CHAPTER – III

AN OVERVIEW OF MSME
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The MSME sector, being one of the prominent sectors of the economy, contributes significantly to the country’s industrial production, exports, and employment. It also plays an important role in socio-economic development of the country by supporting industrialization in rural and backward areas with a lower capital base. The MSME sector progress facilitates entrepreneurship development, which in turn assists in wealth creation and achieving inclusive economic growth. According to a report by International Finance Corporation (IFC) that out of 132 countries, there are about 125 million MSMEs worth an estimated 85 millions are in emerging economies. MSMEs are the largest employment generators globally, employing at least 45 per cent are high income workforce. In India too, MSMEs play a pivotal role in the overall industrial economy of the country. Currently, the MSME sector in India is broadly classified into manufacturing and services.

The role of the Ministry of MSME and its organizations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. The schemes undertaken by the Ministry and its organizations seek to facilitate/provide:

(i) adequate flow of credit from financial institutions/banks; (ii) support for technology up-gradation and modernization; (iii) integrated infrastructural facilities; (iv) modern testing facilities and quality certification; (v) access to modern management practices; (vi) entrepreneurship development and skill up-gradation through appropriate training facilities; (vii) support for product development, design intervention and packaging; (viii) welfare of artisans and workers; (ix) assistance for better access to domestic and export markets and (x) cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

3.1. MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

The President of India amended the Government of India (Allocation of Business) Rules, 1961, under the notification dated 9th May 2007. Perusal to this amendment, the Ministry of Agro and Rural Industries (India) and the Ministry of
Small Scale Industries (India) were merged into a single ministry, the Ministry of Micro, Small and Medium Enterprises.

Micro, Small, Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 Crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 Crore but does not exceed Rs.10 Crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O.1722 (E) dated October 5, 2006.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 are:

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakhs;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakhs but does not exceed Rs. 2 Crores; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 Crores but does not exceed Rs.5 Crores.

Organizational Setup:

The Ministry of MSME is having two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division. The SME Division is allocated the work, inter- alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development/training originations. The Division is also responsible for implementation of the schemes relating to Performance and Credit Rating and Assistance to Training Institution, among others.
SME Division is also responsible for preparation and monitoring of Results-Framework Document (RFD) as introduced in 2009 by the Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Division looks after the administration of two statutory bodies’ viz. the Khadi and Village Industries Commission (KVIC), Coir Board and a newly created organization called Mahatma Gandhi Institute for Rural Industrialization (MGIRI).

It also supervises the implementation of the Prime Minister's Employment Generation Program (PMEGP). The Implementation of policies and various program schemes for providing infrastructure and support services to MSME’s is undertaken through its attached office, namely the Office of the Development Commissioner, National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC); the Coir Board, and three training institutes viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA, National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad, Indian Institute of Entrepreneurship (IIE), Guwahati and Mahatma Gandhi Institute for Rural Industrialization (MGIRI), Wardha a society registered under Societies Registration Act 1860.

The National Board for Micro, Small and Medium Enterprises (NBMSME) was established by the Government under the Micro, Small and Medium Enterprises Development Act, 2006 and Rules made there under. It examines the factors affecting promotion and development of MSME, reviews existing policies and programs and makes recommendations to the Government in formulating the policies and programs for the growth of MSME.

**Office of the Development Commissioner [MSME]**

The Micro, Small and Medium Enterprises- Development Organization (MSME-DO) is headed by the Additional Secretary & Development Commissioner (MSME). The Office of the Development Commissioner (Micro, Small & Medium Enterprises) assists the Ministry in formulating, coordinating, implementing and monitoring different policies and programs for the promotion and development of MSMEs in the country.

In addition, it provides a comprehensive range of common facilities, technology support services, marketing assistance, etc. through its network of thirty Micro, Small and Medium Enterprises-Development Institutes (MSME-Dls); twenty eight branch MSME-Dls; four MSME Testing Centre (MSME-TCs); seven MSME-
Testing Stations (MSME-TSs); two MSME Training Institutes (MSME-TIs) and One MSME-Technology Development Centre-Hand Tools (MSME-TDC-Hand Tools). The Office of the DC (MSME) also operates a network of Tool Rooms and Technology Development Centre (including two Footwear Training Institutes) which are autonomous bodies registered as Societies under the Societies Act.

