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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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MICRO SMALL & MEDIUM ENTERPRISES COMPETING IN GLOBAL BUSINESS ENVIRONMENT: A CASE OF INDIA

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ABSTRACT

MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In the year of 2006 government formulated MSMED act with an aim to facilitate the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and to meet the new business challenges in the competitive global business environment. The focus of this paper is the discussion of the competitiveness facing SMEs in the global business environment by examining the opportunities and supports from the government. Furthermore, this study also analyses the challenges of Indian MSMEs in global market.

KEYWORDS

Small and Medium Enterprises (SMEs), Challenges, Competitiveness, Globalization, Economic Growth, Global Business Environment.

1. INTRODUCTION

India's international trade policy was largely governed by WTO's multilateral trade framework which obliges its member countries to tariff reduction and restrictive non-tariff barriers but does not eliminate tariffs altogether. In recent years however, India's trade policy is being determined by Free Trade Agreements (FTAs). A Free Trade Agreements are more comprehensive treaties aim at total elimination of all tariffs and covering trade not only in goods but also in services, as well as investment, TRIPS plus intellectual property rights (IPRs), and even public procurement and competition policy. FTAs with Japan, Malaysia, and South Korea for example are of this variety. Those currently under negotiation with the European Union and European Free Trade Associatin are also comprehensive. FTAs are expected to reduce India's ability to choose policy in the interest of domestic enterprises.

- Key Features of Free Trade Agreement:
- Elimination of tariff barriers (import and export duties) on 85 to 90% of goods.
- The trading partners must be treated equally even if they are not equal in terms of socio-economic development indictors.
- Partner countries cannot have discriminating trade policy instruments such as taxes, subsidies, regulations, or laws) favouring their own companies over foreign companies.
- They also include chapters covering services, investments, public procurement and competition policy. All these chapters invariably influence each other and the aggregate impact on the industries could be much deeper

Under FTAs, markets are supposed to be fully opened up and foreigners and locals would be treated equally. Unlike in the WTO, under FTAs, developing countries will not be technically entitled to concessions given under the 'special and differential treatment' (S&DT) and FTA partners are supposed to engage in fully reciprocal trade, i.e. give and take of equal magnitude.

The Indian MSME sector is at an inflection point. On the one side, key policy initiatives such as the Defence Offset Policy and the Public Procurement Policy are expected to create unprecedented business opportunities for the sector in the coming years. The defence offset obligations alone are likely to create $15-20 billion worth business opportunities for Indian MSMEs over the next decade. On the other side, industry bodies across geographies are looking to deepen the collaborative engagements with Indian MSMEs.

Hence, from the demand perspective Indian MSMEs are seeing huge growth prospects. However, certain issues are to be addressed on the supply side. First, enterprises need to continuously raise the quality of their manufactures while remaining frugal. This implies that a certain amount in house R&D has now become imperative for the Indian MSMEs. In coming days high quality standards alone will determine their global competitiveness and relevancy in different markets. Second, enterprises need to develop intra-sector eco-system in order to meet the scaled-up demand.

The emerging business environment offers a definitive opportunity for Indian MSMEs to scale up their operations and grow bigger. CII National MSME Council is working upon an institutional mechanism that assists 25 micro enterprises from all four regions to grow to the level of small enterprises, help 25 regional small enterprises to develop into medium enterprises, and support 25 medium enterprises to graduate to the level of large enterprises, summing up to 100 enterprises from each of the three categories to expand.

For enterprises to move up the value chain, they will need seamless access to a large skill base. Both Government and industry have taken cognizance of the urgent need to bridge the skill gap in the MSME sector, from the quantitative and qualitative standpoints. The MSME Ministry has introduced various skills development programmes and schemes for the benefit of industry. Industry has also launched different skills development initiatives. In the coming times, as Indian MSMEs enter new and sophisticated fields of business, skills will become even more critical to the sector's growth and development. Skills apart, financing of business will remain a big challenge for Indian MSMEs. While bank credit flow to the sector has grown appreciably over the years, concerted efforts are being made to promote SME-dedicated stock exchanges in the country. SME exchanges make it easier for enterprises to get listed on the exchange and launch their IPOs.

2. AN OVERVIEW OF SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA

2.1 DEFINITION: In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:

Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.
Service Enterprises: The enterprises engaged in providing or rendering of services defined in terms of investment and are in equipment.

