The new wave
Indian MSME
An action agenda for growth

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India is expected to emerge as one of the leading economies in the world over the next decade in the light of a positive political and economic scenario. The Micro, Small & Medium Enterprises (MSME) segment is expected to play a significant role in the emergence of the Indian economy. The development of this segment is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment across urban, rurban and rural areas across the country. Further, it can nurture and support development of new age entrepreneurs who have the potential to create globally competitive businesses from India.

MSME can be the backbone for the existing and future high growth businesses with both domestic and foreign companies investing in the ‘Make in India’ initiative and make significant impact in the area of indigenisation. ‘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. 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.

It is equally important that the MSME segment 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. The MSME sector will act as a catalyst to bring about this socio-economic transformation.

India’s GDP is expected to touch 8.5 per cent, with the country likely to be a USD 5 trillion economy by 2025.1. The MSME segment has the potential to emerge as a backbone for this economy and act as an engine for growth, given the right set of support and enabling framework. The MSME opportunity is to develop entrepreneurship and support growth led by innovation over the next decade by:

- Significantly increasing the share of MSME contribution to GDP from the current 8 per cent to 15 per cent by 20202;
- Generate employment levels to the extent of 50% of the overall employment, more than doubling the current MSME workforce of 106 million across agricultural, manufacturing and services sectors3; and
- Increasing the share of MSME contribution across key public and private industry sectors fulfilling increasing domestic demand, growth in exports, indigenisation and import substitution.

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2. CII - Micro, Small & Medium Enterprises Issues & Recommendations May 2014
 Globally the MSME segment development has shown mixed results depending on various policies and initiatives undertaken by developing and developed economies during their critical economic lifecycle. Many developed and developing economies have demonstrated that the MSME segment constitutes the backbone for maintaining growth rates as well employment generation rate and provides stability during economic downturns. It is therefore very crucial that as India embarks on a new wave economy, it adopts an MSME opportunity framework that will provide the necessary impetus to seize the opportunities created by:

- Emergence of domestic demand led by significant increases in spending and consumerism;
- Increase in spending in infrastructure and defence sectors;
- Increase in foreign direct investments in existing and emerging businesses in India;
- Foreign companies investing in India for their global market requirements (Make in India); and
- The double digit growth expected in numerous business sectors.

In order to be globally competitive it will be essential for India’s entrepreneurial skills to be global in their outlook and adopt innovation, develop world class technologies and to skill the nation’s favorable age profile of human resources. India will have to develop stronger support in providing an enabling business environment. The business environment should aim to enable greater number of companies to sustain from a startup stage to the next level of growth and maturity and should nurture these businesses into billion dollar plus enterprises over the next decade.

This can be made possible with a new wave opportunity framework for the new wave India MSME. Any new framework will have to consider domestic imperatives, evolution in key business sectors of the economy and evaluate global MSME policies across developing and developed economies. Further the framework will have to shift from regulatory compliance approach for stakeholders, to a performance incentive-based approach. This could channelise and reward growth and performance in relevant areas, support innovation and enhance higher productivity.

A catalyst for socio-economic transformation of the country, the sector is critical in meeting the national objectives of generating employment and discouraging rural-urban migration. Of the many challenges impeding the growth and development of MSMEs, limited access to financial resources, lack of infrastructure support and inadequate linkages to domestic and global markets, etc. are few of the bottlenecks that make these enterprises vulnerable, particularly in the period of economic downturn.

In India, MSME are very large in numbers, diverse in type of business and are spread across remote geographies of a vast country. A large portion of the MSMEs are informal and not registered with the formal eco system of MSME. It will require significant changes in philosophy and approach to be able to develop and deliver a new wave eco system which facilitates their development and seize the emerging domestic and global opportunities. At a minimum, any hindrances and hurdles in doing business are to be removed. This will help unleash a young and dynamic entrepreneurial talent in India who will be willing to make self-entrepreneurship the first career choice and develop growth companies.

Seizing the emerging opportunities to develop a robust MSME sector as a strong backbone for a growing economy will require efforts by the government to bring the various stakeholders i.e. equity funds, banks and financial institutions, industry sector majors and MNCs, regulators across various Ministries at the centre and state level and trade associations and global economies having trade flows with India and others stakeholders, etc. together and create a forward looking framework and eco system. Further, a holistic approach can be considered in developing new wave MSME in view of the emerging opportunity areas in the India economy. Such an approach will be necessary to deliver the potential. Further, speedy utilisation of the INR10,000 cr fund for MSME and the INR200 cr fund for technology upgradation announced in the recent Union budget can provide an excellent immediate impetus to the development of MSME. A policy framework can be developed for a seed fund which can contribute to 25% of the venture and special purpose private equity funds ranging from INR 100 – 500 Cr and focusing specific areas - adopting innovation and technology, digital India, global competitiveness and so on. Relevant authorities and stakeholders can work together to channelize the funds.

A possible new wave framework that can provide the appropriate change and impetus can comprise of the following important foundations for India’s new wave MSME.
This report aims at providing a snap shot of the emerging opportunity in the India MSME segment and the possible areas of MSME opportunity considerations. We welcome any ideas and views that will help in shaping the future for MSME in India.

<table>
<thead>
<tr>
<th>Growth in Indian Economy and GDP</th>
<th>A holistic approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase MSME contribution from current 8 per cent to 15 per cent by the year 2020</td>
<td>Key foundations for strong MSME backbone for the Indian economy</td>
</tr>
</tbody>
</table>

Growth of the new wave MSME led by entrepreneurship focused on innovation and technologies, creating opportunities for women entrepreneurs and developing skilled resources across the following opportunity areas.

**“Come Make in India”**

Promote an ecosystem for ‘Make in India’ for foreign companies to invest in manufacturing, service and agricultural and agri processing related segments for meeting the domestic as well as global demand.

**Digital India**

Promote MSMEs’ manufacturing and service capabilities in the ICT sector in line with the government vision.

**Export contribution**

Promote Export contribution by supporting and developing MSME segment to be globally competitive and adopt research and development, innovation and global technologies. Provide MSME with global market access by entering into bilateral trade agreements and set off arrangements.

**Public procurement policy**

Promote an ecosystem for supplies to defence and public sector enterprises so as to achieve at least 25 per cent portion of total procurement by defence and public sector enterprises from MSME.

**Procurement by large Indian and foreign corporate across industry sectors from MSMEs**

Promote an ecosystem, provide incentives for investments and support efforts by large corporate in vendor development for MSME segment particularly adapting to research and development, innovation and global technologies.

**Indigenisation**

Incentivise any investments and outputs by large players and their MSME vendors to indigenise and/or enable import substitution particularly adapting to research and development, innovation and global technologies.

**Traditional and heritage industries**

Incentivise and support any stakeholder that invests in development, growth and opening global markets for India’s traditional and heritage industries for goods, services and agricultural and natural medicines and therapy related products and services.

**Infrastructure**

National, regional and sector specific clusters and business centers for MSME in PPP model for state of the art infrastructure comprising physical infra, knowledge infra, e-platforms, B2B access and technology and innovation support for MSME.

**Regulatory**

One “all India all-purpose” enactment as MSME regulation to be adopted by all stakeholders in MSME system with one window and one annual return compliance filing coupled with significant direct tax incentives and indirect tax exemptions.

**Funding**

Open environment and incentives for investments by HNWI and funds into MSME business as well incentivize debt funding in MSME segment. Develop MSME equity exchange and “two chance” approach for entrepreneurs, and fast close winding up where necessary.

