

MSME POLICY

Launch of Draft Consultation Paper

I

Various stakeholders have been advocating a MSME Policy for India. The sweep of the sector is so wide, so varied and so differentiated that a single size ‘fit all’ will not work. The sheer numbers are staggering. But, they may be recorded to understand the magnitude of the task. As per the fourth Census of MSMEs the Report for which was published in 2012, the total number of MSMEs in India are 3.6 crores employing over 8 crore people. It is the second largest employer after agriculture. It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% of GDP. MSMEs also contribute to 30.50% of services. The total contribution of MSMEs to the GDP is 37.54%.

The MSMEs of India would be the cradle for the “Make in India” vision. This would be the nursery where small existing businesses have the potential to become world beaters tomorrow. The larger players amongst the MSME space also are in a unique position to become global players attracting partners with technology and funds. The Policy framework must encourage this. It will also help creating employment on a massive scale.

Keeping in view the above, a National MSME Policy is being envisioned. Suggestions are being invited from everyone to put such a Policy in place. These suggestions can be sent at policy@dcmsme.gov.in . All suggestions would be considered from prospective entrepreneurs, existing entrepreneurs, Associations, Academia, Public Representatives and that most important element of all in India, the concerned Citizen.

This consultation paper is available for consultation for a period of 45 days after which all the suggestions received would be considered and accordingly a Policy proposed. We solicit your guidance, advice and suggestions.

II

Any MSME Policy for India should take into account the various Ministries such as Ministry of Commerce and Industry, Ministry of Textiles, Department of Electronics and Information Technology, Ministry of Food Processing Industries, Ministry of Heavy Industries and Public Enterprises, Department of Pharmaceuticals etc., and the Regulatory Ministries such as Ministry of Corporate Affairs and Ministry of Finance.

All the Policies should be aligned with each other because the focus would be the entrepreneur, whether he is starting up, he is growing, he is wanting to become a large domestic player or a global competitor; the Policy framework must enable and encourage all this. It should also be aligned with MSME Policies of the State Governments of India.

It should also take into account the progressive policies in the Western and the Eastern Hemispheres.

Our MSME Policy must encourage establishment and growth of our units. Let it be understood that big businesses evolve from small business only and go on to become several large companies. Examples are, ‘Honda’ to ‘Microsoft’, from “Infosys” to “HCL” in India.

The first objective of this Policy thus must be not only to encourage establishment and growth, but also, emphasise on growth. For this purpose, at the

outset, we need to define our MSMEs in such a fashion that the definition does not become a hindrance to growth (which at present it is). Thus, it must not be the intention of any Policy to keep a small entrepreneur, small. We must encourage the entrepreneur to grow and become a global player.

III

Policy Framework should at once be:

1. An enabling framework
2. A supporting framework, and
3. For very small businesses
 - a) A Subsidy Framework.

A Subsidy framework may be provided for small entities with less than say Rs. 5 crores of turnover, but globally, 100 million USD i.e. Rs. 600 crores annual turnover is recognised as a barrier after which a company is considered to be a serious player. Till then, it is still considered to be a small player. Between Rs. 600 crores to Rs. 3000 crores (\$ 500 million) is the space for the “Small” to “Medium” companies, globally. This actually is the backbone of any country’s economy. This is also a very agile segment which is able to innovate, incubate ideas and penetrate as well as create new markets.

Accordingly, at Annexure-I are the Industrial Policies / MSME Policies as prevalent in India. (Please click here)
http://www.dcmsme.gov.in/Policies/International_and_national_%20Policies.htm

It would be noticed that in India, with some honourable exceptions, policies are concentrating on Regulatory Regime and Subsidy Frameworks. Some additionalities would be noticed in various States depending on their own needs.

But, an existing business having a turnover of Rs. 5 crores, which in the international context would still be considered a “Micro Business”, does not have an enabling framework to grow to Rs. 50 crores, or, a Rs. 50 crores turnover company does not have an enabling framework to grow to Rs. 500 crores. This has been a large vacuum in the Policy space which seriously needs to be addressed.