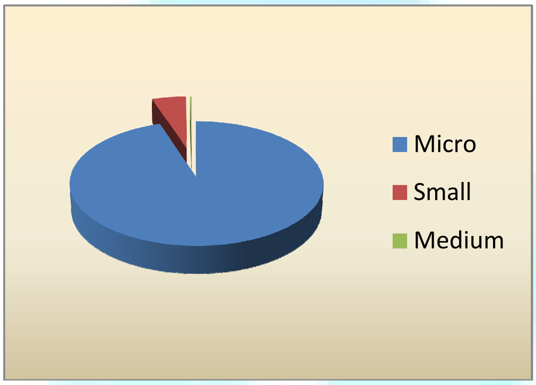
	Manufacturing Sector
Enterprises	**Investment in Plant & Machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees.
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees.
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees.
	Service Sector
Enterprises	**Investment in Equipments**
Micro Enterprises	Does not exceed ten lakh rupees.
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees.
Medium Enterprises	More than two crore rupees but does not exceed five core rupees.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006

2.2 PERFORMANCE OF MSME SECOR IN INDIA: MSMEs contribute significantly to employment generation and development of rural areas. MSME sector is one of the key drivers for India's transition from an agrarian economy to an industrialized economy. Around 50% of MSMEs in India are owned by underprivileged groups, which show how MSMEs contribute to improve the entrepreneurial skills and economic empowerment. MSMEs feed local consumer markets and international value chains. As per information in the annual report of MSME 2012-13, MSMEs account for a large share of industrial units which can be seen from the fact that in the year 2011-12, the total number of enterprises in MSME Sector (Registered+ Unregistered) was 447.73 lakhs with total employment of 1012.59 lakhs. MSMEs are accordingly also effective vehicles of employment generation.

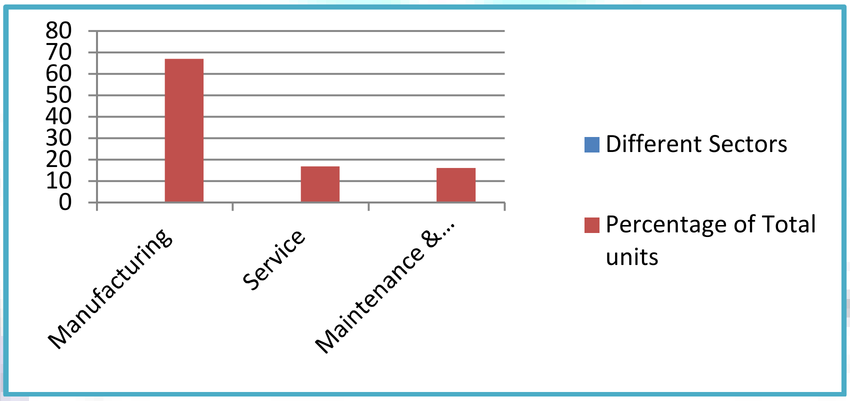
The estimated numbers of enterprises and employment have increased at an annual compound growth rate of 28.02% and 26.42% respectively. MSMEs contribution to rural development can be observed from the fact that 200.19 lakhs of the working enterprises were located in rural areas, which accounted for 55.34% of the total working enterprises in MSME sector; whereas 161.57 lakhs (44.66%) of the working enterprises were located in urban areas. The sector currently produces more than 6,000 quality products, ranging from handloom saris, carpets and soaps to pickles, auto and machine parts targeting both domestic and international markets. Provided necessary support, MSMEs are likely to experience a high growth path, and the share of MSMEs in the country's GDP is expected to touch double-digits by the end of this decade, from the current 8.72 per cent.