**Khadi & Village Industries Commission**

The Khadi & Village Industries Commission (KVIC), established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization engaged in promoting and developing Khadi and village industries for providing employment opportunities in rural areas, thereby strengthening the rural economy. The Commission is headed by full time Chairman and consists of 10 part-time Members KVIC co-ordinates its activities through State KVI boards, registered societies and cooperatives. It has under its aegis a large number of industry-specific institutions spread in various parts of the country.

**Coir Board:** The Coir Board is a statutory body established under the Coir Board Industry Act, 1953 (NO. 45 of 1953) for promoting overall development of the coir industry and improving the living conditions of the workers engaged in this traditional industry. The Coir Board consists of a full-time Chairman and 39 part-time Members. The activities of the Board for development of coir industries, inter-alia include undertaking scientific, technological and economic research and development activities; collecting statistics relating to exports and internal consumption of coir and coir products; developing new products and designs; organizing publicity for promotion of exports and internal sales; marketing of coir and coir products in India and abroad; preventing unfair competition between producers and exporters; assisting the establishment of units for manufacture of the products; promoting co-operative organization among producers of husks, coir fibre, coir yarn and manufactures of coir products; ensuring remunerative returns to producers and manufacturers, etc.

**National Small Industries Corporation Limited (NSIC):** NSIC, established in 1955, is headed by Chairman-cum-Managing Director and managed by a Board of Directors. The main function of the Corporation is to promote aid and foster the growth of micro and small enterprises in the country, generally on commercial basis. NSIC provides a variety of support services to micro and small enterprises catering to their different requirements in the areas of raw material procurement; product
marketing; credit rating; acquisition of technologies; adoption of modern management practices, etc.

The Government of India has enacted the Micro, Small and Medium Enterprises sector now has greater access to credit as a result of its classification as a priority lending sector. The banks are required to compulsorily ensure that specified percentage of their overall lending is made to priority sectors as classified by Government, thus ensuring credit to these sectors. The priority sectors include agriculture, small enterprises, retail trade, etc. While for domestic commercial bank, advances to small enterprises sector is reckoned for its overall priority sector target, for foreign banks, such lending would be counted towards 10 per cent of adjusted net bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher, irrespective of whether the finance is for export or domestic activities. Out of the total advances to small enterprise sector, 60 per cent is reserved for micro enterprises and the balance 40 per cent for the small enterprises. Out of this 60 per cent quota,

1. 40 per cent of the total advances to MSE sector is reserved for micro (manufacturing) enterprises having investment in plant and machinery up to INR 5,00,000 (Rupees Five Lakhs only) and micro (service) enterprises having investment in equipment up to INR 2,00,000 (Rupees Two Lakhs only); and
2. 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above INR 5,00,000 (Rupees Five Lakhs only) and up to INR 25,00,000 (Rupees Twenty Five Lakhs only), and micro (service) enterprises with investment in equipment above INR 2,00,000 (Rupees Two Lakhs only) and up to INR 10,00,000 (Rupees Ten Lakhs only).

Lending to medium enterprises is not considered to be a priority sector lending. Micro and small enterprises are also entitled to collateral free loan up to INR 10,00,000 (Rupees Ten Lakhs only), which may go up to INR 25,00,000 (Rupees Twenty Five Lakhs only), with the approval of the appropriate authority.

3.2. MANUFACTURING SECTOR IN INDIA

Market Size

India’s manufacturing sector has the potential to touch US$ 1 trillion by 2025. There is potential for the sector to account for 25-30 per cent of the country’s GDP
and create up to 90 million domestic jobs by 2025. Business conditions in the Indian manufacturing sector continue to remain positive.

**Investments**

In a major boost to the 'Make in India' initiative, the Make in India week which was held in Mumbai between February 13 and 18, 2016, received an overwhelming response from investors. The fair had closed with INR 15.2 trillion (US$ 225.32 billion) in investment commitments.

With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power.

In September 2016, Foreign Direct Investment (FDI) in electronic manufacturing has reached an all-time high of Rs 123,000 Crore (US$ 18.36 billion) in 2016, from Rs 11,000 Crore (US$ 1.65 billion) in 2014; on the back of enabling policies of the government and its Make in India initiative. India has become one of the most attractive destinations for investments in the manufacturing sector.

