



Confederation of Indian Industry



Ministry of Micro, Small and Medium Enterprises,
Government of India



Making Indian MSMEs Globally Competitive

Innovation | Growth | Partnerships

September 2019

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Preface

The Indian economy has been acknowledged as one of the fastest growing economies and third largest start up base in the world. The constant efforts of the Government of India have resulted in improved ranking in the World Bank's Ease of Doing Business 2019 survey. India jumped to 77th position amongst 190 countries which has been a landmark achievement.

The contribution of MSMEs has been central to India's growth. Over the last year, numerous significant steps have been taken by the Government and regulators for strengthening the MSME ecosystem. The sector contributes 29% to the GDP and accounts for 49% of exports. Through notable initiatives such as Make in India, the Government has promoted the Indian manufacturing brand and attracted global companies to invest in India and engage with MSMEs. The sector has the potential to create 10 million new jobs in the next four to five years and significantly add to the USD 5 trillion economy in making.

With 63.4 million units spread across the geographical expanse of the country of which more than half are in rural areas, the key to parallel growth of the sector and the overall economy is through boosting the rural economy. Revival of cottage industries and incentivising entrepreneurs at the rural and semi-urban areas would cater to the dual purpose of creating more employment opportunities and adding positive numbers to economic growth.

In the current trade paradigm, staying ahead in the technology race has become fundamental for sustainable engagement in the global value chains. However, there is also a need to address the underlying factors necessary to adapt contemporary technology into the production process by the SMEs which entails provisioning components such as infrastructure requirements, availability of skilled workforce and others into the schemes directed for technology adoption by MSMEs.

The response to the various initiatives taken up by the Government has been overwhelming. Recent initiatives towards overhauling the MSME ecosystem to create a more robust, efficient, and productive sector are widely expected to foster further progress. The correct mix of legislative changes in terms of launching new policies and revamping existing ones backed by responsible action will aid in propelling the growth of MSMEs as also in increasing avenues of employment generation and higher contribution to the national GDP.

CII has been playing a strong role in the MSME sector by channelizing industry voices and concerns to policymakers and engaging in continuous deliberations for the development of the sector. With more than 60% of its membership base belonging to this sector, CII believes that progress of MSMEs would translate into inclusive growth of the economy.



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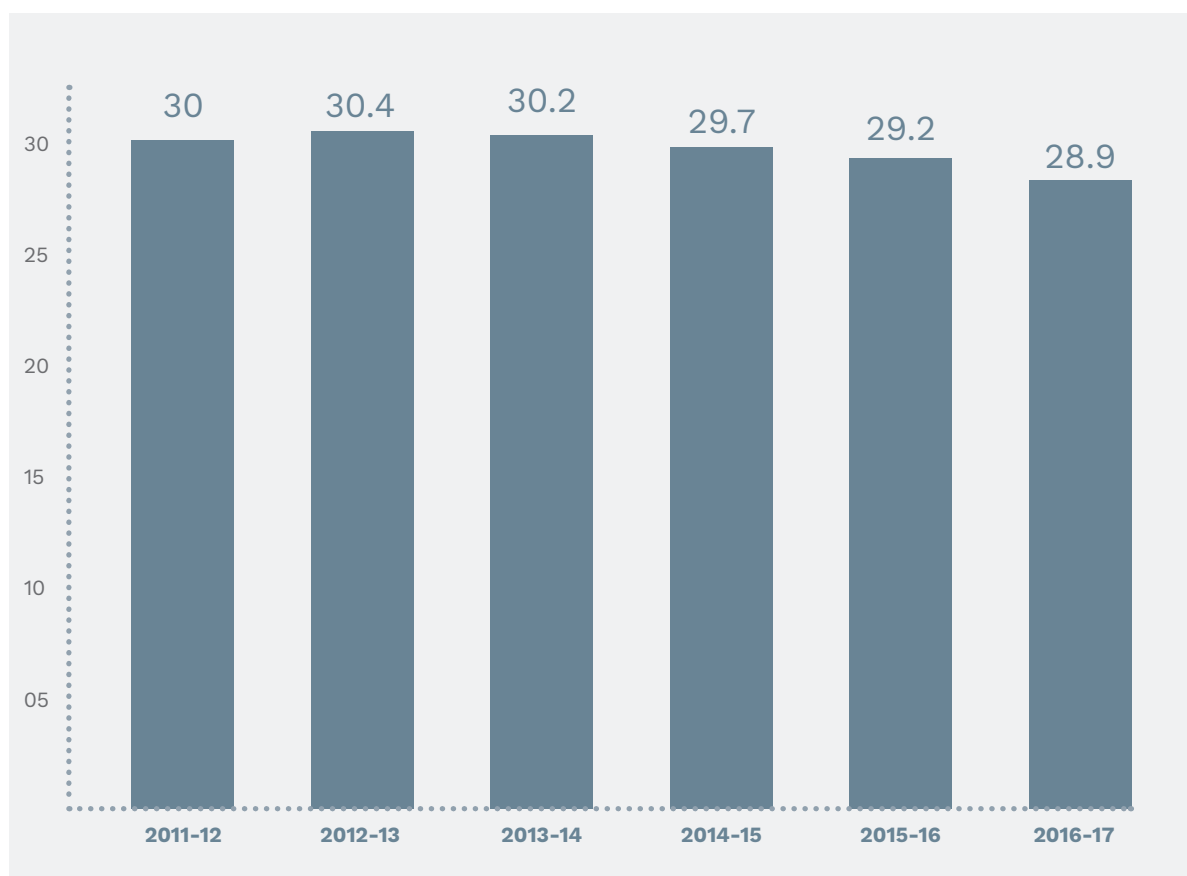
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1. Introduction

1.1 Statistical overview

The Micro, Small and Medium Enterprises (MSME) sector is a key pillar of Indian economy as, with a sizeable network of ~63 million units, the sector contributes immensely to its growth. The MSME sector generates employment for around 111 million people and manufactures more than 7,500¹ products, with a share of around 48 percent² in the country's total exports.

Contribution of MSMEs to India's economy at current price (2017-18)



Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

¹Development Commissioner (MSME) Ministry of Micro, Small & Medium Enterprises – accessed on 11 September 2019

²MSME Sector Contributes Significantly to Indian Economy, Press Information Bureau, 22 July 2019