FIG. 1: COMPOSITION OF MSMES



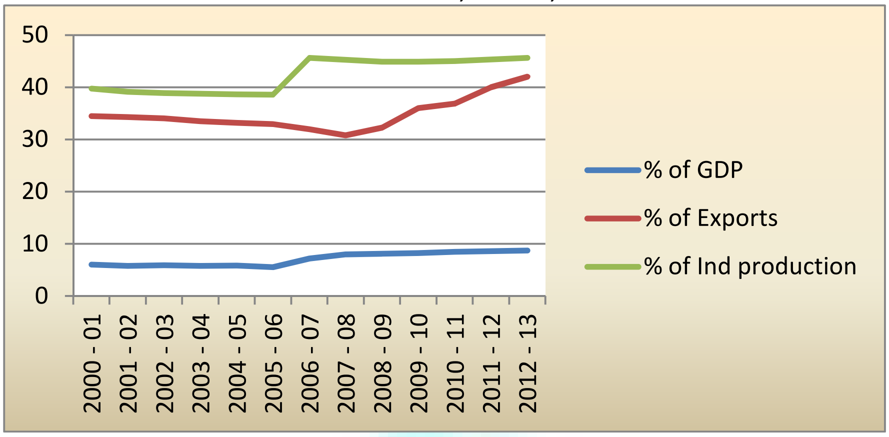
Note: After MSMED Act 2006, all SSIs and rural industries merged as MSMES. Some of the industries are not registered as per act. Here Researcher explaining that Micro Enterprises are 94.94%, Small Enterprises 4.89% and Medium Enterprise 0.17%.Findings from the MSME data percentage of sickness of enterprises have down since 2006.So there is chance to up gradation of Micro Enterprises increase to Small enterprises and Small Enterprises to Medium Enterprises

FIG. 2: PERCENTAGES OF DIFFERENT SECTORS OF MSMEs



Note: Here Researcher mentioned the registered MSMEs and how the different sectors having their percentage of enterprise with total enterprises. In manufacturing sector having 67.10% ,Service sector 16.78% and Maintenance& others 16.12%.There is chance to increase the service sector percentage.

FIG. 3: MSMEs CONTRIBUTION TOWARDS GDP, EXPORTS, AND INDUSTRIAL PRODUCTION



Note: Up to MSMED Act 2006, SSIs are taken. Then ARIs and SSIs are called as MSMEs.That is the reasons in 2005-06 total units are 12.34 million registered units, but in 2006 -07 total MSMEs increased to 26.19 million registered units. Due to global economic slowdown 2008-09 exports came down. It is expected that GDP contribution to be reached to double digits shortly.

2.3 ROLE OF MSMES IN INDIAN EXPORTS

The main markets for the 20 most-exported MSME product groups, which accounted for more than 90 per cent of MSME exports from 2009 to 2012, include the USA, European Union (EU), UAE, Turkey, Singapore, Hong Kong, Israel and Saudi Arabia. The MSME sector accounts for around 45 per cent of total manufacturing output15. MSME sector has about 36 million working enterprises and 80 million employment throughout the country. It has been continuously growing at a rate of 12-13% per annum, far above the large sector. The MSME sector contributes about 45 per cent of the manufacturing output and 43 percent of the total exports of the country, and 8.72 per cent of the country's GDP. MSME exports have expanded at an annual average growth rate of 11.0% during 2007 to 201116. For the period 2009-12, MSME exports are estimated at US $ 325 billion. MSME exports mainly consist of pearls, precious stones, metals, electrical, electronic equipment, pharmaceutical products, organic chemicals, articles of iron & steel etc.As per the information received from the ministry of MSME, for the year 2011-12, MSME exports are estimated at US $ 131 billion constituting 43% of total exports of the country. Participation in exports gives MSMEs exposure to global trends, and stimulates innovative ideas and designs.

3. CHALLENGES FACING INDIAN MSMES IN THE GLOBAL BUSINESS ENVIRONMENT

Although Indian MSMEs are a diverse and heterogeneous group, they face some problems, in domestic business Environment and Issues in FTAs are as follows:-

3.1 CHALLENGES IN DOMESTIC MARKET

3.1.1 Lack of availability of adequate and timely credit. The major dependence for some sectors (eg. Handicrafts) is for larger working capital requirement, which directly impacts their production cycle.

3.1.2 High cost of credit, with interest rates of 14-16%.

3.1.3 Collateral requirements being insisted upon by banks

3.1.4 Limited access to equity capital for MSMEs

3.1.5 Marketing is one of the critical areas where MSMEs face problems including product differentiation, brand building, customized tailor-made services, clientele building, after sales servicing etc. Many entrepreneurs are not entering in the field of exports due to lack of market knowledge, availability of a growing domestic market, and the complexities of international trade.