3.3. PROBLEMS AND CHALLENGES FACED BY THE MSME IN MANUFACTURING SECTOR

The importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate which is proving to be a hurdle in the growth path of the MSMEs. The lists of the problems that are faced by existing/new companies in SME sector are as under:

1. Absence of adequate and timely banking finance
2. Limited capital and knowledge
3. Non-availability of suitable technology
4. Low production capacity
5. Ineffective marketing strategy
6. Constraints on modernization & expansions
7. Non-availability of skilled labor at affordable cost
8. Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc.
It is very important to empower the SME sector to utilize the limited resources (human & economic) they have in an optimum manner. The SMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors.

Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector.

**Following are some important challenges of MSME:**

**Mentoring & Advocacy**

Most small business in India is set up by first generation entrepreneurs. They often have a product or service idea, some money, a zest to hard work but limited knowledge about markets, Government or bank procedures, cash flows or how to manage labour. This is where mentoring a hand holding support becomes crucial. At times, this comes from an individual such as friend, relative, an NGO or a parent unit. This is episodic and unable to meet the vast requirement which the country has. This is sought to be institutionalized through extension efforts of central and state Governments. Trained manpower is made available for this task, right down the district levels, to act as the friend, philosopher and guide. These resource persons guide in setting up evict, making it commercially viable, interacting with financial institutions and understanding markets, as well as the impact of globalization with advancements in it. The Central Government’s agency for the task, the Small Industry Development Organization, has accordingly moved away from its pre-reform regulatory to a direct promotional role of hand holding, advocacy and facilitation. This encompasses the legislative support put in place, fiscal incentives and protection from unequal competition.

**Credit**

Credit is the lifeline of business. Small businesses lack access to capital and money markets. Investors are unwilling to invest in proprietorships, partnerships or unlisted companies. As risk perception about small businesses is high. So is the cost of capital, institutional credit, when available, requires collateral which in turn makes the owner of the unit even more vulnerable to foreclosure. Credit guarantee funds
which assist lending institution in advancing loans or mutual guarantee systems involving common guarantees from a group of people have not emerged in a significant manner. Unit finances come under severe stress whenever an occasional event such as a large order, rejection of consignment, and inordinate delay in payment occurs. About a banker lending an umbrella in sunshine and wanting it back as soon as it rains gets reinforced in their dealing with small enterprises. It is, therefore, that small enterprises prefer to first tap own resources or loans from friends and relatives look for external finance.

In India, many of small manufacturing enterprises do not access bank finance and only about 16 per cent of total bank credit finds its way to the sector. Despite being a priority sector for lending, small manufacturing enterprises get just about 8 per cent of their annual turnover as working capital requirements, as against normative requirements of 20 per cent. Even for this, cost of credit is high. The problem is recognized and is sought to be addressed through various ways:

- Establishment of ISO 9000 certified specialized SSI bank branches in districts/clusters.
- Directive for working capital finance @ 20 per cent of annual normative turnover.
- Waiver of collateral requirements up to Rs. 0.5 million.
- Setting up of a credit Guarantee Trust to cover loans up to Rs. 2.5 million.
- Composite loans from a single agency up to Rs. 2.5 million.
- A national equity fund for equity to SSI units at 5 percent service charge.

**Technology**

Micro and small enterprises are often regarded for their labour intensity and the capability to work with local resources. This has often led to less emphasis on technology. Run of the mill technology coupled with functional packaging and inadequate finishing have at times led to small sector products being labeled as being of poor or substandard quality. This has a cascading impact on competitiveness. As small enterprises realize the need to link up with large ones, they are having a relook at technology options which would improve productivity, effectiveness and competitiveness. While sourcing technology, small business needs to concentrate on the essential issues such as information about technology, actual procurement of technology and finance for technology up-gradation.
Market Access

In today’s world, small enterprises can hardly match the advertising support or distribution reach of a large corporation. In India, small units sell best in limited or neighborhood markets or when they are meeting a low volume specialized demand which no large player can effectively cater to. Increasingly, now the endeavor is to build the marketing activity of small units around their competitive advantage i.e., products which are labour intensive, items which cater to niche markets, low volume high margin products, sub assembly tasks, outsourcing jobs an ancillarisation. Sub-contracting exchanges are being established through Government and Industry associations to promote such interface.