MSMEs are classified into two categories³

1 Manufacturing Enterprises

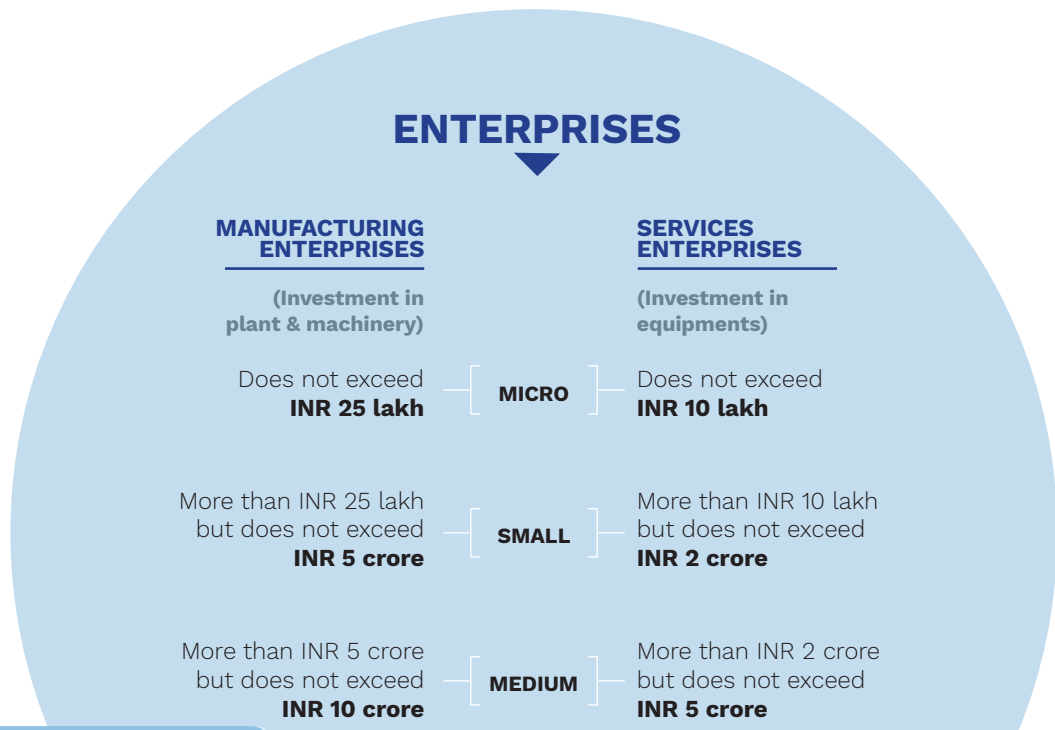
Enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. These enterprises are defined in terms of investment in Plant & Machinery.⁴

2 Service Enterprises

These enterprises are engaged in providing or rendering services and are defined in terms of investment in equipment⁵.

It is important to note that the criterion for classification of MSMEs is being reviewed for a change from the existing based on 'investment in plant and machinery or equipment' to 'annual turnover' of the enterprise.

The present ceiling on investment to be classified as micro, small or medium enterprises is given in the chart below.



³In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

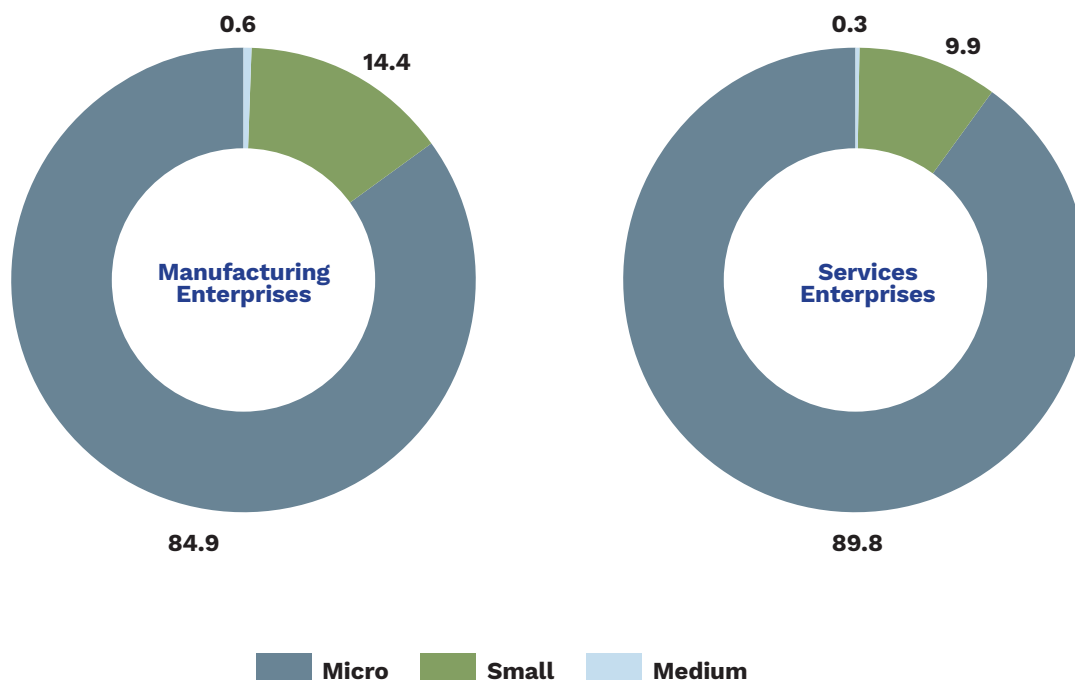
⁴Ministry of MSME, GoI – accessed on 9 September 2019

⁵Ministry of MSME, GoI – accessed on 9 September 2019

MSME exports

The share of MSME-related products in the country's exports was about 48.10 percent of exports during 2017-18⁶. It is clear on analysis of data from Udyog Aadhaar⁷, an online self-certification based registration portal for MSMEs, that a significant share of the MSME categorized enterprises engaged in both manufacturing and services belong to micro entrepreneurs.

Distribution of registered MSMEs in Manufacturing and Services as per UAM data



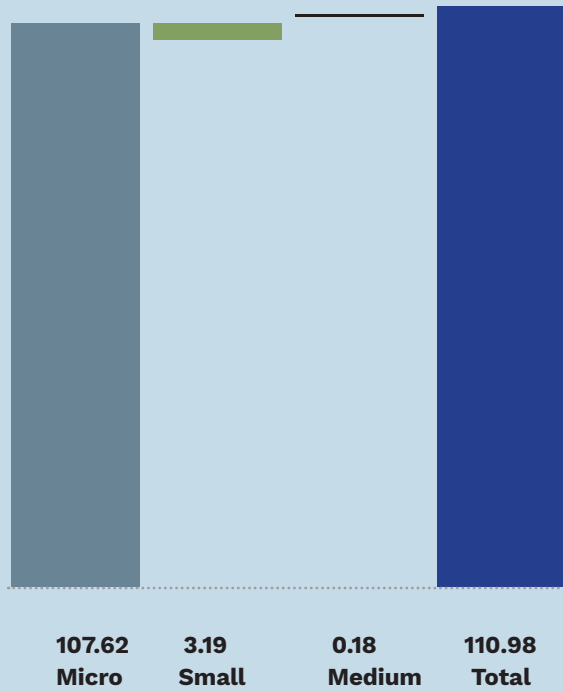
While some of these enterprises are directly engaged in exports, majority of the MSMEs are engaged indirectly through manufacturing intermediate goods for larger export-oriented industries.

Employment opportunities

Of the 110.9 million jobs generated in the sector, micro sector accounts for around 97 percent while small and medium sector constitute 2.88 percent and 0.16 percent of total employment respectively (As shown in figure below). Being one of the key drivers of India's transition from an agrarian to an industrialised economy, the sector can provide comparatively larger employment opportunities at relatively lower capital cost especially in the rural and remote areas, by becoming part of the industrial ecosystem and acting as ancillary unit for large enterprises.

