

# Make in India - A Prospect of Development for Micro, Small and Medium Enterprises

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## ABSTRACT

The role played by the Micro, Small and Medium Enterprises (MSMEs) in the economic landscape of the country is worth appreciating. With the announcement of Make in India Campaign by our Prime minister Shri. Narendra Modi and its gaining strength and popularity, there is definitely an advantage and scope of growth for MSME sector which already constitutes a major share (45 %) of the Indian manufacturing sector. (SMEs Role in India's manufacturing Sector, India Brand Equity Foundation). MSMEs can be the backbone for high growth businesses with both domestic and foreign companies investing in the 'Make in India' initiative. 'Make in India with zero defect and zero effect', is a significant opportunity. The new wave MSME should enable the development of a business eco system that enables and continuously support business that are gearing to deliver the right product, the right quality, the right solution and the right service at a competitive price, both in domestic and international markets. This article tries to understand the benefits of Make in India Initiative on the MSMEs and the supports offered by the government towards enhancing the growth in this sector.

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## Introduction

MSMEs contribute nearly 8% of the country's GDP, 45% of the manufacturing output and 40% of the exports. (Recommendations of the Inter-Ministerial Committee for Accelerating Manufacturing in Micro, Small & Medium Enterprises Sector -2013). Make in India Campaign which emphasizes on increasing the share of manufacturing in India's GDP from 14-15% to 25 % by 2022 has the potential to take the MSME sector to unheard-of-heights. (Development in MSME Sector for Make in India Campaign, Business Standard Magazine). One of the four key initiatives in the campaign , the micro and small enterprises (MSE) cluster development programme (MSE-CDP), mandates that all Central ministries, departments and public sector undertakings (CPSUs) must procure a minimum of 20 per cent of their annual requirement of goods and services (by value) from MSEs with effect from April 2015. The role played by CPSUs in the last few years in the growth of MSMEs is vital .In 2013-14, 56 CPSUs organised 1,007 vendor development programmes (VDPs) for MSEs. In 2014-15, the target

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was over 55 national VDPs and 351 state VDPs across the country with a budget allocation of Rs.5 crore. ('Make in India' to transform MSMEs' fortunes: Minister – Business Standard). This article tries to understand the benefits of Make in India Initiative on the MSMEs and the steps taken by the Ministry to better equip the MSMEs to contribute in a big way to the national economic development.

## **Make in India Policy for MSME Sector**

The Make in India Policy aims to facilitate investment, foster innovation, enhance skill development and build an Eco-system for manufacturing infrastructure in the country. Ministry of Micro, Small and Medium Enterprises has been initiating and implementing a number of programmes and schemes in the areas of finance, technology, infrastructure, marketing and skill development to facilitate the aims of the Make in India Policy. The announcements in the Union Budget 2014-15 included provision of a Rs10,000 crore venture capital fund and a Rs200 crore technology centres fund, accreditation of enterprises in this sector, virtual clusters, online filing of EMI and II, incubation centres, etc (Framework for Rs 10,000 cr VC fund for MSMEs by month end, Business Standards Magazine). These initiatives make it clear that the government is focused on supporting the MSMEs.

## **Benefits of MSMEs on Account of Make in India Initiative**

Following the announcement of Make in India Campaign, The Ministry of Micro, Small and Medium Enterprises has taken several steps towards improving the development in MSME sector. A few of them includes :provision of collateral free credit through Credit Guarantee Scheme, provision of Subsidy for installation of modern machinery through Credit Linked Capital Subsidy Scheme (CLCSS), creating an ecosystem through Technology Centres (TCs) to support MSME Clusters for global competitive manufacturing through setting up of 15 new Technology Centres with World Bank assistance, augmenting the 18 existing TCs with new technologies and testing facilities, enhancing Competitiveness and Productivity through upscaling the various components of NMCP Scheme and also upscaling the cluster approach to improve development in the MSME sector following the announcement of the Make in India Campaign.

According to Mr. Giriraj Singh, Minister of State, Micro, Small and Medium Enterprises, Development of MSMEs should be focused on both rural and urban areas depending upon the potentiality of the area. Efforts are being undertaken for the development of MSMEs in rural areas through implementation of Prime Ministers Employment Generation Programme (PMEGP), Khadi Grant, Workshed Scheme for Khadi Artisans and Mahila Coir Yojana etc.

## **Defence Offset Policy**

Defence Offset policy is being leveraged for creating ecosystem of defence manufacturing by MSMEs. According to this policy, 30% of all defence orders placed to foreign suppliers by the Indian government has to be sourced for India itself. This gives a lot of orders to MSMEs either in the form of direct orders or sub contracts. MSMEs need to be ready with the necessary infrastructure, technology and skilled labour to win the orders and execute them. The introduction of Advance licence will waive off the excise duty for all raw material imports and finished goods exports to the country on this account.