**Performance incentives**

Direct incentives in form for direct taxes rebates and set off, weighted deductions and reliefs in indirect taxes combined with low cost funding and credit access for stakeholders in MSME eco system who make investments in desired areas and achievement of desired growth results in developing MSME funding and infrastructure skills, technology, innovation, global market access, indigenization, public procurement and vendor development, traditional and heritage industry developments.

**Skill India**

Rewarding MSME for initiatives towards skill development and employment generation, particularly for women and special classes, by way of direct incentives, weighted deductions and reliefs in indirect taxes combined with low cost funding and credit access for stakeholders.
India growth opportunity for MSME

Share of MSME in the economy

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people\(^5\). Overall, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports\(^6\). While most of the sector is un-organised (approximately 94 per cent)\(^6\), informal and un-registered, initiatives to have more enterprises registered are well underway.

The contribution of the MSME sector to India’s GDP currently stands at ~8 per cent for 2011-12\(^5\), and is growing at a rate higher than the projected GDP growth rate. The contribution of MSME segment to the GDP in some of the global economies is in the 25-60 per cent range. MSME in India has the potential to increase the share of contribution to GDP from the current 8 per cent to about 15 per cent by the year 2020.

Global GDP contribution by MSMEs

Source: Country Specific MSME Reports, KPMG Data & Estimates

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

With the increase in MSME contribution to the GDP, there is a potential to increase its contribution to employment to over 50 per cent over the next decade. It is also vital for the informal MSMEs who are currently not registered need to be made part of the formal MSMEs eco system. Growth incentives in the form of privileges and direct benefits for the MSMEs will encourage registration and participation in the growth opportunity. Typically, MSME sector can provide comparatively larger employment opportunities at comparatively lower capital cost especially in the rural and remote areas, by becoming part of the industrial ecosystem and act as ancillary units for large enterprises to support the system in growth.

Employment generated by MSME as a percentage of overall employment globally

India needs to create 10 to 15 million job opportunities per year over the next decade to provide gainful employment to its population. Current MSME employment is at 28 per cent of the overall employment.

MSMEs can contribute significantly to employment generation and development of the Indian economy. The MSME sector is one of the key drivers for India’s transition from an agrarian to an industrialised economy. MSMEs account for a large share of industrial units. The total number of enterprises in MSME sector was 46 million with total employment of 106 million.

It is also critical to see that adequate growth is met across services, manufacturing and agriculture segments to ensure holistic and stable overall economic growth. The current growth of MSME is non-uniform and there exists a significant gap in growth of enterprises across services and manufacturing sectors. Steps to lower this gap must be taken for a balanced growth outlook.

India GDP Composition

Source – Department of Commerce, Annual Report 2012-13

Percentage figures indicate contribution of sectors to the overall GDP

MSME – Growth rate of employment and enterprise by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate of Employment</th>
<th>Growth Rate of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Services</td>
<td>34%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source – Ministry of MSME, Annual Report 2013-14

## Sector focus

Considering the expected growth trends in the top industry sectors and certain opportunity areas, MSME share in these growth sectors can be increased significantly. MSME can provide strong backbone to industry growth by serving as quality suppliers and vendors as well as customers to large companies across sectors. MSME can be part of the ecosystem for the industry sector and add value in the initiatives of cost efficiencies and global competitiveness.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector size (in '000 INR Cr)</th>
<th>CAGR till 2020</th>
<th>Current employment (in millions)</th>
<th>Opportunity Areas For MSME</th>
</tr>
</thead>
</table>
| Telecommunications | 160 280 | 10% 2.8 | • Domestic manufacturing of telecom networking equipment, including routers and switches.  
• Next generation Software-defined Networking equipment  
• Mobile Customer Data Analytics, services oriented towards analytical solutions  
• Manufacture of low-cost mobile phones, handsets and devices  
• Manufacture of Base Transceiver Station equipment  
• Development of Value-added Services  
• Over-the-top (OTT) service providers of innovative services and content to mobile subscribers |
| Electronics | 450 1340 | 20% 1.9 | • Electronic Systems Design and Manufacturing including semiconductor design, electronic components design and hi-tech manufacturing. It has been proposed to establish a National Electronics Mission, a nodal agency for the electronics industry, to enable MSMEs to play a role  
• 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 |
| IT/ITES | 650 1150 | 10% 3.0 | • Cloud computing  
• Social media and mobility  
• Data analytics services  
• E-governance  
• Mobile apps and software development  
• Software automation |
| Media | 92 213 | 15% 0.5 | • Manufacture of Set-Top Boxes (STB) for Direct-to-Home service providers  
• Digital screens in tier-2 and 3 cities  
• Digital Media, new forms of content delivery for media companies |
| Healthcare | 450 675 | 7% 2.9 | • Providing affordable healthcare, especially in rural areas  
• Low cost medical devices, which can be used in rural areas  
• Medical consumables like surgical gloves, scrubs, syringes etc  
• Low cost surgical procedures to reduce the cost of healthcare  
• Medical tourism  
• Diagnostic labs |
| Pharmaceuticals | 90 150 | 9% 0.5 | • Generics and API manufacturing  
• Contract research  
• Nutraceuticals and nutracosmetics |

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<thead>
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<th>Sectors</th>
<th>Sector size (in '000 INR Cr)</th>
<th>CAGR till 2020</th>
<th>Current employment (in millions)</th>
<th>Opportunity Areas For MSME</th>
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<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2020</td>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>Biotechnology</td>
<td>32</td>
<td>50</td>
<td>8%</td>
<td>0.1</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Focus on vaccine exports to developed countries</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Providing bio-informatics related solutions</td>
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<td></td>
<td></td>
<td>• Leveraging the bio-similar opportunity</td>
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<td></td>
<td></td>
<td></td>
<td>Recombinant products</td>
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<td></td>
<td></td>
<td></td>
<td>• Agri produce</td>
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<td></td>
<td></td>
<td>• Hybrid seeds also represent new business opportunities in India based on yield improvement</td>
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<tr>
<td>Automotive</td>
<td>400</td>
<td>670</td>
<td>9%</td>
<td>19.0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Manufacture of automotive components, Tier 1 and Tier 2 suppliers to OEMs</td>
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<td></td>
<td></td>
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<td></td>
<td>• Applied electronics</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• The Defence sector</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Rubber and chemicals supply to the tyre</td>
</tr>
<tr>
<td>Transport &amp; Logistics</td>
<td>610</td>
<td>1140</td>
<td>11%</td>
<td>16.6</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Development of new airports in Tier 2 and 3 cities</td>
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<td></td>
<td></td>
<td>• Ports and port services</td>
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<td></td>
<td></td>
<td>• Green supply chain, reusable packaging material</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Increase in use of technology, Fleet Management System</td>
</tr>
<tr>
<td>Industrial Mfg.</td>
<td>700</td>
<td>1540</td>
<td>14%</td>
<td>2.0</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Processing and toll manufacturing</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Sustainability and pollution treatment services</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Facilities management services</td>
</tr>
<tr>
<td>Engineering &amp; Process Equipment</td>
<td>280</td>
<td>440</td>
<td>8%</td>
<td>4.0</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Next generation automation tools like smart robotics in high precision industries</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Green Engineering</td>
</tr>
<tr>
<td>Chemicals</td>
<td>117</td>
<td>220</td>
<td>11%</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Support supplies and services for Integrated petroleum, chemicals and petrochemicals investment regions (PCPIINR)</td>
</tr>
<tr>
<td>Textile</td>
<td>406</td>
<td>640</td>
<td>8%</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Processing &amp; Packaging</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>187</td>
<td>265</td>
<td>6%</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Drilling and mining chemicals</td>
</tr>
<tr>
<td>Food and Agriculture</td>
<td>1590</td>
<td>1790</td>
<td>2%</td>
<td>238.0</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td>• Backend infrastructure such as cold chain storage, farm collection center, etc.</td>
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<td></td>
<td>• Health food, health beverages, food additives such as vitamin additives, etc</td>
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<td></td>
<td></td>
<td></td>
<td>• Food packaging, innovative packaging for processed food</td>
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<td></td>
<td></td>
<td></td>
<td>• Contract manufacturing for crop protection chemicals, crop nutrients</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Poultry, feed and farm additives</td>
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</tbody>
</table>