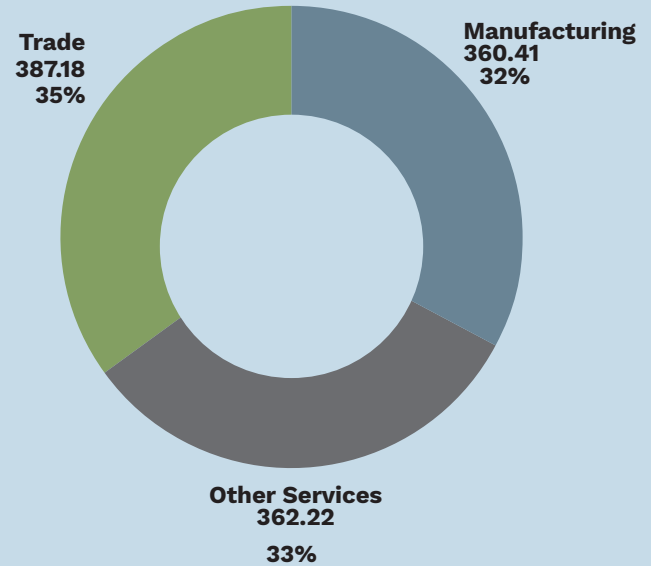
MSME Sector Contributes Significantly to Indian Economy, Press Information Bureau, 22 July 2019
 Udyog Aadhaar Memorandum (UAM) is a one-page online registration system for MSMEs based on self – certification no supporting documents are required at the time of online filing of UAM. As an initiative to promote ease-of-doing-business for MSMEs, UAM replaces the filing of Entrepreneurs' Memorandum (EM part-I & II).

Distribution of Employment in Micro, Small and Medium enterprises



Source: MSME Annual Report, 2018-19, Ministry of MSME, GoI

Employment in MSME sector (nature of activity-wise)

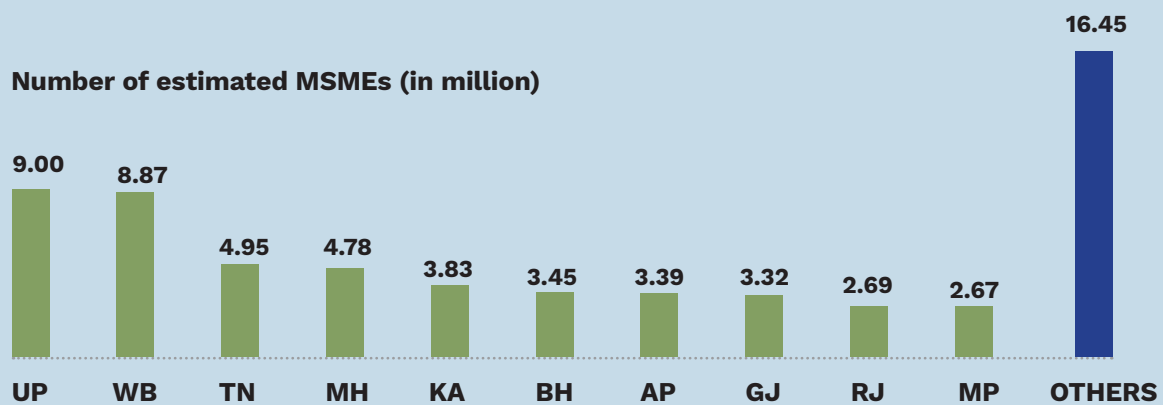


Source: MSME Annual Report, 2018-19, Ministry of MSME, GoI

*Non-captive electricity generation and transmission

Both Uttar Pradesh and West Bengal, currently lead among all states with around 14 percent (each) of total MSMEs in the country. Between them, UP has a slight lead over West Bengal by over 0.13 million. The top 10 states together account for a share of 74 percent of the total estimated number of MSMEs in the country.

Number of estimated MSMEs (in million)



Source: MSME Annual Report, 2018-19, Ministry of MSME, GoI

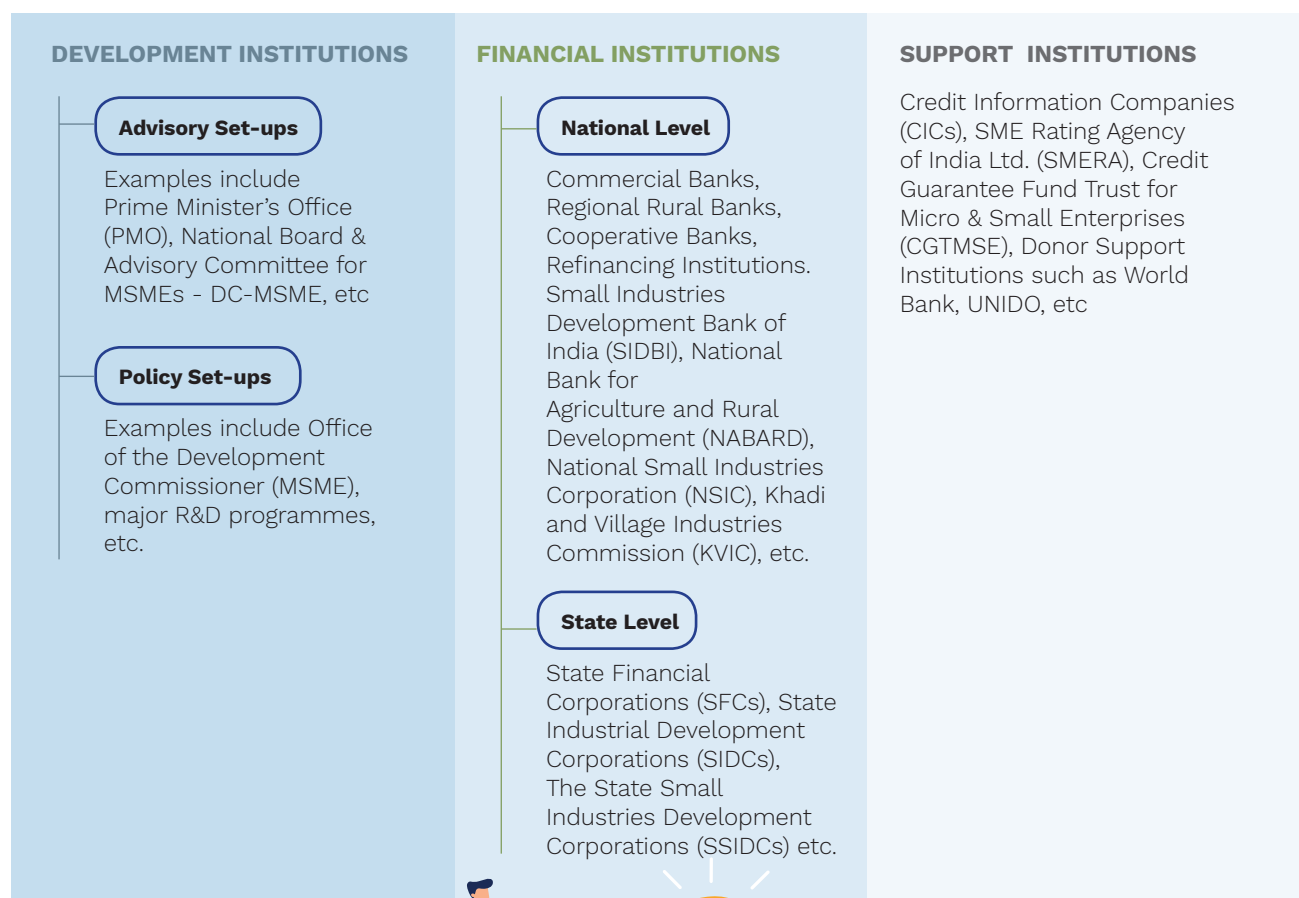
Note: UP-Uttar Pradesh, WB-West Bengal, TN-Tamil Nadu, KA-Karnataka, BH-Bihar, AP-Andhra Pradesh, GJ-Gujarat, RJ-Rajasthan, MP-Madhya Pradesh