Infrastructure

Small units have traditionally operated from homes or a neighbourhood work shed. Slowly, they began moving out and clustering together wherever electricity, water, raw materials, markets or labours were easier to access. Policy makers in India had anticipated the need for suitable infrastructure five decades ago and began a programe for setting up industrial estates. Non-assessment of economic viability, tardy implementation and poor maintenance due to drying up of funds affected these adversely. Later in the post reform period, the problem was sought to be addressed by setting up of such estates exclusively for small business. Almost 50 such estates have been set up. Because of their better infrastructure such as roads, telecommunication, power, effluent treatment plants, power, banks, watch and ward, at reasonable cost, they have proved to be popular with small manufacturing for factory accommodation, allotment of sheds on hire purchase as well as outright sale etc.

Globalization

The globalization of trade and commerce has been given a push by agreements in the WTO and changed the business environment. It has therefore become necessary to sensitize SMEs about these changes and prepare them for the future. In India, a number of steps have been taken in this regard. Apart from setting up a WTO cell in the nodal ministry, 28 sensitization workshops were conducted across the country. Workshops have also been held on intellectual property rights and bar coding. Monitoring of imports in specific sectors where SMEs has a significant presence and initiation of anti-dumping action where dumping was noticed, are the other steps taken in this respect.
Procedures

Government and bank procedures coupled with inspections remain a major hurdle in growth of small units. There are over 60 central, state and local laws which regulate small businesses in the areas of labour, factory maintenance environment, municipal bye laws, taxation, power etc.

These require the maintenance of as many as 116 registers and forms. To enforce these, there is an army of inspector who visit units leading to harassment, delay, obstruction and increase in cost of production. Many small units are one man shows and cannot satisfy the letter of the law. The streamlining of such rules and regulations has become necessary if the creative genius of Indian entrepreneurs is to be fully unleashed. Some state governments have exhibited initiative in this regard. The Central Government has initiated a study to enact a single law for small businesses. This enactment should ease the situation considerably.

Exit Mechanism

Like products, Industries too have life cycles. There are industry segments which have seen their best days. Similarly, there are individual units where no amount of additional funds will help. Their bank loans have become bad and non-performing. A sound exit policy which also safeguards labour interests has therefore, become necessary. It is anticipated that as of 1998, over Rs.3.8 billion were locked in sick units. An exit policy would help fresh circulation of a significant amount. The first steps in this regard have been taken recently by India’s central bank where by one time settlement of dues as on 31 March, 1997 was allowed. The results have been encouraging.

Strategy Interventions for Revitalization and Growth

Significant changes in economic environment are being heralded in by the WTO. The removal of QRS has led to increased competition with imports. Many sectors of industry are facing competition from Chinese or Taiwanese imports within the country or from Bangladesh Sri Lanka or Nepal in export markets. It is the belief of the Indian Government that promotion and not protection is the answer to the issues of survival and growth. Thus, while reservation of items for exclusive production continues, the focus must now be on strengthening capabilities. This implies a holistic look at the concerns of industry. As part of this, the following strategic interventions have been initiated:

- Easing access to general credit
• Introduction of options of limited partnership and factoring
• Subsiding cost of finance for upgrading technology
• Industry specific technology up-gradation programmes
• Fund for developing and accessing overseas markets for export
• Expanding reach of infrastructure programmes
• Ushering in a regime of self certification in lieu of inspections for various regulations

The Indian Government, therefore, is working on a new vision for the SSI sector through a flexible approach and a motivated team. The advocacy role of Government now involves new dimensions such as building up and arguing cases before the world trade body or dispute redressal for articulating needs of small enterprises before decision makers and other agencies. Credit is increasingly being made available at international rates. Technology upgrades at both the cluster and the individual level are being assisted.

Cluster level technologies will be at Government cost with only user charges recovered. Credit guarantee scheme has been put in place if our market has opened up to due to WTO, we need to enable our small units established foot holds in new markets opened up for then by globalization. Thus, along with improving quality, they are being given the opportunity of overseas travel, conducting market surveys, test marketing etc. The existing industrial centre are being revamped by involving industry associations with some government assistance and finally a migration from sunset industries to sunrise industries is being encouraged through a comprehensive and graceful exit policy, which balances interest of labour with those of the owners.

3.4. MSME MARKETING ASSISTANCE SCHEME
The assistance is provided for following activities:

• Organizing exhibition abroad and participation in international exhibitions/ trade fairs.
• Co-sponsoring of exhibitions organized by other industry associations.
• Organizing buyer-seller meets intensive campaigns and marketing promotion events.