3.1.6 Limited scale of operations leads to low production capacity (and consequent low exportable surplus), which is related to the maximum limits for capital investment for definition of MSME

3.1.7 Problems of designing, packaging and product display due to limited capacities financial and human

3.1.8. Inadequate infrastructure facilities, including power, water, roads, etc. which are however not unique for MSMEs, but impact manufacturing more than services

3.1.9 Low technology levels and lack of access to modern technology.

3.1.10 Lack of skilled manpower

3.1.11. Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily.

3.1.12. Lack of coordination among the various organizations involved in the promotion of MSMEs, including organizations of the State Governments, and poor linkages with the institutional stakeholders in the private sector. There is also duplication of programmes run by various Ministries for the same target group

3.1.13. Lack of reliable and updated data base to help in monitoring the development initiatives and formulation of appropriate schemes to meet the differential needs of the heterogeneous beneficiaries.

3.1.14. Non availability of raw materials at a competitive cost, very often due to low volumes

3.1.15. High transaction costs and procedural delays leading to high fixed costs.

3.2 NEW CHALLENGES OF GLOBAL COMPETITIVENESS

Under FTAs, the key trade issues can be classified into two categories: Good Trade Issues and Non-Goods Trade Issues especially the MSME sector.

3.2.1 In goods trade, there are mainly six issues: (I) Import Duties, (II) Export measures, (III) Non-tariff measures, (IV) rules of Origin, (V) Anti-concentration clause and (VI) Sectorals (Zero for Zero reduction).

(I) Import Duties: Increased import competition due to tariff elimination would be a big threat for MSMEs. According to the SIDBI survey, 71% of the surveyed MSMEs found that their sales due to imports declined by 26-50 percent.

(II) Export Taxes: If India is forced to remove existing export taxes as a FTA requirement on a number of products including raw leather and wood, MSMEs could face severe shortage of raw material and they will no longer be able trade competitively. Livelihoods of millions of people dependent on these MSMEs will be adversely affected. For example, in furniture sector, Malaysia imposes export taxes on raw timber which keep their inputs relatively cheap and hence they remain competitive in furniture trade. Kenya too revived its leather industry by imposing 40 per cent export duty on raw hides and skins.

(iii) Non-Tariff Measures/Barriers: By agreeing to stringent NTM/NTBs in FTAs, it would become compulsory for MSME exporters to meet high health, safety, labour and environment standards for exports to developed country markets. Majority of MSMEs in India neither have the capacity nor the facilities to match the high standards of developed countries. MSMEs cannot hope to gain from FTAs because these do not ensure lower standards or easier processes of quality certification. Consequently, MSMEs exports may face very high rate of rejection in importing countries. Some development analysts feel that labour and environment standards must be pursued domestically, committing to these in trade agreements is an invasion of India's domestic policy choice.

(IV)Rules of Origin (ROO): The Indian MSMEs often want to import cheap inputs as intermediate goods from neighbouring countries like China and MSME products often have huge import content. Due to stricter ROO, MSMEs will not be able to import at cheaper rates these intermediate goods and their products will no longer qualify for exports and additional market access.

As an export promotion measure, under Duty drawback scheme Indian MSMEs are provided reimbursement of import duty, if the import is meant for manufacturing of export products. This may encourage higher import content but then these products will come up against the ROO barrier and will not be able to export to FTA partners with strict ROO.
(V)Anti-concentration clause: The Clause may be problematic for the auto industry, textile & garments and fisheries. Most of these industries are in the MSME sector. Also, it could be a problem for gender sensitive products i.e. products where women workers are employed in large numbers. Women's employment opportunities in MSMEs will be severely affected if such a product line under food processing industry is left out of the sensitive list.
(VI) Sectorals (Zero for Zero reduction): Under the WTO's proposal on Sectorals, trading partners have to reduce import duty to zero in some sectors with immediate effect on a voluntary basis. Due to inclusion of the Sectorals clause in FTAs, import duty in both the partner countries may become zero with immediate effect in some important and sensitive industry segments like textiles.

3.2.2 IN FTAS, UNDER THE NON-GOODS TRADE ISSUES, THERE ARE KEY ISSUES, NAMELY (I) INTELLECTUAL PROPERTY RIGHTS POLICY, (II), INVESTMENT POLICY, (III) PUBLIC PROCUREMENT POLICY AND (IV) COMPETITION POLICY.