1.2 Institutional framework for MSMEs in India

At the central level, the Ministry of Micro, Small and Medium Enterprises (MoMSME) is the Nodal Ministry for policy matters and for providing focused attention to the promotion and development of the MSME sector. Both central and state governments are involved in promoting MSMEs through various ministries and departments.

Apart from these ministries and departments, there are other institutions that play a critical role at different levels in providing services and support - banks and financial institutions, refinancing institutions, technology developers, skill building institutes, marketing agencies, etc.

INSTITUTIONAL FRAMEWORK FOR MSMEs



Source: MSME Annual Report, 2018-19, Ministry of MSME, GoI



1.3 Cluster development initiatives

While the Indian MSME sector as a whole is highly varied at a National level, at certain geographical locations there are concentrations of common skill sets or types of Industries. These can be clubbed into Clusters with common characteristics.

The Ministry of MSME initiated selected interventions in industrial clusters first in 1998, and then later broad-basing its MSE Cluster Development Programme through interventions, such as, capacity building, marketing development, export promotion, skill development, technology upgradation, exposure visits and setting up of common facilities centers, etc.

The ministry's cluster-based approach aims to

- Support the sustainability and growth of MSMEs by addressing common issues, such as, improvement of technology, skills and quality, market access, access to capital, etc.
- Build capacity of MSEs for common supportive action through formation of self-help groups, consortia, upgradation of associations, etc.
- Create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSMEs.
- Set up common facility centers (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc).
- Facilitate network development among cluster stakeholders.
- Development 'service ecosystem' in the clusters.

1.4 List of the schemes of the Ministry of MSME

The Ministry of MSME runs numerous schemes targeted at providing credit and financial assistances, skill development training, infrastructure development, marketing assistance, technological and quality upgradation and other services for the MSMEs across the country. Amongst others, some of the important schemes by the Ministry of MSME are provided below⁸:

Credit and Financial assistance to MSMEs

1. Prime Minister's Employment Generation Programme
2. Credit Linked Capital Subsidy Scheme (CLCSS)
3. Credit Guarantee Trust Fund for MSEs (CGTMSE) - Provision of collateral free credit for MSMEs

Skill Development and Training

1. A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE)
2. Entrepreneurship and Skill Development Programmes (ESDP)

Infrastructure

1. Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
2. Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

Marketing Assistance

1. Scheme for providing financial assistance to Khadi institutions under MPDA

Technology Upgradation and Competitiveness

1. Financial Support to MSMEs in ZED certification
2. Support for Entrepreneurial and Managerial Development of SMEs through Incubators

Other Services

1. National Scheduled Caste and Scheduled Tribe Hub
2. Building Awareness on Intellectual Property Rights (IPR) for MSMEs

Note: This list is indicative and not exhaustive

⁸MSME Annual Report, 2018-19, Ministry of MSME, GoI

2. Competitiveness of MSMEs

2.1 What does 'Competitiveness' mean?

Competitiveness is defined as the 'ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are viable and provide adequate returns on the resources employed or consumed in producing them'.

While MSMEs in India continue to remain one of our highest employment-generating sectors, their performance in international markets has much scope for improvement. In most specialized sectors that call for technology-readiness and R&D intensity such as telecom, IT hardware, electronics, etc; India remains a net importer of goods. While in all other sectors, the relative competitiveness of MSME units in India in the global supply chain continues to remain in a nascent stage. As described above, there is a need to better integrate into global supply chains, either directly or through larger companies. And yet, there is great diversity, robustness and technology-centricity found in some MSME units. The greatest example of their resilience will be found in the fact that at least 10 components in

India's Mangalyaan (Mars Mission) were sourced from MSME Tool Rooms⁹

Factors that enhance competitiveness:

Competitiveness of a firm can be evaluated by its **capacity to compete, capacity to connect, and capacity to change**. Each of these forms the pillars of the Competitiveness matrix¹⁰ shown below.

While the Capacity to Compete centers on present operations of firms and their efficiency in terms of cost, time, quality and quantity, the Capacity to Change refers to firms' capacity to execute change in response to, or in anticipation of, dynamic market forces. The Capacity to Connect, on the other hand, refers to the capacity to gather and exploit business relevant information and knowledge. Each pillar of competitiveness is determined at three levels -- firm capacities, business ecosystem, and national environment -- to determine whether competitiveness weaknesses or strengths are at the firm level, within the immediate business environment or at the macro level. Various parameters have been enlisted under each pillar under these three levels.



⁹MakeinIndia.com

¹⁰Based on the ranking methodology adopted by International Trade Centre

Competitiveness matrix

Across ↓

Competitiveness assessed on the ability to...

	Compete	Connect	Change
Firm Capabilities	<ul style="list-style-type: none"> • International quality certificate • Bank account • Capacity utilization • Managerial experience 	<ul style="list-style-type: none"> • E-mail • Firm website 	<ul style="list-style-type: none"> • Audited financial statement • Investment financed by banks • Formal training programme • Foreign technology licenses
Business Ecosystem	<ul style="list-style-type: none"> • Power reliability • Domestic shipping reliability • Dealing with regulations • Customs clearance efficiency 	<ul style="list-style-type: none"> • State of cluster development • Extent of marketing • Local supplier quality • University-industry collaboration in R&D 	<ul style="list-style-type: none"> • Access to finance • Access to educated workforce • Business licensing and permits
National Environment	<ul style="list-style-type: none"> • Getting electricity • Ease of trading across borders • Applied tariff, trade-weighted average • Prevalence of technical regulations • Faced tariff, trade-weighted average • Logistics performance index • ISO 9001 quality certificates • ISO 14001 environmental certificates • Governance index 	<ul style="list-style-type: none"> • ICT access • ICT use • Government's online service 	<ul style="list-style-type: none"> • Ease of getting credit • Interest rate spread • School life expectancy • Ease of starting a business • Patent applications • Trademark registrations

Source: International Trade Centre

Note: The list of parameters is only indicative and not exhaustive



2.2 Key challenges faced by MSMEs

While MSMEs have shown remarkable resilience by virtue of adapting to the changing face of global economy and maintaining a stable growth rate, it has continued to suffer on the competitiveness index due to significant challenges, which have remained more or less unchanging.¹¹