Development Commissioner (DC – MSME) Schemes:
Credit Guarantee Scheme: Ministry of MSME, GOI and SIDBI, established a Trust named Credit Guarantee Fund Trust for Micro, Small Enterprises (CGTMSE) to
implement Credit Guarantee Fund Scheme for Micro and Small Enterprises. The corpus of CGTMSE is being contributed by GOI and SIDBI. They are providing assistance for individuals as collateral free loans up to limit of Rs.50 lakhs. Both existing and new enterprises are eligible to be covered under the scheme.

Credit Linked Capital Subsidy Scheme for Technology Up-gradation:

Technology up-gradation would ordinarily mean induction of state of the art or near state of the art technology.

In varying mosaic of technology obtaining in more than 7500 products in Indian small scale sector, technology up-gradation would mean a significant step up from present technology level to a substantially higher one involving improved productivity, and improvement in quality of products and improved environmental conditions including work environment for the unit. It includes installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery.

ISO 9000/ ISO 14001 Certification Reimbursement Scheme

The process of economic liberalization and market reforms has opened up Indian small scale sector to global competition. In order to enhance the competitive strength of small scale sector, Government introduced an incentive scheme for their technological up-gradation/quality improvement and environment management. The Scheme provides incentive to those small scale/ancillary undertaking who have acquired ISO 9000/ISO 14001/HACCP certifications. The scheme enlarged so as to include reimbursement of expenses for acquiring ISO 14001 certification.

Micro & Small Enterprises Cluster Development Programme (MSE – CDP)

Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GOI) has adopted cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of Micro and Small Enterprises and their collectives in the country. Clustering banks and credit agencies, to provide their services more economically, thus reducing costs and improving availability of services for these enterprises.

Micro Finance Program

Government launched a Scheme of Micro Finance Program and tied up with existing program of SIDBI by way of contributing towards security deposits required from the MFIs/NGOs to get loan from SIDBI. The scheme is being operated in underserved States and underserved pockets/districts of other States. Government of
India provide funds for Micro Finance Program to SIDBI takes fixed deposit equal to 10% of loan amount and balance 7.5% is adjusted from funds provided by the Government of India.

**MSME Market Development Assistance**

As a part of comprehensive policy package for MSMEs, MSME – MDA scheme has been announced with a view to increase participation of representatives of participating units, the provision of MSME-MDA scheme has been modified recently, MDA is offered in three forms as participation in the international exhibitions/fairs – for registered small and micro manufacturing enterprises with DI/DIC. Financial assistance for using Global Standards (GSI) in bar-coding – Recognized importance of bar-coding and avail financial assistance through office of DC (MSME). Purchase and Price preference policy – This is administered through single point registration scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases – for individual MSMEs.

**National Manufacturing Competitiveness Programme (NMCP) Schemes**

DC-MSME Schemes under National Manufacturing Competitiveness Programme has finalized a five-year national manufacturing programme. Ten schemes have been drawn up including schemes for promotion of ICT, mini tool room, design clinics and marketing support for SMEs. Implementation will be in PPP model and financing will be tied up. Under this plan various schemes are being implemented such as Marketing support/ assistance to MSMEs (BAR Code), Support for entrepreneurial and managerial development of SM through incubators, enabling manufacturing sector to be competitive through Quality Management Standard and Quality Technology Tools.(QMS/QTT) etc.

**National Small Industries Corporation (NSIC) Schemes**

Special features of NSIC schemes are a combination of credit and performance factors including operations, finance, business and management risk, Uniform rating scale for all empanelled rating agencies, SSIs have the liberty to choose among the empanelled Rating Agencies (CARE, CRISIL, India Ratings, ICRA, ONICRA, SMERA, Dun and Bradstreet), Turn – over based fee structure and reimbursement of rating fee through NSIC.
Refinance scheme for Textile Industry under Technology Up-gradation Fund (RTUF)

Installation of specified types of machinery in a new unit or in an existing unit by way of replacement of existing machinery and expansion will be eligible.

Scheme for acquisition of ISO series certification by MSE units

Existing MSEs having good record of past performance and sound financial position can apply to get financial support for ISO certification. Expenses on consultancy, documentation, audit, certification fees, equipment and calibrating instruments required would be taken into account for determining loan requirement.