At **Annexure-II** are, the Policies of the Industrialized World. (Please click here) (http://www.dcmsme.gov.in/Policies/International_and_national_%20Policies.htm). They include the Policies of USA, Canada, Brazil and Argentina from the American Hemisphere, Germany, United Kingdom, France, Denmark and Italy from the European Hemisphere. Japan, China, Indonesia, Malaysia and Singapore from the Eastern Hemisphere and Australia.

The salient points of these policies are given in the Summary at **Annexure-III**.

(http://www.dcmsme.gov.in/Policies/International_and_national_%20Policies.htm)

IV

In India, services have grown up very rapidly. As per the latest estimates (2014) – MSMEs contribute 30% to the GDP in the Services Sector.

Some trends are noticeable immediately. Services, as career options, are attractive because it has a low entry barrier in terms of entry costs and can be scaled up more rapidly than manufacturing. Scaling-up, depending upon the type of product is also easier.

However, a second trend noticeable is that we have not produced global level players in providing services except in Information Technology (IT) and Information

Technology enabled Services (ITeS). Take for example Courier Services – major players are not Indians. Take for example Bus Hoarding Service Provider - the Delhi contract is given to a non-Indian Company. India can become a Global exporter of services. But, with the above exceptions, has not done so.

How to enable Indian service enterprises to become global players observing global levels of standards of services and ensure that Indian service industry can become a global player?

What steps should the Government take to enable the Service Industry to grow?

What steps or standards should be prescribed for providing basic minimum level of standards?

Do we require to set up Skill Development Centres which teach these standards and should there be a regulatory framework?

Given that we have a numerous types of services, should there be an Industry driven Council which enforces such standards?

The above points need to be addressed in framing MSME Policy of the country so that an eco system supporting Services Sector in MSMEs may be created.

V

A major and accelerating trend observed in the last one decade has been the role that innovation is playing in driving the growth and expansion of small businesses to a billion dollar enterprise. Several factors are playing a role in this.

- I) Development of Information Technology; complex but, easy to use IT Technologies has become a major driver.
- II) Growth of e-commerce as a new business platform which hardly existed 15 years back.

- III) Growth of cellular networks and smart phones combined with the above two mentioned technologies have created a new market place.
- IV) Data analytic tools and advanced IT Systems have given new insights into understanding of markets and consumer behaviour and shaped the marketing as well as growth strategies.
- V) Context of globalisation has ensured that the logistics and supply chain has become global, whether it is manufacturing or services.
- VI) Global financial crisis of 2008-10 has only accelerated these processes and trends.

Those who understand these processes and have provided for enabling framework have ensured that their small and medium businesses grow and do well. A shining example is Germany, who leveraged the crisis of 2008-10 to make their “mittleschandt” (Small and Medium Companies) become global players. Thus, Germany provided a set of Policies which encouraged and allowed the companies to do all the above mentioned points and reached out to them. Other countries which did not put in place enabling Policy and are still struggling including in Europe.

VI

The major elements of the Policy should be the following:-

I) Start-up Regime Framework:

More than 15 lakh students are passing out as Engineering graduates, MBA and Polytechnic but a very few only, venture into establishing their own enterprise. There is a need to encourage entrepreneurship in the country by providing a suitable eco system for start ups for creating new enterprises both in Manufacturing and Service Sector.

What are the elements for Start-up Regime Framework?

What are the elements which should consist to enable a young engineer to start his / her manufacturing enterprise, or, a service enterprise which can grow?

II) The Regulatory Regime Framework:

The Regulatory Regime framework is required, but, should not become a crippling regime to discourage growth. It should also have automatic approval based on a robust IT back bone. Having said so, what should be the elements in a Regulatory Regime?