1 Lack of access to adequate and timely credit

- High cost of available credit and term loans
- Complex collaterals required by banks
- Cumbersome loan sanction procedures
- Delay in disbursement of funds

8 Documentation

- Lengthy and cumbersome documentation process required to comply with foreign and domestic market regulations

7 Insufficient infrastructure

- Deficiencies in basic infrastructure facilities, including power, water, roads, etc. for non-cluster based MSMEs

2 Limited awareness / know-how w.r.t increasing competitiveness

- Limited information about products and services in demand
- Inadequate access and marketing linkages
- Lack of understanding of the Working of the foreign markets, and in particular difficulties in accessing export distribution channels and in connecting with overseas customers
- Lack of awareness on export promotion and assistance programmes offered by the government
- Unfamiliarity with legal and regulatory frameworks of the exporting and importing countries
- Limited awareness on IPR issues and various International Trade Agreements (ITAs)

3 Lack of access to markets

- Limited adoption of Standards
- Logistics related challenges
- Presence of Trade and Non-Trade Barriers
- Limited information on potential markets based on market intelligence

4 Limited access or knowledge of appropriate technology

- Lack of innovation, low-value addition and poor packaging due to low level of technology adoption
- Unable to meet importer's quality standards and establishing suitable design and image for the export market

5 Lack of availability of suitable skilled human resources

- Lack of skilled manpower for manufacturing, services, marketing, etc.
- Inability to afford quality managerial and entrepreneurial expertise
- Lack of managerial competence, absence of proper training on resource planning and capital management

6 Poor procurement

- Procurement for raw materials at a competitive cost is a challenge as these are carried out within local territory due to their financial constraints and procurements are much smaller in scale as compared to industry at large.

Notwithstanding a significant share in overall exports and a fairly decent growth story, MSMEs are repeatedly faced with challenges that impede their access into global markets. It is imperative to create an eco-system that enables them to enhance growth prospects, integrate with the global value chain either through directly engaging with the global players or being a part of the supply chain by producing for the bigger firms which are linked to the global vendors, generate more and better-quality jobs, experience improved productivity and innovation while seizing new opportunities in the digital age.

¹¹Development Commissioner Ministry of Micro, Small & Medium Enterprises



3. Competitiveness of Indian MSMEs vis-à-vis other emerging nations

3.1 Comparison across parameters

MSMEs play an important role in the global economy and are a key player in global trade. They contribute significantly to the exports of any economy. In developing countries, their export share stands at around 35 percent of the economy and 50 percent in developed countries¹². Due to such high export intensiveness, the current global trade scenario, shaped by rapid development of digital technologies and high-tech manufacturing, poses many challenges to the sector; boosting competitiveness is thus one of the best ways to enable MSMEs to transform those challenges into opportunities.

The low-cost manufacturing is no longer a dominant theme in global trade, which is being gradually replaced by increased emphasis on value addition. In this environment, it is essential for small and medium enterprises to rethink the way they do business, improve their ability to change themselves as required by dynamic market

forces, enhance their innovative capacities by way of increasing investment in human capital, and be capable of processing available information and knowledge to benefit their business. In sum, an MSME that has the capacity to **compete, change, and connect** will stand to benefit, irrespective of the order of global trade any day. Also, India has already signed many free trade agreements (FTAs) and has been engaging in regional trade negotiations such as RCEP (Regional Comprehensive Economic Partnership). Free trade deals essentially increase pressure on MSMEs by giving privileged access to firms in our trading partners, so enhancing their competitiveness is one of the best ways to overcome this challenge

Indian MSMEs' competitiveness has been compared with other Asian nations such as Thailand, China and Vietnam through a comprehensive SME competitiveness grid prepared by ITC. This has been detailed in the previous section.



¹²SME competitiveness outlook – SIDBI, <https://sidbi.in/en/articles/optimism-article-page/128> - accessed on 13 September 2019

SME COMPETITIVENESS GRID SUMMARY

INDIA

Average scores (0-100)		Compete	Connect	Change
FIRM CAPABILITIES	Small	37.5	26.8	41.3
	Medium	41.9	48.4	52.2
	Large	59.7	73.1	66.2
	All	42.6	40.8	51.1
BUSINESS ECOSYSTEM		61.5	69.8	58.6
NATIONAL ENVIRONMENT		54.5	43.7	45.1
Reference level: 41.9 (a function of GDP per capita)				
Weaknesses are scores below: 21.0		Strengths are scores above: 62.9		



THAILAND

Average scores (0-100)		Compete	Connect	Change
FIRM CAPABILITIES	Small	54.0	26.7	26.3
	Medium	53.5	28.7	33.2
	Large	69.4	51.7	52.7
	All	56.1	29.2	32.8
BUSINESS ECOSYSTEM		64.6	64.3	90.8
NATIONAL ENVIRONMENT		65.7	61.0	58.0
Reference level: 51.9 (a function of GDP per capita)				
Weaknesses are scores below: 25.9		Strengths are scores above: 77.8		



CHINA

Average scores (0-100)		Compete	Connect	Change
FIRM CAPABILITIES	Small	56.5	45.5	41.8
	Medium	63.7	64.9	61.4
	Large	70.9	71.4	67.2
	All	60.7	54.2	54.8
BUSINESS ECOSYSTEM		75.0	69.8	88.2
NATIONAL ENVIRONMENT		60.6	70.4	69.5
Reference level: 55.0 (a function of GDP per capita)				
Weaknesses are scores below: 27.5		Strengths are scores above: 82.5		



VIETNAM

Average scores (0-100)		Compete	Connect	Change
FIRM CAPABILITIES	Small	29.3	42.7	27.3
	Medium	39.6	66.2	34.1
	Large	52.4	75.3	55.0
	All	36.6	51.8	34.8
BUSINESS ECOSYSTEM		63.1	49.7	73.0
NATIONAL ENVIRONMENT		58.8	54.3	55.8
Reference level: 43.8 (a function of GDP per capita)				
Weaknesses are scores below: 21.9		Strengths are scores above: 65.7		



While performing well in capacity utilization and dealing with regulations¹³, **Indian MSMEs underperform in managerial experience** and in owning foreign technology licenses. The gap between small and large firms lies in having business websites, which affected the score of small enterprises on 'Connect' parameter. While medium sized enterprises fared relatively well when it comes to formal training program¹⁴, **small enterprises should improve on this indicator, underlining the need to create awareness about tax incentives available to expenditure on skill development**¹⁵.

China's high score on **access to finance** enabled it to perform well on 'Change' parameter, buoyed by a good score on access to educated workforce. China has also performed well in quality and environmental certificates and logistics performance index.

In Thailand, both small and medium enterprises performed reasonably well in 'Compete' parameter, primarily helped by their relatively good score on capacity utilization and managerial experience. However, they did underperform on 'Connect' and 'Change' parameters under firm capabilities level. The country maintains a relatively high score in 'getting electricity', meaning that a simple but efficient process of procuring an electricity connection positively contribute to Thailand's competitiveness.

In Vietnam, there is a gap between small and large enterprises but that is relatively low, which led to its good performance in 'Connect' parameter under firm capabilities level. At a national level, Vietnam displays strong position in quality as well as environmental certificates indicators.