(I) Intellectual Property Rights (IPRs): Under WTO's Trade Related Intellectual Property Rights (TRIPS), member countries are obliged to adhere to minimum harmonised standards for protection of IPRs such as patents, geographical indications (GIs), trademark, industrial design rights, copyright etc.
For small enterprises in particular, the stricter IPR regime will create some major problems. Only 1.65% registered SMEs in the world have patents. This is probably because most MSMEs lack the resources and capability to do research and development and acquire advanced technologies. Smaller producers will be often pushed out by bigger companies, especially multinationals, which can get IP rights such as patents much more easily as they have huge resources to spend on R&D and patent applications. The stricter IPR regime under FTAs will in effect give developed countries considerable control over critical resources in developing economies. It also threatens products which are based on traditional knowledge such as herbal medicines.
(II) Investment Policy: In most industries in India, foreign direct investment is already allowed (given certain restrictions or caps) so additional FDI may not necessarily be forthcoming after opening up of "Investment" in FTAs. But, after an FTA, wholly foreign owned enterprises may be set up in many more areas without any performance requirements and it could also lead to mergers and acquisitions in certain MSME segments. Small entrepreneurs and small business could be taken over by the large enterprises. In the pharmaceutical industry, for example, such acquisitions are already taking place.
(III) Public Procurement: If the government gives market access to India's public procurement market, foreign companies will have a legal right to be treated equally with domestic companies under the 'national treatment' clause when they apply for public procurement contracts. If this happens, Indian MSMEs which supply many products to the government (such as leather, plastic and metal products) will have to compete with foreign companies. This is likely to result in MSMEs losing out in terms of market share for their products. India is not keen to include its government purchase (GP) market under FTAs especially when it is not likely to get much access into developed country procurement markets where a host of Non Terrif Barriers block foreign suppliers.
(IV) Competition Policy: Allowing free competition often allows smaller enterprises to be eaten up by larger ones. The history of competition policy in most countries has shown that it has led to mergers and acquisitions of smaller companies in a big way. Competition Policy often prevents state aid and limits the activities of state trading corporations. Competition policy in FTAs will lead to reduced policy choices for the Indian government. The Indian government may not be able to treat Indian MSMEs preferentially over bigger and foreign industries and also may not be able to proffer development schemes for the Indian MSMES.

4. MAJOR INITIATIVES UNDERTAKEN BY THE GOVERNMENT TO REVITALISE THE MSME SECTOR

MSMEs play a highly constructive role in an economy. This is evident from the economic and socio economic benefits achieved by the developed and the developing world.
4.1 BSE and NSE got the approval for SME platforms from SEBI and have been operational. This will serve as an opportunity for Indian SMEs to raise funds from capital markets.
4.2 To achieve the overall target set by the Prime Minister's National Council on Skill development, Ministry of MSME and the agencies conducted the skill development programmes for 478,000 persons during FY12. During FY13, the Ministry aims to provide training to 572,000 people through its various programmes for development of self-employment opportunities as well as wage employment opportunities in the country.
4.3To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster-based approach.

5. SNAPSHOT OF BUDGET 2012-13 FOR MSME SECTOR

5.1 Availability of equity to the MSME sector, the Government has set up an India Opportunities Venture Fund with SIDBI worth ` 50 bn.
5.2 Allocation for the Prime Minister's Employment Generation Programme increased by 23% from ` 10.37 bn to ` 12.76 bn.
5.3 Under the Public Procurement Policy for Micro and Small Enterprises (MSEs), Ministries and Central Public Sector Enterprises (CPSEs) are required to make a minimum of 20% of their annual purchase from MSEs.
5.4 Increase in the turnover limit from ` 6 mn to ` 10 mn for SMEs for compulsory tax audit of accounts and for presumptive taxation.
5.5 Exemption of capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery.
5.6. Reduction in the basic customs duty to 2.5% with concessional Counter veiling Duty of 6% on specified parts, components and raw materials for the manufacture of medical devices such as disposables and instruments.
5.7. Full exemption from basic customs duty and CVD to specified raw materials for the manufacture of coronary stents and heart valves.
5.8. Reduction in the excise duty from 10% to 6% on matches manufactured by semi-mechanised units.