## **Foreign & Domestic Investment**

'Make in India' campaign can attract the Indian companies as well as foreign MNCs to bring in their investment or to set up venture/angel funds to take advantage of the inherent depth of the MSME Sector in terms of range of products and services, marketing networks and the ability to grow fast. Another advantage in Indian MSME the foreign partners would experience is that production process in this sector is already underway. The various networks required for undertaking the production process are already established. The foreign MNC is just required to bring in investment and technical know-how to achieve excellence in these areas.

With such lot of importance being given to the Make in India Initiative there has been an increased emphasis and investment on the following initiatives from the government.

### **Collateral Free Borrowing**

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals/ third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed.

The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of an MSME unit, which availed collateral- free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 85 per cent of the outstanding amount in default. (The Credit Guarantee Fund Trust Scheme for MSEs- SIDBI Initiative)

### **Technology Up gradation**

Ministry implements a scheme called Credit Linked Capital Subsidy Scheme (CLCSS) for technology up gradation of Micro and Small enterprises in the country. Under the scheme, 15 per cent capital subsidy, limited to maximum of Rs 15 lakh is provided to the eligible MSMEs for upgrading their technology with the well-established and improved technology as approved under the scheme. (Press Release, Ministry of Micro, Small & Medium Enterprises)

### **Skill Development**

In order to ensure adequate availability of skilled man-power to achieve the objectives of 'Make in India' initiatives, the government plans to launch a National Skills Mission through the skill development and Entrepreneurship Ministry. The finance minister Mr. Arun Jaitley, in his Budget Speech 2015-16, said that the mission will consolidate skill development initiatives spread across several ministries and allow the government to standardise procedures and outcomes across 31 sector skill councils.

National Industry Bodies to play a role of Mentors in promoting Innovation and Entrepreneurship through innovative programs like Business Mentoring Services and Senior Expert advisory Services. MSMEs are also provided with linkages to experts to guide them in the areas of implementing and

understanding total quality management, lean manufacturing, green technology, energy efficiency, competitiveness and international quality standards. The Ministry is already conducting various types of training programme through its various organisations for self-employment (to establish his own micro or small enterprises) as well as wage employment.

### **Manufacturing Competitiveness**

The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the Government to develop global competitiveness among Indian MSMEs by enhancing the entire value chain. The Programme was initiated in 2007-08. A few of the schemes are under the program are:

- (a) Lean Manufacturing Competitiveness Scheme for MSMEs
- (b) Promotion of Information & Communication Tools (ICT) in MSME sector
- (c) Technology and Quality Up gradation Support to MSMEs
- (d) Marketing Assistance and Technology Up gradation Scheme for MSMEs

### **Energy Conservation**

The Ministry implements the “Technology and Quality Upgradation Support to Micro, Small and Medium Enterprises (TEQUP)” which focuses on two important aspects, namely, enhancing competitiveness of MSME sector through Energy Efficiency and Product Quality Certification. The basic objective of this scheme is to encourage MSMEs in adopting energy efficient technologies and to improve product quality of manufacturing in MSMEs.

### **Improved Quality**

Government has initiated vision of the ‘zero defect zero effect’ as part of ‘Make in India’ initiative to achieve higher productivity with minimum rejection level and ‘zero effect’ so that the manufacturing does not have an adverse effect on our environment

The TEQUP “Technology and Quality Upgradation Support scheme to Micro, Small and Medium Enterprises envisages Product Quality Certification. The main objective of this scheme is to encourage MSMEs to Acquire Product Certification Licenses from National / International Bodies, thereby improving their competitiveness. The primary objective of this activity is to provide subsidy to MSME units towards the expenditure incurred by them for obtaining product certification licenses from National / International standardization Bodies

### **Business Incubators**

The Ministry implements the Support for Entrepreneurial and Managerial Development of SME’s through Incubators”. The main purpose of the scheme is to nurture innovative business ideas (new/ indigenous technology, processes, products, procedures, etc), which could be commercialized in a year. Under the Scheme, financial assistance of around 75% to 85% of the project cost upto maximum

of Rs.8 lakh per idea/unit, provided to Business Incubators (BIs). (SMEs role in India's manufacturing Sector, India Brand Equity Foundation)

### **Credit Rating**

The Ministry is implementing the Performance & Credit Rating Scheme with the objective to provide a trusted third party opinion on the capabilities and credit-worthiness of the MSEs so as to create awareness amongst them about the strengths and weakness of their existing operations. This is to provide them an opportunity to improve and enhance their organizational strengths and credit worthiness, so that they can access credit at cheaper rates and on easy terms.