At a firm level

The presence of a large gap between large and small enterprises when it comes to international quality certificate requires immediate attention

Many small enterprises lag behind large firms in having e-mails or websites. Thus, small firms should be encouraged to increase their communication on digital media, especially as connecting with key players in the firm's business environment at ease is essential to gather and exploit business relevant information and knowledge, as well as improve customer satisfaction.

There is a need for Indian small enterprises to increase their spending on formal skill development programs, which will go a long way in helping improve their innovative capacity

At a business environment level

India's low score on power reliability indicator acts as a major obstacle from immediate business environment perspective. This essentially means that firms in India may have incurred higher losses due to electrical outages.

While India's score on access to finance indicator is higher than that of Bangladesh, it is lower than that of China, Vietnam, and Thailand, suggesting there is scope for further improvement on this parameter.

At a macro level

The issue of prevalence of technical regulations could restrain Indian firms' ability to be a part of global value chains

Although India's performance at a national level on 'Connect' parameter is much lower than its potential, it is however believed that the digital drive that the country has been witnessing would enable it to make further progress on this parameter in the coming years. India needs to make progress on trademark registrations. The national IP policy launched in 2016, which among others gives more importance to enhancing the IP stock of MSME and startups. This should be complemented with a functional mechanism for funding for protecting IP startups and a dedicated scheme to incentivize MSMEs to engage in R&D and new knowledge

Key findings for India

¹³Among the list of indicators used to get scores for 'Compete' pillar under firm capabilities and business ecosystem levels, respectively

¹⁴One among the list of indicators used to get scores for 'Change' pillar under firm capabilities

¹⁵Weighted deduction of 150% on expenditure incurred on a notified skill development project by a company

3.2 Case studies of a competitive ecosystem

While MSMEs have shown remarkable resilience by virtue of adapting to the changing face of global economy and maintaining a stable growth rate, it has continued to suffer on the competitiveness index due to significant challenges, which have remained more or less unchanging.

Albania – collaboration among MSMEs leads to more opportunities

MSMEs and farmers constitute a majority of Albanian businesses, but they lack knowledge, know-how and experience regarding national and international markets, competition and product standards, which leaves them in a disadvantageous position when it comes to tapping opportunities. Also, they do not receive any institutional support from both public and private sectors. Since Albanian entrepreneurs usually act in isolation within their enterprises, they do not get the chance to improve their skills systematically and also see other entrepreneurs even from the same sector as competitors and personal enemies. As a result, they are reluctant to exchange know-how and experience, as well as cooperate with them. They do not trust the government, promoting institutions, suppliers, customers and even colleagues.

To overcome these challenges and stimulate change at firm level, an integral approach, the Nucleus Approach, is introduced. This addresses the MSMEs of a sector by creating a working group called “nucleus” that is facilitated by a Nucleus business counsellor and hosted by an association or chamber.

The Nucleus Approach forms an organizational platform that allows entrepreneurs to perform various activities, ranging from identifying individual and common problems, comparing their performance with others (benchmarking), and defining their own demand for services, to developing self-confidence as well improving their enterprises.

Other activities performed as part of this approach include: group counselling, identifying the entrepreneurs’ subjectively perceived problems and looking for solutions within the group and starting common activities to tackle problems. These actions are believed to fuel organizational change in the hosting business association or chamber. Five Albanian private business associations representing tourism/hotels, olive oil production, horticulture, livestock, and professional business women founded an NGO called “Nucleus Albania” in September 2014.

The main objective of this NGO is to support MSMEs by way of nourishing their cooperation, putting the MSME Nucleus approach into action, and upgrading MSME business services through a national network and information sharing platform.

Benefits

- 15 olive oil producers and 10 olive farmers organized a joint promotion in commercial chain stores and together acquired new technical equipment
- 10 hotel owners in Tirana gained international expertise on how to improve their services by participating at the Pristine Tourism Fair. In order to share experiences among themselves, they also organized a B2B meeting in Vlora



China – economies of scale through the concentration of production

Speedy growth of industrial clusters along the principles of socialization, specialization and market-orientation was noted in China. Key features of these clusters include: small products but big markets; small enterprises but large-scale cooperation and small clusters but great achievements.

Professional towns and villages functioning as production hubs and achieving economies of scale by having one or two towns focus on one product are the key component of the cluster economy in China. This has led to large-scale specialized production and marketing with great potential for success being set up in some areas. This basically elaborates the concept of - one village, one product or – one town, one industry.

An enabling environment needed for the formation of such clusters such as appropriate policies, regulations and vital infrastructure was given by local government units. Several financial incentives to attract talented people with overseas education background and incentivize teams with deep tech talent offered by Shenzhen's Municipal Government played a crucial role in making the city a leading technology hub in China. The city enjoys a high concentration of high-tech talent, owing to a large presence of hardware manufacturing industry and the fact that it spends over 4 percent of its GDP on Research and Development.



Italy – Cooperation among competing firms gives the country a competitive edge

Italy is known as the leader of cluster development. Notwithstanding a stiff competition among them, Italian firms do foster a high degree of cooperation, an act which is famously known as 'Competition by cooperation'. Under this system, the production processes are disintegrated into distinct phases and separate firms take control over different phases.

SMEs part of these clusters attain competitive advantages through three aspects: 'specialization, cooperation and flexibility'. This model also allows for flexibility, as this facilitates the grouping of different contractors according to the specialties required in the product.