III) The Subsidy Regime Framework:

The Subsidy Regime Framework may be required for very small players of say less than Rs. 5 crores of turnover. The subsidy may be on a sliding scale and of a varying nature. Thus for a start-up regime, he may be required a subsidy such as being provided by Prime Minister's Employment Generation Programme (PMEGP) being run by the Ministry of MSME. An enterprise with less than Rs.1 crore of turnover may require subsidies to explore new markets but an enterprise with less than Rs.5 crore of turnover may require subsidies for rapid modernization. But once an enterprise has grown to a certain level, they are not looking for subsidies but looking for a growth trajectory.

What should be the elements of a Subsidy Regime?

(IV) **Environment Compliance Framework for Green, Orange and Red Categories of Industries:**

Environment compliance, Pollution Control as well as Energy Efficiency are the key elements of “Zero Effect” for Industry. However, Pollution Control Board as well as compliances cannot impose such a compliance load on Industry so as to make it unworkable.

What should be the elements of Environment Compliance Framework?

What are the pain points for Industries which they feel today, which need to be removed to enable robust growth without compromising on the standards?

The next seven (7) Frameworks are actually parallel frameworks which address a very large space for on-going and successful enterprises, who now would like to move to the next level of success and growth. Thus, a Rs. 5 crore turn-over Company would look for ways and means to become a Rs. 50 crore turn-over Company in five years, or even earlier.

(V) **The Promotional Scheme Framework:**

What steps should be taken by the Government to promote the successful businesses to attain the next level or the next cycle of growth. For example, implementing the techniques such as 6 Sigma, Poka-Yoke or Kanban and Kaizen will enable it to have a zero defect manufacturing because it has a zero defect process. This has already been successfully tested in the country.

What can be done to scale it up for the whole country?

Similarly, professional designing would help it attain better market value, better products and help it beat the competitor.

What other steps are suggested?

With a view to enable growth, what should be the Promotional Scheme Framework?

What should be the elements helping the Promotional Scheme Framework?

(VI) New Product Development Framework:

New products do not seem to be coming out of India.

What steps should be taken to help the industry develop new products?

What should be the element helping the New Product Development Framework?

(VII) The Value Addition Mechanisms and Framework:

Once again, India is low on value addition. By increasing value addition, the total return to the Indian industry would increase substantially and they would become more globally competitive.

What steps should be taken by the Government to help this value addition?

What should be the element helping the Value Addition Mechanisms and Framework?

(VIII) Knowledge & Innovation Framework:

Indian Institute of Science (IISc) and Council of Scientific and Industrial Research (CSIR) are world class institutions who have conducted path breaking research in several areas. Ministry of MSME has already taken steps to unlock this knowledge base and make it available for the industry. The Indian Institute of Science has indicated as a first tranche, 195 projects where the research is almost complete and which can be commercialized. Similarly, CSIR has indicated 642 products which it has developed which can be very quickly productized because the entire process, including IP rights is available with CSIR.

Whereas these are starting points, what other elements should be there to promote the knowledge and innovation framework?

(IX) Manufacturing and Services “Excellence” Framework:

What should be the element helping the Manufacturing and Service “Excellence” Framework?

(X) Export Promotion and Marketing Framework:

If the Indian industry has to grow, it must start exporting more and tapping existing as well as new markets. Several elements already exist in the ongoing schemes of Department of Commerce, Ministry of Commerce and Industry.

But an equally important market is the Indian market itself. This market is attracting international attention due to its expand and depth. What are the steps needed for Indian companies to capture the Indian markets, they are major suppliers

in the Indian markets with globally competitive products and globally competitive prices. The only corollary would be that they would be expanding.

Are there any suggestions whereby our industry can break into new markets and expand their footprints in the existing markets?

What should be the element helping the Export Promotion Framework?

(XI) The Growth Accelerator Framework:

How to take a successful business with say, more than Rs. 50 crore of turn over or a Rs. 100 crore of turn over for a year. What are the policy frameworks it would need to become a global business and grow to a thousand crore or more of turn over?