10. Building India: Transforming the nation’s logistics infrastructure, McKinsey
<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector size (in '000 INR Cr)</th>
<th>CAGR till 2020</th>
<th>Current employment (in millions)</th>
<th>Opportunity Areas For MSME</th>
</tr>
</thead>
</table>
| Retail                      | 2610 3700                   | 6%             | 28.0                             | • E-commerce  
• Organised retail, cold chains, packaged food  
• New retail formats                                                                                                                                       |
| Gems and Jewelry            | 645 915                     | 6%             | 2.5                              | • E-commerce  
• Organised retail, cold chains, packaged food  
• New retail formats                                                                                                                                       |
| Tourism & Hospitality       | 537 760                     | 6%             | 40.0                             | • Equipment, supplies and services  
• E-commerce platforms  
• Budget hotels, customer services                                                                                                                        |
| Education                   | 333 450                     | 5%             | 8.0                              | • Public Private Partnership (PPP) models  
• Development of multimedia educational content  
• Establishing technical training institutes  
• Private sector ‘finishing schools’ for short term skill building courses  
• Educational material supplies                                                                                                |
| Civil Aviation              | 87 140                      | 8%             | 0.1                              | • Software systems and solutions for data analytics and CRM  
• Flight and ground services, equipment and supplies                                                                                                     |
| Real Estate                 | 305 570                     | 11%            | 33.0                             | • Low income housing development  
• Prefab structures and solutions  
• Property solutions and services  
• Equipment and supplies  
• Architects firms specialising in golf townships, branded residences, green building, international airport city, hospitality, hotel projects etc.  
• Design, engineering and construction firms which can reduce construction time and costs  
• Consultants specialising in the field of project management, heating-ventilation and air conditioning (HVAC), Mechanical, Electrical and Plumbing (MEP) |
| Defence & Aerospace         | 216 340                     | 8%             | 3.0                              | • Indian Offset Partners  
• New age information systems, communication platforms, simulators and equipment                                                                          |

Other sectors which offer multiple opportunities include Infrastructure, power and energy. These industries are capital intensive and the key metrics for industry size are based on current planned investment outlay or units of power generated.

**Energy**
- On shore wind energy and photovoltaic solar energy
- Solar, wind, bio-energy, smart grids, geothermal and energy efficiency solutions
- Oil & Gas – drilling chemicals and equipments

**Infrastructure**
- Services and goods for airports, railways and ports development projects
- Paints and coatings, adhesives and sealants
- Construction chemicals, waterproofing chemicals, sealants etc

**Power**
- Smart grids
- New generation power distribution systems

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Export potential

The contribution of the services, manufacturing and agricultural to the overall exports from India is fairly skewed. While export of services led by IT and ITeS sectors have grown significantly in the last decade, the contribution to exports from manufacturing output has been largely stagnant. India’s share of services exports in world exports of services was 3.3 per cent in 2011 and has been increasing faster than the share of Indian merchandise exports in world exports. During 2012-13, Indian merchandise exports showed a slight negative growth rate of around 2 per cent as compared to a positive growth of 21.9 per cent during the financial year 2011-1222.

India – Trade Data 2013 - Snapshot

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Current imports (USD million)</th>
<th>Current exports (USD million)</th>
<th>Net surplus / deficit (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, oils, and products of distillation</td>
<td>181,382</td>
<td>64,685</td>
<td>(116,697)</td>
</tr>
<tr>
<td>Natural/cultured pearls, precious/semi-precious stones</td>
<td>58,464</td>
<td>41,692</td>
<td>(16,772)</td>
</tr>
<tr>
<td>Vehicles other than railways</td>
<td>4,475</td>
<td>12,933</td>
<td>8,457</td>
</tr>
<tr>
<td>Nuclear reactors, boilers, machinery</td>
<td>30,669</td>
<td>12,077</td>
<td>(18,592)</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>17,044</td>
<td>12,017</td>
<td>(5,027)</td>
</tr>
</tbody>
</table>

Source – Department of Commerce, Annual Report 2012-13

The share of MSMEs in India’s total exports was estimated to be around 40 percent in 2011-1223. The share of the top four commodities account for about 60 per cent of total MSME exports. While globalisation presented a number of challenges for the manufacturing MSMEs, it also opened up ample opportunities to shore up the growth of the manufacturing sector. India can seize the opportunities provided by the dynamics of globalisation which has resulted in a dramatic shift of manufacturing to developing countries over the last decade. India can significantly diversify its export portfolio, both in terms of products and goods exported as well as regional coverage.

MSME Export Snapshot and Overall Export Regional Coverage

A quick look at the share of key products exported indicates that there is considerable scope to diversify current portfolio. There is immense potential for export of goods such as fine chemicals, engineered products, plastic, processed / packaged food etc. where MSME can play a crucial role. Even in terms of regions, geographies like Latin America, Eastern Europe and Africa are largely untapped, especially in the MSME sector. These regions typically comprise of emerging economies and offer significant consumer base which can be milked.

22 Ministry of Finance - Report of the Inter-Ministerial Committee for Boosting Exports from MSME Sector – Shri R. S. Gujral
23 Share of MSME Exports – Ministry of MSME, Annual Report 2013-14
Value Added Products

The average technology value-addition in manufactured products exported by the Indian industry is around 8 per cent\(^\text{24}\), significantly low when compared to that of other emerging developing nations. There is a clear opportunity white space in terms of global demand for value added products and services. One example of positive movement to address this gap is the setting up of the Technology Upgradation Fund for the plastic processing sector.

Building Brand India\(^\text{25}\)

With efforts in the direction of promoting and creating international awareness of the ‘Made in India’ label in markets overseas well underway, demand for goods and services is likely to increase over the next decade. Schemes to market Indian products/brands in international trade fairs are in place for the MSME to avail. Participation in global markets will not only help MSME grow their business, but also become globally competitive enterprises.

E-Commerce

Availability of online trade platforms is also emerging as a key enabler for MSME exports. Traditional handicraft clusters and independent artisans, entrepreneurs are today connected to the world and operate in the global market via e-commerce platforms. The penetration of e-commerce in trade to the rurban, rural MSMEs is increasing and is expected to boost exports further.

Indigenisation and import substitution

India is heavily dependent on imports for a large number of goods and services. While import of certain goods like crude is inevitable, many other products across consumer sectors like electronic white goods, lighting, and consumables which are not technology intensive, have a significant potential to be substituted by local enterprises. Further, there is potential to incentivise investments in high technology areas in order to develop capabilities in high engineering import substitution and indigenisation in many areas of healthcare, automotive, defence, electronics and telecom.