### **Cluster Financing**

Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector which may be achieved through extending banking services to recognized MSE clusters. A cluster based approach may be more beneficial (a) in dealing with well-defined and recognized groups (b) availability of appropriate information for risk assessment (c) monitoring by the lending institutions and (d) reduction in costs.

### **Building Brand India**

Efforts are already initiated in the direction of promoting and creating international awareness of the 'Made in India' label in markets overseas. Schemes are in place for MSMEs to market Indian products / brands in international trade fairs. Participation in global markets will not only help MSME grow their business, but also become globally competitive enterprises. The result will be an increase in the demand for goods and services over the next decade.

### **Challenges Ahead**

Despite the sector's role in the country's overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector faces several challenges. Technological obsolescence and financing problems have been associated with the sector since long. Also, constraints such as availability of adequate and timely credit, high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facilities, including power, water, roads and regulatory issues related to taxation (state-central), labour laws and environmental issues, impede Indian MSMEs from realizing their true potential.

### **Suggestions for Betterment**

To overcome the challenges and have a wider reach, it is necessary that MSMEs have a good variety of sources of finance. Therefore, the government and RBI should take some major steps to address the issue of inadequate funding to the sector. The Credit Guarantee Fund Trust set up by the Government and the Small Industries Development Bank of India has to widen the schemes for funding to ensure enhanced credit flow.

Currently the percentage of bank loans to the SME sector as a proportion of their total loan book is approximately 2%. The Figures are of the range of 15% for other developed nations. (Experts outline challenges and solutions for SME financing). Indian Government and the financial institutions have to take necessary steps as a priority and new sources of capital need to be developed.

Currently cheaper means of funds are not available to MSME due to the high risk involved and the doubts on their capability to repay. Financial institutions have to identify ways to manage risk by segmenting the market by value chain. It is much easier to evaluate and manage risks if the focus is on a specific industry value chain.

More funding options like Angel investing, crowd funding will help meet the increasing demand. This is where new technology platforms can make a significant contribution.”

**Some of the recommendations of IFC for the MENA (MIDDLE EAST AND North Africa) region are:**

- Providing equity funds to MSMEs
- Risk sharing facilities or partial credit guarantees to enhance risk taking capacity and provide capital relief via low risk weightings
- Raise awareness on best practices in the SME finance space
- Develop credit reporting infrastructure based on country needs
- Support development of secured transactions, collateral registries, legal and regulatory framework
- Advisory services are supported by the following innovative tools:
- SME Banking Knowledge Guide, SME Banking Training Program, SME Banking CHECK Diagnostic Tool, SME Banking Benchmarking

**To overcome the lack of skilled man power, the following steps can be adopted,**

- Provide Support and build capacity- ranging from online and phone assistance to an in-person expert to help navigate the installation process
- Breakdown the complexity by introducing easy to use products and systems
- Share Best practices and thus provide leverage

Vienna Initiative-2 has given the following recommendations for the role CGS (Credit Guarantee Schemes) should take to improve the financing in MENA (middle east and North Africa) region.

- Public CGSs are used in many developed and developing economies to alleviate the constraints facing SMEs in accessing finance
- Well-designed and well-priced credit guarantees help close the financing gap by substituting collateral provided by a borrower with credit protection provided by an external guarantor.

- The design and pricing of credit guarantee products should also ensure that the transfer of credit risk from the lender to the guarantor does not lead to excessive risk-taking.

The above information can be taken as reference and some actions can be initiated to bring up the MSME sector in India

## Conclusion

The government's 'Make In India' campaign will not take off unless the country's small and medium enterprises rises up and provide a robust supply chain for foreign investors, believes the India head of the Fortune 50 firm United Technologies Corporation (UTC). It is important to identify important verticals within this sector with differing interests with regards to government's policy interventions. To make the PM's call to grow manufacturing a reality, different rules and incentives need to be devised for MSME's working as vendors to modern manufacturing. A capital investment based criteria is inappropriate and will not be competitive as it creates a disincentive to improving technology, productivity, quality and reducing costs. The entire package of incentives should lead to enhancing competitiveness of manufacturing, and upgrade of all aspects of their work

Although the contribution of MSMEs to the Indian economy is significant, what is not appreciated much, however, is that it is producing these results much below its potential. There is a need to develop potential strategies for MSMEs to improve linkages and coordination between the Government, industry and academia. It is important to provide an additional impetus to the MSME sector as it is likely to have a multiplier impact on Indian economic growth in this decade.

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