6. RECOMMENDATIONS FOR COMPETITIVENESS OF MSMES IN THE GLOBAL BUSINESS ENVIRONMENT

The Cabinet Secretary constituted the Inter-Ministerial Committee for boosting exports to suggest short and medium term measures to enhance exports from the MSME sector. The Committee met the different industry Associations and discussed with their representatives the various issues they face and suggestions to resolve them. Inputs were also taken from the different Government departments and Agencies. Based on the suggestions received, the Committee makes the following recommendations.

6.1 AVAILABILITY AND COST OF CREDIT

The cost of credit and credit availability is perhaps one of the most important factors for MSMEs. Availability of credit at internationally competitive rates is a major issue facing the MSMEs in India.
6.1.1. Cost of Credit: The cost of export credit for MSMEs varies from 11-14% even after taking into account the current 2% interest subvention available. This is on the higher side compared to international standards. There is a need to lower the interest rate for MSME exporters. The Committee recommends that an additional 2% interest subvention may be provided to MSME exporters who repay on a timely basis. A separate sub-limit of say 8% for credit to MSME exporters, within the overall priority sector limit may also be stipulated.
6.1.2. Receipt of Interest Subvention: The credit of interest subvention on a timely basis is essential for exporters. Many banks reportedly pay the interest subvention only after delayed receipt of the amount through RBI/Govt. The Committee recommends that RBI & MoC should examine the reasons for delay; so as to ensure that interest subvention is provided to all the exporters on a timely basis.
6.1.3. Foreign Currency Credit: Interest Rate on Export Credit in Foreign Currency is an important factor in export competitiveness. Currently, the interest rate is as high as Libor + 4%. The Committee recommends to consider whether the spread can be reduced to Libor + 2%. (Earlier it was stated to be LIBOR + 2.5 %.).
6.1.4 Pre-shipment Credit in Foreign Currency – Conversion Losses: Pre-shipment Credit in Foreign Currency (PCFC) is a major component of export credit. The Committee recommends that there is a need to verify if under PCFC, the limits are converted into INR and on payment reconverted to USD leading to losses for the exporter.

6.1.5 Automatic Increase in Credit Limit: When rupee is depreciating, there is a need to immediately increase the Export Credit Limit. The Committee recommends that Export Credit Limit to MSME Units may be increased by 20% automatically.
6.1.6 Swap Facilities: Under the swap arrangement, a bank can buy US dollars up to its eligible swap limit from the RBI and further sell the same amount of dollars at the prevailing market rates for swaps of a similar tenor. RBI to provide 100% refinance under the scheme.
6.1.7 Increasing Access to Finance: The Committee recommends that banks should aim that 40% of Export Credit is earmarked by banks for MSMEs (in consonance with the share of MSMEs in India's total exports).

6.2 MARKETING SUPPORT

The need for better marketing and brand development was recognized to be a major impediment in increasing exports. There is a need to focus more on the marketing needs of the MSMEs to enhance their exports,
6.2.1. Budget for Market Development Assistance/Market Acess Initiatives: Greater support for organizing trade visits, trade promotion and facilitation in major cities is 'required'. The budget for the MDA scheme of DoC is about Rs. 50 crores and the scheme allows support to a maximum of five visits by an exporter with a total annual support of Rs. 7.10
6.2.2. Scope of Market Development Assistance/Market Acess Initiatives: Exporters need to frequently incur soft expenditures like branding, advertisement, promotional events for which financial availability is limited. These expenses need to be encouraged through various means, including the concept of allowing eligible companies to deduct against their taxable income twice the amount of expenses incurred on certain export related qualifying activities.
6.2.3 Building Brand India: Indian Brand Equity Foundation primary objective is to promote and create international awareness of the 'Made in India' label in markets overseas and to facilitate the dissemination of knowledge of Indian products and services. Against this backdrop, a fund to subsidize MSMEs' marketing operations would be a step in the right direction.
6.2.4 Better Market Information: It was suggested that there is a need to create, for the benefit of MSMEs a virtual market information cell on latest development on consumer preferences, standards, regulations, etc. where MSMEs can be made aware.
6.2.5 Support for E-Commerce: It was suggested that Support for E–Commerce be provided as E-Commerce portals provide marketing support to MSME and the linked payment gateway ensures payment without any risk to exporters.
6.2.6. Support from large corporate exporters: Large corporate exporters may be enlisted to promote some of their domestic MSME suppliers in foreign markets, perhaps as a part of their CSR activities. This could also be incentivized.