A strong support of industry association and academia is also needed to guide MSME foray into areas where they can substitute imports. Line ministries/departments can help identify major imports of products of their respective domain whose manufacturing involves low to medium end technology complexity.

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\(^{24}\) Ministry of Finance - Report of the Inter-Ministerial Committee for Boosting Exports from MSME Sector – Shri R. S. Gujral

\(^{25}\) Ministry of Finance - Report of the Inter-Ministerial Committee for Boosting Exports from MSME Sector – Shri R. S. Gujral
Public procurement from MSME

Priority sectors like healthcare, education and infrastructure are likely to see even greater investment from the government and PSEs. Under the 12th Five year plan, a cumulative planned expenditure of nearly INR 36 lakh crore is likely to transpire over the next four years spread across the priority sectors. Here again, there is immense potential to tap into for the MSMEs and get a larger share of the pie.

<table>
<thead>
<tr>
<th>Major sectors</th>
<th>11th Plan (in INR crores)</th>
<th>12th Plan (in INR crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and water resources</td>
<td>1,16,554</td>
<td>2,84,030</td>
</tr>
<tr>
<td>Rural Development</td>
<td>3,97,524</td>
<td>6,73,034</td>
</tr>
<tr>
<td>Scientific departments</td>
<td>58,690</td>
<td>1,42,167</td>
</tr>
<tr>
<td>Transport and energy</td>
<td>2,04,076</td>
<td>4,48,736</td>
</tr>
<tr>
<td>Education</td>
<td>1,77,538</td>
<td>4,53,728</td>
</tr>
<tr>
<td>Health and child development</td>
<td>1,12,646</td>
<td>4,08,521</td>
</tr>
<tr>
<td>Urban Development</td>
<td>63,465</td>
<td>1,64,078</td>
</tr>
<tr>
<td>Others</td>
<td>4,58,849</td>
<td>9,94,333</td>
</tr>
<tr>
<td>Total Plan allocation</td>
<td>15,89,342</td>
<td>35,68,626</td>
</tr>
</tbody>
</table>

Source – Planning Commission – 12th Five year Plan

The current policy mandates all Central Government Ministries/Departments and PSUs to procure 20 per cent of their annual procurements from SMEs. This Policy is applicable only to Ministries and Departments of Central Government and Central Public Sector Enterprises and there is a need to include the State Governments as well as large enterprises to formulate a similar policy at their respective level. The public procurement policy should be looked at not only as a means for enlarging the market for MSMEs, but as a means of building enduring professional relationships between the government, large enterprises and the MSMEs. Such a policy can systematically enable MSMEs to enhance production and strengthen the vendor development mechanisms in the country.

In March, 2012, it was proposed that the Central Government Ministries, Departments and Public Sector Undertakings mandatorily set an annual goal of procurement from MSME for a period of three years starting financial year 2012-13, with the objective of achieving an overall MSME procurement of minimum of 20 per cent, of total annual purchases over a period of three years. Annual goal of procurement would also include sub-contract to MSMEs by large enterprises and consortia of MSEs formed by National Small Industries Corporation.26

The Public Procurement Policy also makes special provisions for MSMEs owned by Scheduled Castes or Scheduled Tribes. Out of 20 per cent target of annual procurement from MSMEs, the policy, as a sub-target earmarks 20 per cent (i.e 4 per cent out of 20 per cent) for procurement from MSMEs owned by Scheduled Castes or Scheduled Tribe entrepreneurs.

26. Inter-Ministerial Committee for Accelerating Manufacturing in Micro, Small & Medium Enterprises Sector (Shri Madhav Lal) – Ministry of MSME 2013
Traditional knowledge and heritage industries

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. Practically every state has its own culture and traditional art based village industry. These industries have immense potential to export to global markets.

Many of the traditional industries are based on the principle of using natural colours, eco-friendly material, etc. which offers a special competitive advantage in the global markets. Given the right impetus in terms of exposure to global markets, financial support and basic infrastructure the village industries can play a significant role in transforming the rural landscape of India.

<table>
<thead>
<tr>
<th>Traditional Industries</th>
<th>Current size 2013-14 (INR Cr)</th>
<th>Growth rate (CAGR)</th>
<th>Employment Generated (Mn)</th>
<th>Projected size (2025) INR Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khadi</td>
<td>1080</td>
<td>5.8%</td>
<td>1.1</td>
<td>2025</td>
</tr>
<tr>
<td>Coir Board</td>
<td>1440</td>
<td>0.2%</td>
<td>0.7</td>
<td>1500</td>
</tr>
<tr>
<td>Village Industries*</td>
<td>30075</td>
<td>12.1%</td>
<td>13</td>
<td>56400</td>
</tr>
</tbody>
</table>

* Includes – Mineral, Forest, Agro Based & Food Processing, Polymer & Chemical, Rural Engineering & Bio-Technology, Hand Made Paper, Fiber, Service and Textile industries

Source: Ministry of MSME Annual Report 2013-14

Large portion of the traditional and village industries is un-organised / informal and includes sub-segments like handloom, handicraft, leather, cottage match, vegetable oil, gud/khandsari, sericulture and pottery. Additionally service based traditional industries also include ayurveda and other traditional medicine and yoga. The traditional medicine and yoga has also percolated to a significant extent in the urban – semi-urban belt and is a fast growing market – especially Yoga.

Tradition based village industries account for majority of the global demand for certain products. For example – India is the largest supplier of hand woven fabric and caters to more than 90 per cent of the global demand.

| Traditional Industries – Export, Employment and Industry Growth Snapshot |
|-----------------------------|-----------------|-----------------|
| Traditional / Village Industry | Exports (INR Cr) | Employment Generated (Mn) | Industry CAGR |
| Handloom                    | 2700            | 6.5             | 7.2 %          |
| Handicraft                  | 22500           | 1               | 70 %           |
| Silk                        | 2400            | 7.6             | 8.2%           |
| Leather                     | 35000           | 2.5             |                |
| Traditional Medicine / Ayurveda | 400             |                 | 7%             |

Sources:
Handloom Export Promotion Council (HEPC), http://www.hepcindia.com/government.php
Export Promotion Council for Handicrafts (EPCHI), http://epch.in/index.php?option=com_content&view=article&id=76&Itemid=181
Indian Silk Export Promotion Council
India Brand Equity Forum IBEF

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The Handloom sector plays a very important role in the village industry economy with significant exports to the U.S., UK, Germany, Australia and Italy collectively accounting for around 45 per cent of total exports of Indian handloom products.

Indian Handicraft items are also increasingly being exported from India, and are much sought after products in the international market. These include art metalware, woodware, hand printed textiles and scarves, embroidered and crocheted goods, shawls, zari and zari goods, imitation jewellery and miscellaneous handicrafts such as lace, toys, etc.

With sericulture India enjoys a unique global position in terms of producing all the commercially useful varieties of silk. The ready made garments of silk formed the largest segment, generating around 58 per cent of the export earnings from silk, while natural silk yarn, fabrics and made-ups accounted for around 38 per cent of the silk export earnings.

Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy (AYUSH) is also taking steps to grow the Indian traditional medicine system in the global markets and has entered into MoUs with its counterpart associations in China, Malaysia, Nepal and so on. Health practices like Yoga are already established and accepted lifestyle practices in the western economies.