3.5. THE ROLE OF SELECTED MANUFACTURING SECTOR IN INDIA

TEXTILE SECTOR

India’s textiles sector is one of the oldest industries in Indian economy dating back several centuries. Even today, textiles sector is one of the largest contributors to India’s exports with approximately 11 per cent of total exports.

The textile industry is also labor intensive and is one of the largest employers. The textile industry has two broad segments. First, the unorganized sector consists of handloom, handicrafts and sericulture, which are operated on a small scale and through traditional tools and methods. The second is the organized sector consisting of spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale.

The textile industry employs about 40 million workers and 60 million indirectly. India's overall textile exports during FY 2015-16 stood at US$ 40 billion. The Indian textiles industry is extremely varied, with the hand-spun and hand woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The decentralized hosiery and knitting sector form the largest component of the textiles sector.

The close linkage of the textile industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles make the Indian textiles sector unique in comparison to the industries of other countries. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.
INDIAN ENGINEERING SECTOR

The Indian Engineering sector has witnessed a remarkable growth over the last few years driven by increased investments in infrastructure and industrial production. The engineering sector, being closely associated with the manufacturing and infrastructure sectors, is of strategic importance to India’s economy.

India on its quest to become a global superpower has made significant strides towards the development of its engineering sector. The Government of India has appointed the Engineering Export Promotion Council (EEPC) as the apex body in charge of promotion of engineering goods, products and services from India. India exports transport equipment, capital goods, other machinery/equipment and light engineering products such as castings, forgings and fasteners to various countries of the world.

India became a permanent member of the Washington Accord (WA) in June 2014. The country is now a part of an exclusive group of 17 countries who are permanent signatories of the WA, an elite international agreement on engineering studies and mobility of engineers.

JEWELRY SECTOR

The Gems and Jewelry sector plays a significant role in the Indian economy, contributing around 6-7 per cent of the country’s GDP. One of the fastest growing sectors, it is extremely export oriented and labour intensive. Based on its potential for growth and value addition, the Government of India has declared the Gems and Jewelry sector as a focus area for export promotion. The Government has recently undertaken various measures to promote investments and to upgrade technology and skills to promote ‘Brand India’ in the international market.

India is deemed to be the hub of the global jewelry market because of its low costs and availability of high-skilled labour. India is the world’s largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world’s diamonds, as per statistics from the Gems and Jewelry Export promotion Council (GJEPC). The industry has generated US$ 38.6 billion of revenue from exports in 2015-16, making it the second largest exporter after petrochemicals.

India's Gems and Jewelry sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Government of India has viewed the sector as a thrust area for export promotion. The Indian government presently allows
100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route.

**EXPORT SECTOR**

The export sector of Indian economy made comprehensive progress over the last decade. The exponential growth of the export sector of Indian economy can be attributed to the liberal Government of India economic policy. High value commodities like engineering goods and rice registered very high growth rate in the 1st quarter of this fiscal against the same period last year.

The astronomical growth of the Indian export sector was led by the following industry -

- Information Technology
- Information Technology Enabled Services
- Telecommunications hardware
- Electronics and hardware
- Pharmaceutical and biotechnology products
- Consumer durables
- Textiles
- Construction machinery
- Power equipment
- Food grains
- Iron and steel
- Chemicals and fertilizers

India is on the threshold of major reforms and is poised to become the third-largest economy of the world by 2030. In the words of our Hon’ble Prime Minister, India offers the 3 ‘Ds’ for business to thrive democracy, demography and demand. Add to that a tech-savvy and educated population, skilled labour, robust legal and IPR regime, and a strong commitment to calibrated liberalization — India is a destination that German investors cannot overlook. India's manufacturing sector has evolved through several phases - from the initial industrialization and the license raj to liberalization and the current phase of global competitiveness. Today, Indian manufacturing companies in several sectors are targeting global markets and are becoming formidable global competitors. Many are already amongst the most competitive in their sectors.
INCENTIVES OFFERED FOR MANUFACTURING:

**Sector specific initiatives:** The government of India provides sector specific subsidies for promoting manufacturing for example in order to boost manufacturing of electronics, the Govt. of India provides capital subsidy of up to 25 percent for 10 years.

