would be of great help to MSMEs. In fact, this is now regarded as even more critical than the provision of tax and other fiscal incentives for the development of MSMEs. The availability of shared office spaces in key business districts is another way in which MSMEs can access land that would otherwise be unaffordable to them. Sector specific clusters are also an attractive proposition. For example, shared integrated cold chain set up for a processed food hub allows MSMEs to keep their costs down.

3.4. Lack of Value Addition

MSMEs are also plagued by low use of technology and skills which results in limited value addition. Across sectors, there is a clear opportunity in terms of moving up the value chain and developing more value added products and services. Only then can an international 'Made in India' brand be created and participation in global markets be stepped up. This will also enable the MSME sector to become more organized and increase its contribution to India's GDP. Currently, the sector contributes around 38 per cent to the country's GDP while it employs over 20 per cent of the work force.

Across schemes, interventions are primarily designed around financing entrepreneurs with readymade technological innovations. There is, however, an immense need to supplement the financial support offered through schemes with other non-financial services like mentorship in the form of providing technology expertise and business coaches, various types of business development services, market research, branding strategies, vendor sourcing and so on. Such an ecosystem based approach with the purpose of inclusion would need a strong policy support.

As an important stakeholder of the innovation ecosystem, the academia has a crucial role to play. The entire sequence of developing an innovative business idea into a product, and its commercialization, through the setting up of an enterprise, can be done effectively and efficiently through incubators. By creating a national network of laboratories and testing facilities, and linking the live projects of their students to the various government schemes, the academic institutions can become major sources of innovations.

Acknowledging that the operating policy framework for MSMEs encourages establishments to remain small, a draft consultation paper has been launched by the MSME Ministry seeking views on how this can be addressed. Some suggestions which would go a long way to address the key constraints of SMEs are given below.

4. Suggestions for Facilitating the Development of Small Businesses in India

There is an emerging consensus that to augment the competitive advantage of small businesses and help them to emerge to the next level of growth, it is important that units are provided with a conducive and enabling investment climate for an orderly conduct of business. This would imply provision of adequate and timely credit at cost-effective rates, conducive regulatory environment including effective governance, supportive infrastructure, facilitation of technology up-gradation, training in skill development, among others. The details are given as under:

4.1. Catering to the Funding Requirements of Small Business

The SME sector should be assured of easy credit availability at cost effective rates and with least documentation to mitigate the huge shortfall of credit faced by the small business segment. This would help MSMEs to meet their needs for working capital, purchasing machinery, equipment & raw materials, funding technology up-gradation and providing finance for marketing.

At present, the best of SMEs get credit at interest rates that are at least 175-200 basis points higher compared to blue-chip companies. Smaller units are the most distressed. Hence, to overcome the problem, it is suggested that suitable incentives be provided so that it becomes profitable for banks to lend to the MSME sector. Some suggestions are as under:

- Provide capital adequacy norms support through recognition of MSME credit ratings programme for each sector; rationalize interest rate and margin requirements for MSME who adopt credit rating programme.
- Provide separate sub-limits for lending to MSMEs under the priority sector lending norms. Banks should set aside at least 15% of the 40% priority sector lending for SMEs. In the US, around 57% is earmarked for SMEs.

- The cost of money (interest on borrowing) is too high for MSEs. SMEs should be charged a maximum limit of base rate + 2.5%.
- 25% of fund allocations should be reserved for women entrepreneurs to fill the gender gap in the industry.
- Low cost credit schemes should be designed for startups and micro industries.
- Bank charges are numerous and extremely high for small companies and should brought down by a minimum of 50%.
- Revisit the margins required for working capital requirements. For bank guarantees, a margin of more than 10% should not be demanded.
- The classification of NPA for MSME should be 120 days with a special dispensation given to MSME for another 30 days.
- The current limits under the CGTMSE scheme should be increased to INR 4 crores. The planned allocation of INR 1,80,000 crores should be effectively dispensed during each year of the planned period
- Tax breaks to retail investments in these funds similar to what is available for investments in infrastructure bonds would be helpful for getting the requisite scale of financing. With equity support, many enterprises growing organically at 10-15 per cent per annum could grow much faster and achieve 25-30 per cent CAGR. Banks must be asked to offer lower rate of interest to MSMEs which have acquired a particular grade in credit ratings.
- Design low cost credit schemes for start-ups and micro industries.
- Encourage SMEs to explore alternative sources of finance such as venture capital investment, angel funds and other innovative sources of finance. Permit 200 investors in a single company and INR 20-50 crore equity through non-regulated crowd funding. In the UK and USA new sources of equity and debt funding for SMEs are opening up through 'crowd funding' and peer to peer movement. This approach should be emulated by our country.
- ➢ Dedicated MSME equity funds need to be made available to finance rapid growth of MSMEs both in the public as well as private space.
- ➢ Mandate factoring institutions to earmark a percentage of their acquisition of receivables turnover as priority sector lending.
- ➢ Promote RBI's trade receivables scheme for MSMEs as financing initiatives
- Lower credit cost especially for MSME exporters. The cost of export credit in India is in the range of 11% and 12%, and this is much higher in comparison to competing countries in South East Asia, where it is around 5-6%.
- Provide rupee export credit, both pre and post shipment at 2.5% below the base rate through refinancing mechanism.