Looking at the robust growth in exports across products from the traditional and village industries, the potential for further growth in these segments is substantial. Local industry bodies like the Council of Leather Exports, Handloom Export Promotion Council (HEPC), and Export Promotion Council for Handicrafts (EPCH) need to work in tandem with central and state government to promote these products in markets which are yet untapped.
India imperatives

Given the current economic scenario, some of the key national imperatives to propel India into the next wave of growth include:

- Creating employment opportunities for special segments such as women workforce, physically challenged, traditional industries, etc.;
- Financial inclusive growth to its lower income class across rural, rural and urban economies
- Developing capabilities for reducing import burden and dependence on overseas for local demand fulfillment;
- Enhancing and widening export capabilities and becoming globally competitive, developing global technologies and innovation;
- ‘Make in India’ – Ease of doing business; and
- Developing infrastructure for improving standards of living for wider population as well as for improving business environment and capabilities.

Some of the following MSME imperatives will also require consideration:

Promoting a culture of innovation and entrepreneurship29

As an emerging investment destination of foreign capital, technology and products, there is a strong need for an innovation strategy to give a competitive edge to the domestic industries and help them compete in the global marketplace. Also, with the rising inequality in Indian society due to skewed availability of opportunities and resources, promoting innovation will help complement the inclusive growth fundamental.

From the perspective of employment generation as well, creating a suitable business environment to nurture and promote entrepreneurship is critical for large scale employment creation. Typically, entrepreneurship tends to be innovation-driven and can also help generate solutions to India’s myriad social and economic problems such as skill development, affordable health care, energy dependence, urbanisation, waste management, and financial inclusion. Entrepreneurship-led economic growth is more robust and inclusive.

Skills development: MSME largely comprise first-generation entrepreneurs and the managerial competence require mentoring and support mechanism.

Business environment to support and nurture startups: India needs an entrepreneurial ecosystem that encourages innovative startups. Risk taking should be encouraged and entrepreneurs should be supported to overcome roadblocks.

Global competitiveness and access to technology: India should create an environment for MSME joint ventures to enable Indian MSMEs to partner with their global businesses and evolve to global levels on innovation, adapting to new technologies and attention to quality.

Women entrepreneurship: Women entrepreneurs make a significant contribution to the Indian economy and should be encouraged to participate in the MSME growth story. There are nearly three million MSME’s with full or partial female ownership. Collectively, these women-owned enterprises contribute 3.09 percent of industrial output and employ over 8 million people. Approximately, 78 percent of women enterprises belong to the services sector. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98 percent of women-owned businesses are currently micro-enterprises.30

Having said that, success rate for entrepreneurial ventures tends to be low, even more so in India. While India has the potential to build about 2,500 scalable businesses over the next 10 years, given the probability of entrepreneurial success, it translates into having more than 10,000 start-ups to achieve that number. These businesses could collectively generate $200 billion in revenues, a contribution to GDP and creation of employment at the same scale as projected for IT and ITES industry. The government schemes for innovation promotion have primarily been focused around the creation of new technologies. Various schemes have outlined an operational plan, and in the process have evolved some good practices and propositions. However, as a common factor, most of the schemes are targeted at high-end solutions mainly pursued and promoted by entrepreneurs who are either small or medium and not the ones operating at the grassroots level targeting users at base of the pyramid. Also, most government schemes operate at an individual or single enterprise level as a point of intervention. The ‘Design Clinic Programme’ run by the Ministry of MSME is currently the only cluster based intervention initiative which aids to scale innovations in MSME clusters.

Creating a vibrant entrepreneurial ecosystem will require strong capital inflows as well (to the tune of USD55 billion) over the next decade with around half of this in form of debt.

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

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

Focus on Technology

Technology is increasingly seen as a business enabler and a vital tool for bringing in process efficiencies and higher degree of standardisation. In order for MSMEs to develop a competitive advantage to operate in the global market, a strong focus on implementing new-age technology, developing indigenous technology as well as technology collaboration with global partners is likely to play a crucial role. Technology plays a pivotal role for MSME to help them stand up to the stiff competition from large enterprises and imports. A strong technology-enabled sector levels the playing field, to a great extent, between MSMEs and their established counterparts globally.

The increasing pace of change is rapidly driving customer, businesses and technology firms into a tight embrace, with the convergence of disruptive technologies eroding the boundaries separating them. Businesses are becoming more and more agile, and technologies such as social media, mobility, analytics and cloud computing are coming together to unleash great value and opportunity. This convergence – also known as SMAC (Social Media, Mobility, Analytics and Cloud Computing) – will emerge as a key business enabler over the next few years. In the context of the Indian MSME sector, there is a gradual adoption of the SMAC amongst the urban enterprises – at least aspects of mobility and social media.

With respect to developing indigenous technology, across sectors like IT, Electronics, Manufacturing, Pharmaceuticals and Biotechnology, various industry stakeholders, industry bodies and associations, academia, government and large enterprises – need to come together to help pull MSME one notch up in the value chain and lead them to focus on innovation and automation.

Local institutions and academia can help set-up cluster specific incubation cells to provide guidance in terms of technology implementation, development and scaling up. Institutions should also collaborate with the industry, particularly MSME, on research initiatives and help provide technology support to commercialise innovative products and service ideas.

A new wave MSME framework which considers the global context and benchmarks, the emerging opportunities in the top industry growth sectors and specifically considering India’s top socio economic imperatives can provide an impetus by rewarding growth, innovation, productivity and global competitive edge the sector. The MSME coverage therefore needs to consider appropriate changes, taking into account the global economic environment as well as the changing domestic economic scenario. Current coverage MSME in India is based on capital investment in plant and machinery and is separate for services and manufacturing sectors.

There is an inflation impact of MSME companies increasing the investment required in the business. Further, with changes in the market place requiring adoption of new technologies and processes the nature and extent of investments required in plant, machinery and equipment is constantly increasing. Considering inflation increases and market changes including technology changes, it would be appropriate to consider the following changes to the above policy on immediate basis as per table provided below. Further, in view of constant changes in the business environment and in consideration of normal inflation in a growing Indian economy, it would be appropriate to consider periodic changes in the investment levels for MSME, say every three years, based on inflation rates and relevant business indices.

<table>
<thead>
<tr>
<th>Manufacturing sector (investment in plant and machinery)</th>
<th>Services sector (invest in equipment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Micro enterprise (does not exceed INR 25 lakhs)</td>
<td>a. Micro enterprise (does not exceed INR 10 lakhs);</td>
</tr>
<tr>
<td>b. Small enterprise (exceeds INR 25 lakhs but does not exceed INR 5 crores); or</td>
<td>b. Small enterprise (exceeds INR 10 lakhs but does not exceed INR 2 crore); or</td>
</tr>
<tr>
<td>c. Medium enterprise (exceeds INR 5 crores but does not exceed INR 10 crores).</td>
<td>c. Medium enterprise (exceeds INR 2 crores but does exceed INR 5 crores).</td>
</tr>
</tbody>
</table>

Source: Ministry of MSME
The MSME segment in India has traditionally been using the investment in plant and machinery as the metric to define the MSME sector as the investment in assets can be verified and measured. However, we must also appreciate that each sector has its own unique capital requirement and standard revenue and growth rates. Hence, in today’s complex business environment, turnover and number of employees are becoming more relevant matrices for consideration of coverage.