What are the elements required by the businesses to keep continuously growing?

What should be the elements helping the Growth and Accelerator Framework?

(XII) Consultative Mechanism Framework

How do we device it?

What should be the role of Associations?

We need to put a dynamic and anticipative consultative mechanism whereby the Government can be alerted, in real time, of an emerging problem of the industry and take immediate and proactive steps to address that problem rather than be reactive.

What are the suggestions to make this a vibrant consultative mechanism?

(XIII) Financial Regime Framework

What are the problems being faced by MSMEs for access to (a) equity fund, (b) debt funds?

A major reason why new SME fail is not for lack of profit but lack of access. What are the steps that should be undertaken to ensure that there is flow of credit to MSMEs?

Can a credit bureau to record SMEs credit history for the banking sector's risk evaluation and loan appraisals.

The high interest rates often make an otherwise internationally competitive MSME loose with competitive edge. On the other hand, a broad debt is available at the very low rate of interest. Should the Government consider a mechanism of pooling the needs of MSMEs and acting as an intermediary for providing debt at international prices (but including exchange risk coverage) to MSMEs.

What can be the alternative models for financing of MSMEs at the start-up stage and at the growth stage, apart from bank credit?

How to have a robust and supporting financial regime framework which encourages credit of MSME?

(XIV) Resources Provisioning Framework

Human resources are a key for any MSME. On one hand we have a demographic dividend; on the other hand, we have a situation where industry complains of not getting adequate trained labour. How to remove this mismatch?

Land would become increasingly scarce. Should India, as country, consciously adopt multi-storeyed “Plug and Operate” model to provide lower capital cost for MSMEs?

Raw material access is also a challenge. What steps should be taken to breach and bridge this gap?

Is there any other resources provisioning which needs to be done?

(XV) Exit Policy Framework

1. The exit policy framework is required in the following possible scenarios:
 - i. For a successful entrepreneur who would like to exit from the business at a profit. In India, the culture of successful serial entrepreneurship is not there. This exists, in countries like the US. What framework is needed for doing this in India?
 - ii. The second category of entrepreneurs who require an exit policy are those who are running a successful business but their next generation is not interested in joining the business. They look for a successful exit.
 - iii. The third category of entrepreneurs looking for exit policy is those who are not done well in their business but the business is still surviving. They would like to cut losses and exit.
 - iv. The fourth category of entrepreneurs who require exit policy are those who have failed , are having bank loans, but also have land resources as well as a factory which may be running or may be closed.

(2) What are the suitable exit framework for the above categories?

VII

Overall Framework should provide an enabling environment, an easy comprehension to MSMEs and act as a growth accelerator for the MSMEs.

These frameworks singly or collectively then need to be dovetailed to the needs of:-

- i) Village and Rural Industries
- ii) Traditional Industries
- iii) Handicrafts and Handlooms
- iv) Other industries such as Defence manufacturing Industries, Electronics Services Design and Manufacturing Industries, Agro Food Processing Industries, Machine Tool Industries, Casting and Forging Industries.
- v) Industries where MSMEs are part of the value chain manufacturing in strategic industries such as Aerospace, Shipping, Renewable Energy like solar and wind etc.
- vi) Employment intensive industries such as Textiles, Readymade Garments, Leather and Footwear, Gems and Jewellery.
- vii) Industries where India enjoys a comparative advantage such as automobile and pharmaceutical etc.

The same framework, in principle, also needs to concentrate on providing value additions, induction of knowledge and innovation, framework for manufacturing and service excellence as well as productivity with zero defect outcomes and finally should have growth acceleration for the larger industries, say with a turnover of more than Rs. 100 crores. This segment will not need Government

subsidy, but would need policies that they can grow and become globally competitive.

All these function entities work with a consultative mechanism framework and an enabling and transparent financial regime framework.