3.3 Observations and relevant learnings for India

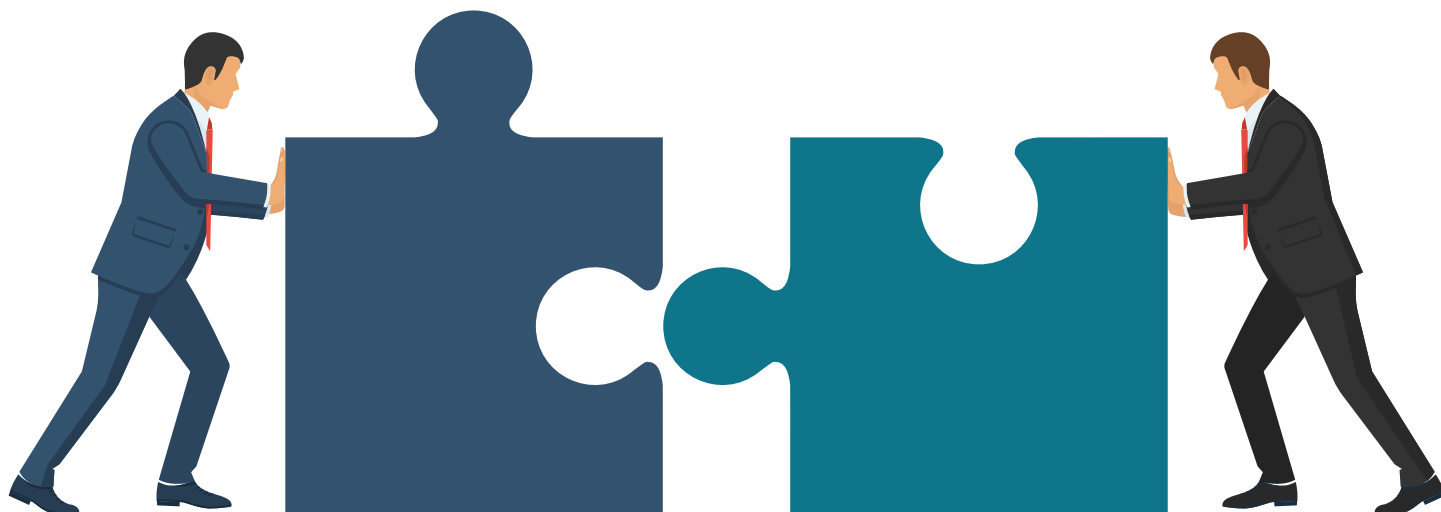
- Since most of our MSME units are micro in nature, and fragmented in approach, we are unable to bring economies of scale into production. The benefits of a united approach to production and marketing can be harnessed by adopting a city or cluster focus to manufacturing one particular product and bringing it to world-standard of specialization.
- Collaboration among MSME units is one of the best ways to identify their genuine on-ground problems and find innovative solutions to tackle the issues.
- Online marketplaces such as Amazon play an important role in helping MSMEs expand their market. In 2018, Amazon India entered into a partnership with the Federation of Indian Micro and Small & Medium Enterprises (FISME) to conduct various events and workshops across the country. This collaboration will allow consumers to have access to increased selection and MSMEs to tap into new opportunities. So it is truly a win-win deal. In this context, the government's plan to introduce an e-marketplace for MSMEs, similar to Alibaba, is a step in the right direction and could open up enormous opportunities for the sector.
- The approach towards MSMEs have been to transact with them by offering one-time support through different schemes. However, the needs of the sector are different. MSMEs require sustained on ground support which is what should be the focus.
- Global competitiveness shall also stem from actionable market intelligence delivered in a timely manner. Very few players in the Indian MSME sector have that visibility
- Awareness, as always, has been a challenge. Our competitiveness will not increase if the sector is not actively reached out to.



4. Key enablers for enhancing competitiveness/ shaping up the MSME Ecosystem

4.1 New partnerships and collaboration

- Encouraging the sharing of information, ideas and research among MSMEs would go a long way in helping themselves integrate in global value chains. Developing and implementing schemes that promote joint action and offer incentives based on number of participating units can be looked at. For example, within the Cluster Development Programme, the quantum of assistance from the government should be determined by the number of units in a cluster participating in the initiative.
- Public-private and inter-firm partnerships, research and development opportunities, start up or accelerator hubs and entrepreneurial ventures are some forms that collaboration models can be based on. Linkages with CSIR labs can be a starting point to introduce MSMEs to new indigenously developed technologies leading to a win-win for both parties.
- Establishing an intellectual property framework that both promotes the sharing of ideas and incentivizes creative endeavor could fuel MSME collaboration. The recent announcement on reducing the patent costs for MSMEs is a welcome step. However, to ensure adequate uptake, the importance of generating patents will need to be communicated effectively.
- Indian MSMEs should be open to forging joint ventures with foreign players, which will not only allow them to tap technologies but also create more quality jobs in India. Collaboration with foreign firms is one of the best ways for Indian MSME to expand their footprints in foreign lands. Moreover, India offers a great market for foreign players to introduce their products and services. Therefore, an ecosystem of 'Connect, Collaborate and Conduct' can be established wherein the platforms enables a Connect or a first level introduction, the ecosystem facilitates collaboration through a formal engagement and the environment leads to the conducting of business.



4.2 Nurturing innovation and skill development

- India needs to focus on skill development for both labor and entrepreneurs. More importantly, the skill development initiatives are required to be outcome oriented in terms of creating an employable workforce rather than output oriented which focuses on the number of trainees. While having more ITIs and skill development centers will provide quality formal training to employees, encouraging the formation of incubators in every major city would go a long way in developing entrepreneurs.
- Utilizing underutilized industrial estates of government, both central as well as state, for building incubation centers may be considered. Besides, increasing the seed funds available for incubation activities would give an impetus to the risk associated with entrepreneurs trying out new things.
- While few mentors are ready to offer mentorship services as pro-bona others look for compensation. Creating a dedicated portal to provide mentoring services would be good support to startups as well as existing MSMEs who struggle with relatively easily addressable challenges.
- Most incubators in India are not experimenting with virtual training program, mostly due to the absence of a centralized tool to facilitate it. If the government creates such a tool, they might be encouraged to try that.

4.3 Leveraging data and new technologies

- New technological developments open up enormous opportunities for SMEs, which not only made access to market-relevant information easy but also opened up new ways of accessing finance such as peer-to-peer lending, crowdfunding, cryptocurrency-based securities etc.
- In the digital world, each and every transaction creates data. Having a robust platform to process such information in order to produce valuable market insights would give firms an unparalleled edge. This information also helps them invent new ways of analyzing markets and facilitating interaction between buyers and sellers. Platforms such as TReDS, GeM are a step in the right direction and more needs to be done to ensure greater uptake.

4.4 Trade facilitation infrastructure and policies

- Customs administrations should strengthen its governance capabilities by giving more emphasis to information and communication technology (ICT). Effective trade facilitation also requires better communication strategies and a properly designed information content. Smart portals, user experience-based interfaces, advanced analytics are some of the features that may provide superior user experiences. In addition, actionable market intelligence with respect to Most Favoured Nations (MFN), Basic customs duty, Preferential tariffs, Rules of origin, Duty Drawbacks, etc. can be extremely beneficial.
- Compliance measurement makes trade facilitation salient and risk management systems more effective. Design of trade facilitation processes should give more importance to compliance than business size as a qualifying criterion, which could benefit MSMEs, especially as they are often denied access to these processes due to their size
- While introducing measures to improve trade facilitation processes, it is important that the current status of MSME capacity is taken into consideration. Their concerns should be heard through surveys; they need to be given support to better manage records and skills, which is important if they are to benefit from trade agreements

4.5 Quality of physical infrastructure

- To strengthen the competitiveness of MSMEs and help them access to international markets and integrate into value global chains, building a well-developed infrastructure (roads, railways, seaports, airports and telecommunications) is essential

4.6 Investment facilitation

- Investors and MSMEs often fail to find each other, irrespective of the latter's efforts to find investors and policymakers' initiatives to create an enabling environment. There is a need for an agency that could play the role of matching / directing investors to MSMEs. Mostly, financial institutions serving SMEs, investment promotion agencies, online investment platforms and investment accelerators perform this role. However, lack of information about MSME finances makes this task more challenging for them.
- Efforts should be focused on improving investor perception that otherwise proves to be a bottleneck for investments in MSME space.
- Enabling financing mechanisms and easier access to credit will augur well for the MSME sector





5. Key emerging sectors

Considering the expected growth trends in the top industry sectors and certain opportunity areas, MSME share in these growth sectors can be increased significantly, if they can aspire to become a strong backbone to industry sectors by serving as quality suppliers and vendors as well as customers to large companies.