Globally, annual turnover, headcount and potential export revenues are some of the key metrics being used to define the MSME. Further, the emerging economies have taken a step ahead to constantly revise and raise the turnover and headcount caps to match the global standards. For instance Brazil categorises its MSME sector as individual entrepreneur, micro and small businesses. Similarly, South Africa tags its MSME sector into micro, very small, small and medium businesses thereby encompassing all the small businesses in its purview. To maintain unique characteristics of each industry and best channelise the resources to support their development requirements, countries like South Africa and Argentina have extensively defined their MSME sector based on industries (agriculture, trade, services, industrial, etc.) and the corresponding revenues and headcount.

The global MSME coverage gives a snapshot of the unique characteristics of each country. In the long run, the industry specific cataloguing of the MSME sector would ensure that a larger pool of the relevant companies is included in the framework aiding the design and implementation of the appropriate policies to nurture their growth. Over the next decade it is expected that MSME businesses will get more organised, registered and operate through banking channels to avail of new initiatives of privileges, benefits and incentives. Globally, turnover and number of employees is a widespread criteria for MSME considering common data points for other stakeholders such as banks, equity investors, direct and indirect taxes and incentives for growth defined around these criteria. There is an opportunity to consider a gradual transition plan for MSMEs over the next decade to be in line with global MSME in developing nations. Accordingly, transition to turnover and number of employee criteria should be planned over the next decade.

It is essential that in India specific scenario separate consideration be given to agriculture and food processing businesses. This segment requires support and benefits during the current development phase and creates significant opportunities in the MSME segment for new startups across regions.
### Snapshot of MSME Definition Across Select Countries

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Argentina</th>
<th>South Africa</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than</td>
<td>Lower limit</td>
<td>Upper limit</td>
<td>Lower limit</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro LCU million</td>
<td>0.4</td>
<td>0.6</td>
<td>2</td>
<td>0.2</td>
</tr>
<tr>
<td>Small LCU million</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Medium LCU million</td>
<td>N/A</td>
<td>24.1</td>
<td>111.9</td>
<td>4</td>
</tr>
<tr>
<td>Varies by industry/sector</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Headcount</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro Employees</td>
<td>1 to 19</td>
<td>&lt;5</td>
<td>&lt;10</td>
<td>&lt;5</td>
</tr>
<tr>
<td>Small Employees</td>
<td>10 to 99</td>
<td>5</td>
<td>50</td>
<td>&lt;50</td>
</tr>
<tr>
<td>Medium Employees</td>
<td>50 to 499</td>
<td>21</td>
<td>200</td>
<td>&lt;100</td>
</tr>
<tr>
<td>Varies by industry/sector</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Singapore</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than</td>
<td>Less than</td>
<td>Less than</td>
<td>Less than</td>
<td>Less than</td>
<td>Less than</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro LCU million</td>
<td>N/A</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>N/A</td>
<td>1.7</td>
</tr>
<tr>
<td>Small LCU million</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>8.2</td>
</tr>
<tr>
<td>Medium LCU million</td>
<td>25</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>41</td>
</tr>
<tr>
<td><strong>Headcount</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro Employees</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
</tr>
<tr>
<td>Small Employees</td>
<td>5 to 99</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>N/A</td>
<td>50</td>
</tr>
<tr>
<td>Medium Employees</td>
<td>100 to 499</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>Varies by industry/sector</td>
<td>N/A</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Capital Investment</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro LCU million</td>
<td>N/A</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>N/A</td>
<td>1.7</td>
</tr>
<tr>
<td>Small LCU million</td>
<td>N/A</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>8.2</td>
</tr>
<tr>
<td>Medium LCU million</td>
<td>N/A</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>N/A</td>
<td>35.2</td>
</tr>
<tr>
<td>Varies by industry/sector</td>
<td>N/A</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Micro INR million</td>
<td>N/A</td>
<td>156</td>
<td>156</td>
<td>156</td>
<td>N/A</td>
<td>168</td>
</tr>
<tr>
<td>Small INR million</td>
<td>N/A</td>
<td>780</td>
<td>780</td>
<td>780</td>
<td>N/A</td>
<td>811</td>
</tr>
<tr>
<td>Medium INR million</td>
<td>N/A</td>
<td>3,352</td>
<td>3,352</td>
<td>3,352</td>
<td>N/A</td>
<td>3,483</td>
</tr>
</tbody>
</table>

Source: Country specific MSME report, KPMG Data and Estimates

Figures Rounded Off

LCU – local currency unit of each country. Exchange rate is as on 22 September 2014; Capital investment represents balance sheet size/value of main assets; European Union’s SME definition; Also includes mandatory 30 per cent shareholding by Singapore citizens or permanent residents.
The new wave Opportunity framework will have to consider and the following elements in a cohesive and synergistic manner. At different stages of growth, enterprises need support and assistance in various aspects. Opportunity framework should be designed based on maturity stage and scale of enterprise i.e. start-up, growth, developing and should encompass all aspects of support for MSMEs. The opportunity framework can be built around five growth enabling pillars.

The new wave initiatives consider potential opportunities for creating significant support for the MSME sector to develop over the next decade and facilitate partnering approach by the various stakeholders by way of incentives, rather than compliance, thereby channelising the much needed resources and infrastructure.
New wave initiatives

1. Allocate 25 per cent of the land available at all Industrial corridors for MSMEs at different rate slabs and for acquiring models. This will help MSMEs to start their business ventures at affordable rates in key industrial parks and clusters.

2. World class infrastructure at national, regional and industry sector specific clusters and business centers (on the lines of ‘polyclinics’) for MSME in PPP model comprising physical infrastructure, knowledge infrastructure (Creation of tool rooms), e-platforms, B2B access and technology and innovation support for MSME. Further, link all stakeholders in the MSME eco system i.e. bankers, large MNCs, global markets customers, equity investors, skill development, research and development institutes, trade associations, etc with the clusters and MSME participants in the region.

3. Promote IT development and implementation in MSME Clusters similar to the Quality Development Cluster Movement. Implement cloud technology among the MSME Clusters which can help MSMEs in Knowledge Sharing and Competitiveness Development.

4. Clusters alongside infrastructure being developed in 100 modern cities/townships, rurban and rural areas and the investments in road, rail, air and water to provide greater connectivity for MSME businesses.

5. Incubation cells and hubs within clusters can be developed in collaboration with academia / regional institutions to provide MSMEs with mentoring and technology support, and shared R&D facilities.

Global initiatives across select countries

Canada - Subsidies for operating infrastructure CentrePort Canada (inland port) offers single window access to the benefits offered under the FTZ programme such as low electricity rates and exemption from certain taxes like inventory tax, and corporate income tax. In addition, Canada is being developed as a tariff free zone, which is likely to be implemented from 2015. No tariffs will be levied on machinery and equipment in the zone.

Italy provides grants (starting from EUR 100,000) fund to MSMEs for purchase of hardware/software/ICT tools. EUR20,000 of tax credit is provided for improving network speed (of mobile and fixed line) to more than 30 Mbps. Further, subsidised loans are provided for capital expenditure and business creation.

U.S. has an ongoing HUBZone Programme to help small businesses in urban and rural communities gain preferential access to federal procurement opportunities. USA has developed approximately 900 Small Business Development Center sites are funded through a combination of state and SBA support in the form of matching grants. Typically, SBDCs are co-located at community colleges, state universities, and/or other entrepreneurial hubs.

Canada’s Business Innovation Access Programme aims at connecting MSMEs with research institutes, universities and colleges to provide technical, commercial and marketing assistance.

UK under its ‘The Small Business: GREAT Ambition’ policy enabled conversion of high-street properties for multiple uses. This enables small enterprises to operate out of shared office spaces in key business districts where real estate would otherwise be unaffordable for them.