4.1.1. US Small Business Administration

The US Congress created the Small Business Administration (SBA) through the Small Business Act of 1953, whose function is to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." Since its founding, the U.S. SBA has delivered millions of loans, loan guarantees, contracts, counselling sessions and other forms of assistance to small businesses.

In 1958, Congress created the Small Business Investment Company (SBIC) program to facilitate the flow of long-term capital to America's small businesses. SBA does not provide capital directly to businesses. Instead, SBA partners with private investors to capitalize professionally-managed investment funds (known as "SBICs") that finance small businesses. The SBIC program, administered by the SBA, is a private-public partnership created in 1958 to fill the gap between the availability of growth capital and the needs of small businesses. The SBA's Investment Division licenses qualified private equity fund managers and provides them with access to low-cost, government-guaranteed capital to make investments in U.S. small businesses. At the end of FY 2011, SBA had over $8.2 billion invested in 299 funds. Together with private capital of approximately $8.8 billion, the program totals over $17 billion in capital resources dedicated to small entrepreneurs.

The economy benefits from the program as the small businesses financed by SBICs continue to create hundreds of thousands of jobs and generate tax revenues over the program's life. The SBIC Program is designed to operate on a "zero-subsidy" basis, meaning no tax dollars are used to fund the program.

SBA provides assistances primarily through its four programmatic functions:

4.1.2. Access to Capital (Business Financing)

SBA provides small businesses with an array of financing for small businesses from the smallest needs in micro-lending to substantial debt and equity investment capital.

4.1.3. Entrepreneurial Development (Education, Information, Technical Assistance & Training)

SBA provides free individual face-to-face, and internet counseling for small businesses, and low-cost training to nascent entrepreneurs and established small businesses in over 1,800 locations throughout the United States and US territories.

4.1.4. Government Contracting (Federal Procurement)

In keeping with the mandate of Section 15(g) of the Small Business Act, SBA's Office of Government Contracting sets goals with other federal departments and agencies to reach the statutory goal of 23 percent in prime contract dollars to small businesses.

4.1.5. Advocacy (Voice for Small Business)

Created in 1978, this Office reviews Congressional legislation and testifies on behalf of small business. It also assesses the impact of the regulatory burden on behalf of small businesses.

4.2. Regulatory Environment

Easing the complex regulatory environment would go a long way to facilitate the ease of doing business among small businesses and thereby reduce the transactions costs of operations. This in turn would spur investments and positively impact productivity and output. In fact, enhancing efficiency and transparency in our governance systems would incentivize SMEs to work towards capacity-building and help units to grow from micro to medium scale and then to large scale. It is in this context that the revision of the definition of MSMEs under the MSMED Act assumes special importance. Some other suggestions which would help to simply the regulatory environment for small businesses as given below:

4.2.1. Simplifying Regulations

- For immediate consideration:
  - Do away with Inspector Raj through common annual returns filed online, inspection only in high risk cases with due notice.
  - Ensure effective e-governance in areas of customs, excise, sales tax through e-filing of returns only and online data sharing between concerned departments.
  - Simplify the Companies Act 2013 as applicable to MSMEs in matters such as related party transactions, loans and deposits from related parties and directors, provisions relating to appointment directors, auditors, audit committees, remuneration, prohibitive penal provisions, etc.
- Single comprehensive model MSME Act to serve as a guideline to all states and territories.
- Single window approval system allowing entrepreneurs to register their businesses, obtain required licenses such as factory licenses, environment checks etc. through a single application for setting up and annual renewals.
- The proposed Small Factories Act to be expanded in scope and coverage in terms of the MSMED Act to cover all MSME units including manufacturing and non-manufacturing enterprises. Complete exemptions for units employing up to 20 people.
- Introduce self-certification and third party certification by MSMEs.
- Put in place an effective policy to deal with delayed payments to MSME by large companies on a timely basis. Mandatory 60-day dispute resolution mechanism for SME comprising 30-day fact finding window and 30-day clearance window.
- Develop National procurement policy for public and private enterprises for specified areas in each industry sector and incentives for vendor development for large companies and MSME clusters. SME Vendor development costs in the form of capital expenditure support, technology absorption support, transition of facilities to approved clusters, etc. incurred by large companies to be given 100 per cent direct tax break.
- Export promotion schemes for MSMEs, need for continuity, simplification, effective utilization and assistance in processing of the benefits through effective implementation of IT platforms thereby facilitating ease of doing business.

4.2.1.1. Procedures for Starting a Business

As a part of the Ease of Doing Business (EODB) report, the World Bank analyses cross country data on a number of parameters that indicate the conduciveness of the regulatory environment for starting and doing business in a particular country. One of the parameters of doing business is 'Starting a Business', which measures the number of procedures, time and cost for a small and medium-size limited liability company to start up and formally operate. It records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. India ranks 142 in the overall EODB and 158 in Starting a Business.

Below we compare the number of procedures and the time taken for companies to start a business (including pre-registration, registration and post-registration formalities) in selected countries.

Country	Procedures (number)	Time (days)
India	11.9	28.4
China	11	31.4
Russia	4.4	11.2
Brazil	11.6	83.6
South Africa	5	19
US	6	5.6
Japan	8	10.7
Germany	9	14.5

Table 2: Number or Procedures and Time taken to start a new Business in select Economies
Source: Ease of Doing Business, June 2014

4.2.2. Labour Laws

- Labour inspection should be regulated to serve the purpose of guidance in compliance with the statutory provisions, instead of causing harassment. There should be only one annual inspection by all the Inspectors after reasonable prior notice so that the clerk/officer concerned is present there to make available the requisite records.

- Annual filing and declaration to file taxes and other regulatory compliances, licenses, etc. annually in order to reduce administrative time and effort in meeting compliances on monthly, quarterly basis. Online filing of returns.

4.2.3. Exit Laws

Empowering SMEs would also mean giving them the freedom of entry and exit. In our country, it takes a long time to register or dissolve a company. Compare this situation with a country like Taiwan, which has the reputation of a hugely successful SME sector. The policy of free entry and exit has promoted efficiency among SMEs in Taiwan. There is need to allow easier exit norms for MSMEs, simplify the procedures and redesign the bankruptcy laws. Consider adopting a flexible exit policy for companies on lines of Chapter 11 bankruptcy procedure prevailing in the US where a company can anticipate its insolvency and file for bankruptcy at an early stage to rehabilitate ailing companies.

4.3. Infrastructure Development

The MSME sector faces problems related to inadequacy of infrastructure – land, roads, power, water, IT- which has impeded the growth and expansion of many MSMEs. The availability of adequate infrastructure and power at reasonable rates is crucial for augmenting the competitiveness of the MSME sector as it would reduce the cost of operations. The availability of adequate infrastructure and power is crucial to help small units to compete effectively in the global market place and run business operations successfully. Some suggestions to improve infrastructure requirement for MSMEs include:

- Plug and play type world class infrastructure at national and regional levels in manufacturing zones and along industrial corridors including business centers for MSMEs comprising physical infrastructure, knowledge infrastructure, e-platforms, B2B access and technology and innovation support for MSME. Encourage private sector participation.
- Incubation cells and hubs within clusters can be developed in collaboration with academia/regional institutions to provide MSMEs with mentoring and technology support, and shared R&D facilities.
- To facilitate the availability of Industrial infrastructure, a corporation/SPV to be created, which will hold the industrial land/building under its ownership. The MSMEs will use the facilities paying rent/service charges for initial 7-10 years.
- Develop a framework for the utilization of INR 10,000 Cr MSME Development Fund announced in the recent Union budget.
- The scope of the design clinic scheme should be expanded to allow more than one product and coverage up to commercialization.
- Promote IT development and implementation in MSME Clusters similar to the Quality Development Cluster Movement. Implement cloud technology among the MSME
- Clusters which can help MSMEs in Knowledge Sharing and Competitiveness Development.
- Clusters alongside infrastructure being developed in 100 modern cities/townships, urban and rural areas and the investments in road, rail, air and water to provide greater connectivity for MSME businesses.
- Designate "flatted factory" clusters close to urban areas with common support facilities.
- Land related Policy Suggestions
- Allocate 25% of the land available at all Industrial Corridors for MSMEs at different rate slabs and acquiring models.
- Land bank should be created at state level to facilitate smooth allocation of land to start-ups and micro enterprises.
- State governments and PSU's should be encouraged to identify unutilized land, which so far remains idle, and allocate these to MSMEs.
- Land in industrial estates already allotted to third parties but lying unutilized should be re-allotted to new or existing enterprises by state governments.
- Facilitate groups of SMEs for joint land applications to reduce burden of processing on state governments.