Automotive

- Automotive electronics
- Manufacture of automotive components, Tier 1 and Tier 2 suppliers to OEMs
- Electric vehicle manufacturing
- Applied electronics
- Defence sector
- Rubber and chemicals supply for tyres

Biotechnology

- Domestic manufacturing of diagnostic kits, reagents and consumables used in testing
- Focus on vaccine exports to developed countries
- Providing bio-informatics related solutions
- Leveraging the biosimilar opportunity
- Recombinant products
- Agri produce
- Hybrid seeds also represent new business opportunities in India based on yield improvement



Chemicals

- Bio-based raw materials to reduce dependence on oil
- Support supplies and services for Integrated petroleum, chemicals and petrochemicals investment regions (PCPIINR)

Electronics

- Electronic Systems Design and Manufacturing including semiconductor design, electronic components design and hi-tech manufacturing
- Electronic components with focus on making components for electronic products customised for the Indian market
- Strategic electronics, with the Government of India keen to encourage domestic manufacturing of products needed by the armed forces
- Low-cost consumer electronics, consumer durables
- Nanoelectronics and microelectronics



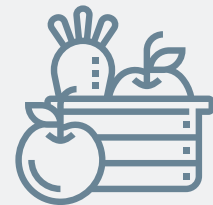


Engineering & Process Equipment

- Engineering solutions segments like chemicals and petrochemicals, pharmaceuticals and automotive for a growing demand for process equipment
- Next generation automation tools like smart robotics in high precision industries
- Green Engineering

Food and Agriculture

- Processed food, ready to eat packaged food, premixes, milk & dairy, bakery and processed meat
- Backend infrastructure such as cold chain storage, farm collection center, etc.
- Health food, health beverages, food additives such as vitamin additives, etc
- Food packaging, innovative packaging for processed food
- Contract manufacturing for crop protection chemicals, crop nutrients
- Poultry, feed and farm additives



Industrial Mfg.

- Design, equipment and supplies
- Processing and toll manufacturing
- Sustainability and pollution treatment services
- Facilities management services

- Cloud computing
- Social media and mobility
- Data analytics services
- E-governance
- Mobile apps and software development
- Software automation



Pharmaceuticals

- Generics and API manufacturing
- Contract research
- Nutraceuticals and nutricosmetics

Renewable Energy

- Personal protective equipment and safety gear
- Drilling and mining chemicals



Textile

- Raw fabric and dye production
- Processing & Packaging

Source: The new wave Indian MSME: An action agenda for growth: KPMG in India, Indian Exports - The Next Trajectory - Mapping Products and Destinations, CII

6. Conclusion and key take-aways

Globalization has created significant economic opportunities for nations and companies around the world to access the global market. Consequently, India, like other countries, has strived to keep up with the global market emerging dynamics by constantly revisiting its various policies.

MSMEs constitute almost 95 percent of the Indian economy¹⁶. Thus, development of the MSME sector is vital to meet the national objectives of financial inclusion and employment generation across urban, rural and rural areas. Further, it can foster and support development of new age entrepreneurs who have the potential to create globally competitive businesses from India.

Initiatives such as **National Manufacturing Competitiveness Programme (NMCP)** have been launched to support MSMEs in improving their competitiveness. Schemes to **promote lean manufacturing, design improvement, 'Zero Defect Zero Effect' certification, support for incubators, awareness of Intellectual Property Rights and digital empowerment to MSMEs** have been put in place to achieve the related objectives. In order to support MSMEs in their technology up-gradation endeavors, **Credit Linked Capital Subsidy-Technological Up-gradation Scheme (CLCS-TUS)** has been announced¹⁷. All these programmes and policies are aimed at plugging the gaps and addressing the challenges (described in section above)

India's cultural diversity provides significant number of regional village industries manufacturing typically traditional and heritage-based products across the country ranging from traditional textile weaving to pottery and art and even medicine. It is important to recognise and reward MSME for initiatives towards skill development and employment generation by means of direct incentives, weighted deductions and reliefs in indirect taxes combined with low cost funding and credit access for stakeholders. This would greatly promote rural economy and create jobs.

Additionally, MSMEs have the potential to become the backbone for future high growth businesses with both domestic and foreign companies investing in the 'Make in India' initiative; thus, making significant impact in the area of indigenisation. 'The 'Digital India' revolution also provides a great opportunity to promote MSME participation in the Information, Communication and Telecommunication (ICT) sector, in line with the government vision.

In sum, it is important that the MSME sector develops in all areas of agriculture, manufacturing and services sectors because each of these sectors will continue to be very relevant to the overall GDP growth as well as employment generation, thereby, catalysing a robust integration of the regional market with the global market.

¹⁶MSME Annual Report, 2018-19, Ministry of MSME, GoI

¹⁷Global Competitiveness of Indian MSMEs Sector, Press Information Bureau, 1 July 2019





Ministry of Micro, Small and Medium Enterprises,
Government of India

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises. Several statutory and non-statutory bodies work under the aegis of the Ministry of MSME. These include the Khadi Village Industries Commission (KVIC) and the Coir Board, besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialization (MGIRI).

The Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSMEs. The Ministry is committed towards an agenda of inclusive development and has taken various initiatives and measures to ensure that demographically as well as geographically weaker sections benefit from its work.

Through consistent efforts during 2014-2018 (till date) the MoMSME has been able to create 1,40,67,000 jobs in the Khadi and Village Industries Sector. Also, through the Prime Minister's employment generation programme, approximately 2,31,543 units have been set up providing employment to 17,77,688 people. The MSME Technology centre has trained 7,56,894 people. In addition, it has also been able to train almost 2,07,367 people through its ATI Assistance to Training Institutions helping them with livelihood generation. MoMSME has also been keen towards adoption of digitization to instill transparency and accountability to its vast MSME members. Schemes such as SAMADHAN, SAMBANDH, UAM and others has been instrumental in meeting the agenda.

Also, the Ministry has been endeavoring in improving the standards of production making it at par with the global standards such that MSMEs can participate in the global market. For the purpose, the ministry has initiated various schemes for affordability and ease of access to testing centres. Also, schemes such as Zero Defect Zero Effect Scheme has been pivotal in promoting adaptation of quality tools/systems and energy efficient manufacturing. The MoMSME has also initiated schemes for improving access to formal credit of the MSMEs. Schemes such as CLCSS, CGTMSE and others has been helping the MSMEs to avail easy credit from the banks registered under the scheme.

These and many others has aided in the development and growth of the MSMEs throughout the geographic expanse of the country helping in bridging the gap towards inclusive and sustainable development of the country.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has more than 9100 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 291 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

India is now set to become a US\$ 5 trillion economy in the next five years and Indian industry will remain the principal growth engine for achieving this target. With the theme for 2019-20 as 'Competitiveness of India Inc - India@75: Forging Ahead', CII will focus on five priority areas which would enable the country to stay on a solid growth track. These are - employment generation, rural-urban connect, energy security, environmental sustainability and governance.

With 68 offices, including 9 Centres of Excellence, in India, and 11 overseas offices in Australia, China, Egypt, France, Germany, Indonesia, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

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