**Area based incentives:** Incentives are provided for units in SEZ/NIMZ as specified in respective acts or setting up project in special areas like North East Region, Jammu & Kashmir, and Himachal Pradesh and Uttarakhand.

INCENTIVES UNDER INCOME TAX ACT:

**Investment Allowance:** The Government of India in its Union Budget 2014-15, has provided investment allowance at the rate of 15 per cent to a manufacturing company that invests more than US$ 4.17 million in any year in new plant and machinery.

**Deductions:** Several additional deductions are provided for instance deduction equal to 30 percent of additional wages paid to new regular workmen employed by the assesses over and above 50 workmen.

**R&D Incentives:** Higher weighted deductions of 200 per cent provided for expenditure related to R&D subject to fulfillment of conditions.

**Export Incentives:** Under the foreign trade policy exports have been provided with several incentives like duty drawback, duty remission schemes etc.

**State Incentives:** Apart from above each state in India offers additional incentives for industrial projects. Some of the states also have separate policies for textile sector. Incentives are in areas like rebated land cost; relaxation in stamp duty exemption on sale/lease of land; power tariff incentives; concessional rate of interest on loans; investment subsidies / tax incentives; backward areas subsidies; special incentive packages for mega projects.

3.6. RECENT INITIATIVES & BUDGET ANNOUNCEMENTS FOR PROMOTING MANUFACTURING:

**Ease of Doing Business:** The corporate tax rate for companies registered in India to go down from 30 percent to 25 percent of net profits in a phased manner over the next four years starting from FY 16-17. An expert committee to examine the possibility and prepare draft legislation where the need for multiple prior permission can be replaced by a pre-existing regulatory mechanism. Goods and Services Tax
proposed to be implemented from April 01, 2016. The process of applying for Industrial License (IL) and Industrial Entrepreneur Memorandum (IEM) has been made online. Initial validity period of Industrial License has been increased to three years from two years, also, two extensions of two years each in the initial validity of three years of the Industrial License shall now be allowed up to seven years. This will give enough time to licensees to procure land and obtain the necessary clearances/approvals from authorities.

**Operational zing the e-BIZ portal:** Through eBiz portal, a business user can fill the e-Forms online/offline, upload the attachments, make payment online and submit the forms for processing of the department.

**Labor reforms:** A dedicated Shram Suvidha Portal: The portal would allot Labour Identification Number (LIN) to nearly 6 lakhs units and allow them to file online compliance for 16 out of 44 labour laws.

**An all-new Random Inspection Scheme:** Utilizing technology to eliminate human discretion in selection of units for Inspection, and uploading of Inspection Reports within 72 hours of inspection mandatory

**Universal Account Number:** Enables 4.17 Crore employees to have their Provident Fund account portable, hassle-free and universally accessible

**Apprentice Protsahan Yojana:** Will support manufacturing units mainly and other establishments by reimbursing 50 percent of the stipend paid to apprentices during first two years of their training. Department of Industrial Policy and Promotion has identified various areas and action points on ease of doing business index/indicators have been prepared for assessing the overall business performance of the country as well as States/Union Territories.

Government has undertaken a number of steps to improve Ease of Doing Business in India. A large number of components of Defence Products’ list have been excluded from the purview of Industrial Licencing. The application process for Industrial License and Industrial Entrepreneur’s Memorandum has been made easy by simplification of form and making the process online 24X7. The validity period of the Industrial Licence and security clearance from Ministry of Home Affairs has been increased. The process of registration with Employees’ Provident Fund Organization and Employees’ State Insurance Corporation has been made on line and real-time. Process of obtaining environment and forest clearances has been made online. The Department of Industrial Policy and Promotion has advised Ministries and State
Governments to simplify and rationalize the regulatory environment through business process reengineering and use of information technology. 14 Government of India services have been integrated with the online single window eBiz portal.

SKILL INDIA:

SKILL INDIA’ - a multi-skill development programme has been initiated with a mission for job creation and entrepreneurship for all socio-economic classes. It endeavors to establish an international equivalent of the Indian framework on skill development, creating workforce mobility and enhancing youth employability.

Sector opportunities: India provides great avenues for investments in various sectors.

Defence: India is expected to spend US$ 40 billion on defence purchases over the next 4-5 years. The opening of the strategic defence sector for private sector participation will help foreign original equipment manufacturers to enter into strategic partnerships with Indian companies and leverage the domestic markets and also aim at global business.