Sector specific infrastructure support in clusters, for example in Singapore, has a shared integrated cold chain set up for processed food hub in the Senoko region, allowing the SMEs to keep their costs and investments low.
### New wave initiatives

#### Regulatory

1. Single comprehensive MSME Law for India, applicable in all states and territories and applicable to all MSMEs; including Labour Law, Factories Act, Land acquisition Act, etc. Single window approval allow entrepreneurs and his/her MSME(s) to register their business, obtain required licenses, PAN etc. through a single application for setting up business and easy facilitation of IP registrations. Annual Filing and Declaration to file taxes and other regulatory compliances, licenses, etc. annually in order to reduce administrative time and effort in meeting compliances on monthly, quarterly basis.

2. Financial regulation to support on matters of:
   - Effective policy to deal with delayed payments to MSME by large companies on a timely basis. Mandatory 60 day dispute resolution mechanism for SME comprising 30 day fact finding window and 30 day clearance window.
   - Exit policy for MSME sector (on similar lines as that of Chapter 11 of the United States Bankruptcy Code) which can help MSMEs exit the business without any personal financial loss, and a second chance for entrepreneurs.

3. Develop National procurement policy for public and private enterprises for specified areas in each industry sector and incentives for vendor development for large companies and MSME clusters. SME Vendor development costs in the form of capital expenditure support, technology absorption support, transition of facilities to approved clusters, etc. incurred by large companies to be given 100 per cent direct tax break.

4. Export promotion schemes for MSMEs, need for continuity, simplification, effective utilisation and assistance in processing of the benefits through effective implementation of IT platforms thereby facilitating ease of doing business.

5. Direct and indirect tax benefits by way of Zero Tax for the first 5 years (Micro Enterprises); 10 per cent Tax slab for 10 years (Small Enterprises); 15 per cent Tax slab for 15 years (Medium Enterprises). Relief in the form of exceptions to MSME from TDS, C Forms, etc, and related provisions for both payments received and payments made by MSMEs to third parties as these require significant time and costs for compliance and litigation. Simplification of the Companies Act provisions and compliance obligations for MSMEs. Develop local Facilitation centres (FCs) or Business centres for MSME as part of Infrastructure support for information and support on regulatory benefits and compliance related guidance and facilitation.

6. Expedite the regulatory approvals of MCA's draft notification proposing exceptions and modifications for rationalizing applicability of certain complex and stringent provisions for small and medium family run businesses, including related party transactions, loans and deposits from related parties and directors, provisions relating to appointment Directors etc.

### Global initiatives across select countries

- Simplify tax or administrative compliance programmes to ensure start-ups comply with Government taxation (Canada, U.K.).

  In USA, to simplify the process for start-ups, the SBA has created a tool, ‘Permit Me’ that is a guide on the licenses/permits required for a business type, along with links on the process of application. ‘Business Licenses and Permits’ tool provides information on various applicable rules/guidelines.

  The U.K. government has put together a set of measures to increase the share of SME in the Central government business. From the current ~10 per cent level, the government plans to increase the share of business to SME up to 25 per cent over the next two years. The U.K.’s cabinet office also works with its larger suppliers to explore methods of increasing the level of MSME participation in the supply chain across industry sectors.

  Canada’s Office of Small & Medium Enterprises (OSME) in Public Works and Government Services encourages MSMEs to participate in government procurement contracts by periodic sharing of information on federal procurement, bid opportunities, etc.

  In USA, most small businesses operate as flow-through enterprises and benefit from preferential treatment on equity earnings. For instance, returns to equity in flow-through enterprises bear only the individual income tax, unlike large corporations that have to pay corporate income tax, taxes on dividends and capital gains tax.

  Canada launched a ‘Right from the Start Programme’ to ensure tax compliance by MSMEs, for which it offered services such as compliance support initiatives, books and review of records, and small business support visits.

  Special tax incentives (on earnings or expenditure) or subsidies for MSMEs or start-ups (Canada, France, Sweden, U.K., U.S., Japan). Subsidised loans to MSMEs / start-ups (Canada, France, Italy, U.K., Singapore, Japan).

  Simplify taxation structure and processes (Brazil, Italy).
### New wave initiatives

#### Funding

1. **Open environment and incentives for investments by HNWI and funds into MSME business as well incentivise debt funding in MSME segment by reduction in direct tax rates on income / profits generated by funding MSME segment.** Incentives for incubation fund, early stage fund, and MNC sponsored early stage incubation fund by tax exemptions for capital gains from investments made. Permit 200 investors in a single company and INR 20 to 50 crores equity through non-regulated crowd funding. Upto 10 per cent of tax liability by HNWI in registered and approved MSMEs to be considered as discharge of tax liability. Government can initiate an Innovation fund to support private funds for investing in innovation with 30 per cent funding sponsorship by the government.

2. **Incentivise the bank by making lending to MSME more manageable and profitable for banks:**
   - Provide capital adequacy norms support through recognition of MSME credit ratings programme for each sector; rationalise interest rate and margin requirements for MSME who adopt credit rating programme.
   - Separate sublimit for subsector for MSME for funding.
   - Increase the current limits under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme to INR 4 crore.
   - Effective monitoring framework of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) schemes by NBFCs.
   - Higher number of days for NPA prudential norms. Simplify restructuring of MSME loans during downturn and related NPA norms.
   - 25 per cent of fund allocations for women entrepreneurs.
   - Design low cost credit schemes for startups and micro industries.

3. **SMEs with business models revolving around import substitution and exporting from India often require funds to set up facilities and scale up operations. Schemes for speedy financial assistance should be formulated, including funding for market access and development.**

### Global initiatives across select countries

In the U.K. and U.S., particularly, new sources of equity and debt funding for SMEs are opening up via the crowd-funding and peer-to-peer (p2p) movement.

- Sponsorship, grants and incubation stage funding by government bodies / universities (Brazil, Italy, Sweden, Denmark, U.S., Australia, Malaysia, Taiwan, Japan).
- Banks to support financing to SMEs / start-ups with specific products and services (Brazil, Sweden).
- Programmes to support start-up funding by the government (Brazil, Canada).
- Allow MSMEs to issue bonds or raise finance in a regulated way (Italy, U.K.). Government to provide a platform whereby MSME players can get finance from international development funds (Italy).
- U.K. - Incentivising the banks - Banks are allowed to draw £5 in the scheme for every £1 of net lending to SMEs – in order for them to proactively increase their SME lending.
- Easy funding, bank credit, credit mediation services for needy MSMEs (France, Germany).
- MSME specific financial institutions, which will provide credit / loan to MSME sector only (France).
- Tax incentives for individuals / investors in MSMEs (France, Germany, Italy, U.K.).
- U.K. also has a “Small Business Rate Relief” – discount on the rate of borrowing for SMEs.
### New wave initiatives

**Performance Incentives**

Develop framework for the Utilisation of INR 10,000 Cr MSME Development Fund and the INR 200 Crore fund for MSME Technology upgradation announced in the recent Union budget.

A policy framework can be developed for a seed fund which can contribute to 25% of the venture and special purpose private equity funds ranging from INR 100 – 500 Cr and focusing specific areas - adopting innovation and technology, digital India, global competitiveness and so on. Relevant authorities and stakeholders can work together to channelize the funds.