4.4. Technology and Skills: Overcoming the Technology Disadvantage

4.4.1. Technology Upgradation

Access to technology at affordable rates is critical for the Indian SMEs. Technology is increasingly seen as a business enabler for bringing in process efficiencies and higher degree of standardization. Hence, urgent technological upgradation and a focus on implementing new age technologies, developing indigenous technology as well as technological collaboration with global partners is needed for SMEs to enhance their cost competitiveness and product quality and move up the value chain. As suppliers to large industries, SMEs have to attain technological standards demanded of them by large units. Hence, partnership between SMEs and government agencies/R&D institutions as well as the creation of technology incubation centres by the government from which units can source technology at cost-effective rates can help in modernizing SMEs. Some suggestions are given as under:

- The government can provide for industry-specific interest rate subsidy schemes for SMEs along the lines of TUFs for textile industry.
- The government should also consider setting up more tool rooms and training centres, and ITIs should be geared up for training workforce to industry requirements.
- Launch a Technology acquisition scheme to provide assistance in both, development of indigenous R&D products as well as procurement of global technology.
- Provide special focus to key emerging sectors with high growth like homeland and internal security, defense, civil aviation,

bio-technology, nano technology etc. apart from conventional sectors like auto components, textile, leather.
- Introduce Technology upgradation fund scheme (TUFS) for the engineering units, particularly, for MSME sector.
- Provide enhanced depreciation on IT products for encouraging ICT use by MSMEs.
- Consider according 100% depreciation, once in a block of three financial years, for an annual investment in IT equipment and software up to a limit of rupees twenty-five lakhs, to MSMEs.
- Encourage the use of open source software.
- Creating 500 thousand new entrepreneurs by 2019 through provision of grants and setting up of startup villages, deploying funds which are available for entrepreneurship under different schemes.
- Promote IT development and implementation in MSME clusters similar to the Quality Development Cluster Movement. Implement cloud technology among the MSME clusters which can help MSMEs in knowledge sharing and competitiveness development.
- Encourage MSMEs to use different ICT platforms like ERP through enhanced depreciation on IT products.
- To enhance the self-reliance on energy and also be responsible towards the environment it is important to promote climate friendly energy technologies. There is a need to create Central Climate Friendly Technology Fund to help MSMEs to adopt such technologies.

National industry bodies should play a role of mentors in promoting Innovation and Entrepreneurship through innovative programs like Business Mentoring Services and Senior Expert Advisory Services which will help in providing the necessary guidance for the entrepreneurs and MSMEs in getting the necessary inputs from the Mentors who have knowledge in managing similar situations. Special emphasis to be given to women and SC/ST entrepreneurs.

Small enterprises need to complement each other and collectively function as big entities to derive scale economies through shared production and become a part of the global supply chain. It is for this reason that SMEs function more efficiently in clusters. In fact, technological innovations percolate faster and resources are utilized optimally within such a set-up. Hence, MSMEs should be encouraged to operate in clusters.

4.4.2. Skills

Inadequacy of skilled manpower is among the major bottleneck in the MSME segment which inhibits the sector from realizing its full potential. To partially mitigate the problem, some suggestions are as under:
- Incentivize approved/accredited training centres to skill employees from the MSE sector.
- 10% of additional employment generated to be incentivized by way of employment allowance type deduction.
- Entry level skilling through appointment of apprentices by SMEs to be incentivized.
- Create a governance panel for ensuring uniform accreditation of workers and course curriculum/training standards.

5 Conclusions

To conclude, it needs to be emphasized that with increasing globalization and competition, MSMEs have to continuously incorporate new technology into their production processes as well as strengthen their management functions, to cut costs, gain efficiency and consistency. This would help them to become competitive and contribute to the growth of the Indian economy.

6. References

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