Automotive: India is expected to become a major automobile manufacturing hub and the third largest market for automobiles by 2020, according to a report published by Deloitte. India is currently the seventh-largest automobiles producer in the world with an average annual production of 17.5 million vehicles, and is on way to become the fourth largest automotive market by volume, by 2015.

Engineering: The Indian Engineering sector has witnessed a remarkable growth over the last few years driven by increased investments in infrastructure and industrial production. The engineering sector, being closely associated with the manufacturing and infrastructure sectors of the economy, is of strategic importance to India’s economy. Growth in the sector is driven by various sub-sectors such as infrastructure, power, steel, automotives, oil & gas, consumer durables etc. The Indian textiles industry, currently estimated at around US $108 billion, is expected to reach US $ 141 billion by 2021. The Indian textile industry has the potential to grow five-fold over the next ten years to touch US$ 500 billion mark on the back of growing demand for polyester fabric, according to a study by Wazir Advisors and PCI Xylenes and Polyester. The US$ 500 billion market figure consists of domestic sales of US$ 315 billion and exports of US$ 185 billion.

Chemicals: The Indian chemical industry stands as the third largest producer in Asia and 12th in world, in terms of volume. This industry could grow at 14 per cent
per annum to reach a size of US$ 350 billion by 2021. India accounts for approximately 7 per cent of the world production of dyestuff and dye intermediates and is currently the world's third largest consumer of polymers and fourth largest producer of agrochemicals.

**Food Processing:** The Indian food industry stood around (US$ 39.03 billion) in 2013 and is expected to grow at a rate of 11 per cent to touch (US$ 64.31 billion) by 2018.

**Leather:** India's leather industry has witnessed robust growth, transforming from a mere raw material supplier to a value-added product exporter. In fact, today, almost 50 per cent of India's leather business comes from international trade.

**Pharmaceuticals:** The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years, as per India Ratings, a Fitch Group company.

Indian pharmaceutical manufacturing facilities registered with US Food and Drug Administration (FDA) as on March 2014 was the highest at 523 for any country outside the US. We expect the domestic pharma market to grow at 10-12 per cent in FY15 as compared to 9 per cent in FY14, as per a recent report from Centrum Broking. The domestic pharma growth rate was 11.9 per cent in October 2014, highlighted the report.

**Electronics:** The electronics market is one of the largest in the world and is anticipated to reach US$ 400 billion in 2022 from US$ 69.6 billion in 2012. The market is projected to grow at a compound annual growth rate (CAGR) of 24.4 per cent during 2012-2020.

**Automobiles**

Demographically and economically, India’s automotive industry is well-positioned for growth, servicing both domestic demand and, increasingly, export opportunities. A predicted increase in India’s working-age population is likely to help stimulate the burgeoning market for private vehicles. Rising prosperity, easier access to finance and increasing affordability is expected to see four-wheelers gaining volumes, although two wheelers will remain the primary choice for the majority of purchasers, buoyed by greater appetite from rural areas, the youth market and women.

The engineering sector in India attracts immense interest from foreign players as it enjoys a comparative advantage in terms of manufacturing costs, technology and innovation. Capacity creation in sectors such as infrastructure, power, mining, oil &
gas, refinery, steel, automotive, and consumer durables driving demand in the engineering sector. The government has an ambitious mission of ‘Power for all by 2012’ and has planned capacity additions of 120 GW in the 12th Five-Year Plan. Governmental infrastructure projects such as Golden Quadrilateral and the North-South and East-West corridors fuelled growth in the engineering sector.

India has Comparative advantage vis-à-vis peers in terms of manufacturing costs, market knowledge, technology and creativity. More than 2,500 firms in the engineering sector have ISO 9000 accreditation. The engineering sector is a growing market. Current spending on engineering services is projected to increase to US$ 1.1 trillion by 2020. The Indian engineering sector is of strategic importance to the economy owing to its intense integration with other industry segments. The sector has been de-licensed and enjoys 100 per cent FDI. With the aim to boost the manufacturing sector it has announced scheme for capital goods sector.

Conclusion:

Despite their high enthusiasm and inherent capabilities to grow, MSMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient skilled manpower, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their operations. MSMEs that are innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully. Indian MSMEs are always ready to accept and acquire new technologies, new business ideas and automation in industrial and allied sectors.