1. Create business facilitation centers with linkage of all stakeholders i.e. Industry Associations, equity funds, banks and financial institutions, MSME, etc at regional and district level to facilitate access to finance for MSMEs. These facilitation centers can also fulfill other objectives for knowledge, mentoring training, and market information, etc for MSMEs. Incentivise private players who are setting up such facilitation centres with funding, direct and indirect tax benefits.

2. Direct Tax exemption on export income and income generated directly or indirectly from indigenisation and import substitution exemption for a period of five years. Direct tax exemptions for 5 to 10 years for a foreign company wanting to set shop in India with a JV/collaboration with MSMEs. Technology upgrade: exemption on import duty for capital equipment for technology upgrade and innovation. Investments made by SME to move towards sustainability and energy conservation must be incentivised.

3. Financial aid in the form of grants must be given to ‘Prototype / Proof of Concept’ which are validated and purchased by large sector players for scaling up and commercialisation. One year exclusivity window to be given for patent and innovation. Collaborate with regional universities for R&D, use research facility and resources in collaboration University to spends on commercialisation and 40:60 sharing (University to become co-researcher to avail grants).

### Global initiatives across select countries

**Performance and outcome-based linked financial support.** Canada provides 33.3 percent in grant up to CAD 75,000 under CME Smart Prosperity Now program for global expansion, operational improvement, marketing expenses and energy efficiency. (Canada).

Canada’s Accelerator and Incubator Programme (CAIP) aims at helping MSMEs with outstanding performance to grow and generate employment by providing financing, and other facilities through incubators and business accelerators. CAIP makes non-repayable contribution to incubators and accelerators for a period of five years.

Canada provides a grant for international ventures/export market access by covering 50 percent expenses - trade shows, freight, marketing brochures etc. up to CAD 30,000.

USA's Promoting innovation and research for Small Business Innovation Research (SBIR) is a competitive programme designed with the intent to encourage domestic small businesses to engage in R&D that has the potential for commercialisation. Through a competitive awards-based program, SBIR enables small businesses to explore their technological potential and provides the incentive to profit from its commercialisation.

Innovation led incentives, both financial and non-financial (Germany, Italy, Singapore).

Incentivise based on reduction in energy consumptions, productivity improvement (Italy)

Patent Box - Fixed tax rate of 10 per cent on profits from patents filed by SME (from the current 23 per cent U.K. Corporation Tax).

Research and Development (R&D) tax relief (or credit) allowable for SMEs to the tune of 225 per cent.

Germany: MSME Market Entry Programme for promoting German companies’ (especially MSMEs) export activities, started in 2011 and running successfully. Security Technologies and Services Export Initiative, launched in 2010 to promote the export activities of German companies in the sector and is part of the new overall MSME Market Entry Initiative. Other countries also offer Export led business tax credits (Sweden, Australia, Taiwan).

Encourage certain sections (like women, economically backward) of society to set up small scale businesses (U.S.).

Singapore has important schemes focussed on restructuring and productivity improvement such as Innovation and Capability Voucher (Capability development grant defray 70 per cent of the project cost for consultancy, manpower, etc.).

Singapore has the Increase SME Productivity with Infocomm Adoption & Transformation (SPRINT) provides a grant to defray costs of your Infocomm project to improve or innovate your business operations (Upto 70 per cent).

Singapore has ICT for Productivity & Growth which is the $500 million ICT for Productivity and Growth (IPG) program announced in 2014. Over three years (FY14 - 16), IPG seeks to accelerate the adoption of ICT solutions among SMEs and boost SMEs’ productivity and growth.

Singapore developed Productivity and Innovation Credit for businesses can enjoy 400 per cent tax deductions/ allowances and/or 60 per cent cash payout for investment in innovation and productivity improvements under the Productivity and Innovation Credit (PIC) scheme.
**Skill India**

1. Employee skilling through approved courses at approved training centers to receive direct incentives and grants.

2. 10% of additional employment generated to be incentivized by way of employment allowance type deduction. Tax exemption or weighted tax deductions for employing women and special categories. 5 to 10 year tax exemption on income generated in business by setting up facilities in Rural and Rurban areas.

3. Profit sharing with traditional industries and artisan through MSME JVs to be incentivized through specific schemes.

4. 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 which will help in providing the necessary guidance’s for the entrepreneurs and MSMEs in getting the necessary inputs from the Mentors who have knowledge in managing similar situations. These platforms are aimed to provide hand-holding services to MSMEs in order to enhance their technical and managerial skills through a panel of Senior Expert Advisory Services. They are also provided with linkages experts for a one-to-one consultation and project specific engagements. The experts guide the MSMEs in the areas of implementing and understanding total quality management, lean manufacturing, green technology, energy efficiency, competitiveness and international quality standards.

5. Enabling National Industry Associations to reach out to MSMEs for disbursing the funds for entrepreneurs and Startups at Grass Root Levels.


7. There is considerable emphasis on promotion of women entrepreneurs and encouraging greater participation of women in the Indian MSME growth story. Special attention is being given by organizing exclusive Entrepreneurship Development Programmes (EDPs) for women. There are various programmes and schemes of MSME Ministry, NSIC, KVIC and Coir Board for conducting exclusive training programmes for women. Government also provides grants and special concessions for women under the Trade Related Entrepreneurship Assistance and Development (TREAD) and Rural Employment Generation Programme (REGP).

**Global initiatives across select countries**

- Subsidies / Insurance benefits to self-employed people or those who generate employment (Canada).
- Financing training activities for up-skilling existing labor force (Germany, Singapore).
- Employment allowance or incentives to cover employee insurance (U.K., U.S.). Tax credits in cost for assisting in health insurance to businesses with fewer than 25 employees and to businesses with less than 100 employees, provided they work at least 25 hours per week under the Wellness program.
- Employment Allowance (expected April 2015) that reduces the cost of paying Employer National Insurance Contributions by up to £2,000 for businesses.
- Employment tax credits / incentives based on level of employment generated by MSMEs (France).
- Germany has a programme to recognise and reward policies for attracting highly talented skilled workers from across the world. Germany’s “WeGebAU” special program provides upfront financing for continuing training, particularly in MSMEs; secure and enhance employability, prevent unemployment and contribute to meeting the need for skilled labour. The program is in force since 2006. Germany Skilled Labour Concept, launched in 2012, was a strategic initiative aimed at ensuring an adequate supply of skilled labour for German companies. Under the initiative, the Federal Ministry of Economics and Technology offers advice to MSMEs via a dedicated competence/advisory centre (Kompetenzzentrum Fachkräftesicherung) on how to avoid skilled labour shortages.
- Malaysia’s MSME Corp. provides incentives for setting-up skill development centres (51 appointed) for employees and grants for reducing training costs. Also launched a Skill Upgrading Programme to enhance skills and capabilities of technical and managerial employees (for focus sectors in electrical and electronics, information technology, industrial design and engineering fields). The government provides 70 percent grant for such trainings.
- Singapore launched enhanced training support initiative in 2012 to encourage MSMEs to register their employees for training. More than 8,000 courses will be covered, for which enhanced funding will be provided by the government. More than 65,000 workers are expected to benefit from this programme annually.
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 over 7200 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 242 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.

The CII theme of ‘Accelerating Growth, Creating Employment’ for 2014-15 aims to strengthen a growth process that meets the aspirations of today’s India. During the year, CII will specially focus on economic growth, education, skill development, manufacturing, investments, ease of doing business, export competitiveness, legal and regulatory architecture, labour law reforms and entrepreneurship as growth enablers.

With 64 offices, including 9 Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 312 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.
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The new wave
Indian MSME
An action agenda for growth

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