6.3 PRODUCTIVITY/TECHNOLOGY/SKILL UP GRADATION OF MSMEs

The recommendations of the Committee are as follows:
6.3.1 Enhancement of CLCSS: Credit Linked Capital Subsidy Scheme (CLCSS) provides upfront capital subsidy on institutional finance for technology up gradation to SSI units, including tiny, khadi, village and coir industrial units.
6.3.2 Design Support: Design support and exposure to MSMEs is essential for better product development.
6.3.3 Research/Resource Centres: It was suggested to allocate funds for setting up innovative research/resource centre. The Committee noting that the value addition in knitted export is high recommends setting up of Centers at Tirupur, Kolkata and Ludhiana.
6.3.4 Process/ Product Development Centres: For quality product development, Process cum Product Development Centre should be established in every cluster with technical staff for testing the products and to assist in development of the products.
6.3.5 Tool Rooms: Towards enhancing skill level of workers of MSME sectors, setting up of 100 Tool rooms/Technology Development Centre is recommended.
6.3.6 Common Facilities Centres: It was suggested that 'clusters' may be provided with Common Facility Centres for quality testing, effluent treatment etc.
6.3.7 Compilation of Skill Development Schemes: There is a need to dovetail the various HRD schemes of DIPP, Ministry of HRD, MoLE, Ministry of MSME and also State Governments, so that the maximum utilization of funds for the MSMEs could be ensured.
6.3.8. Linkages with Technical Institutions: To support technological innovation and design, technical institutions such as IIT or NIT may 'adopt' export oriented MSME clusters. Preferably, 'design clinics' may be set up for MSME clusters.
6.3.9 Technology Acquisition Scheme: It was suggested that the Ministry of MSME, through its arm NSIC, can consider looking at providing a platform for technological alliance for SSIs with Global Companies. A Technology acquisition scheme to provide assistance in both, development of indigenous R&D products as well as procurement of global technology, could be considered.

6.4. DUTIES/INDIRECT TAXES/INCENTIVES RELATED ISSUES

There is a need to have a supportive duty and incentive structure for the MSME sector, so that the manufactured product is at a competitive price at the international level. Products of MSMEs need more incentives as MSMEs have a limited resource base.
6.4.1. Differential Tax Regime: Tax deductions for export turnover/ profit were a big incentive for boosting exports (instead of focusing on domestic market). But with the movement towards Direct Taxes Code, profit related deductions are being phased out.
6.4.2. Double Weightage for MSMEs: Double weightage for MSMEs, along with other weightages for grant of recognition as Status Holders, was suggested.
6.4.3 Removal of export incentives for large companies: Export incentives for large exporting units may be phased out and focused incentives provided for the MSME sector.
6.4.4 Reasonable Freight rates: Container Corporation is having a monopoly, freight rates for export cargo were extremely high. The Committee recommends that while freight rates need to be commercially reasonable, differential rates for MSME export products could be considered. The proposed Rail Tariff Authority would also be helpful in this regard.
6.4.5 High Cost of ECGC Cover: The Committee also received representation for introduction of a separate ECGC policy, with more friendly procedures to be implemented for Small & Micro Exporters (based on Export Turnover).
6.4.6 Specific Duty Drawback Rates: The Committee recommends that a list of items without a Duty Drawback Rate may be provided by the export associations along with cost and other data, so that CBEC/Duty Drawback Committee may take further action to ensure fixation of separate Duty Drawback rates.
6.4.7 Inverted Duty Structure: The Committee recommends that different Associations should give a list of items with no dual use – but with inverted duty structure. Central Board of Excise &Customs to examine the matter there after, for appropriate rectification. Information on the relative value added would also be required in order to rectify the disadvantages.
6.4.8. Expeditious Rebates/ Refunds: In order to expedite the process of rebates and refund for MSME exporters, the rebate claims be filed electronically; The hard copies of documents such as shipping bills, ARE – I duly signed by customs etc. may be submitted manually; If possible the CENVAT rebate claims may be paid electronically.
6.4.9. Refund of Excise Duties: It was suggested that refund of Excise Duty against physical export under Rule 18 of central excise may be done on lines similar to Draw Back refund. It was also suggested to dematerialize the duty scrips under chapter 3.
6.4.10. Refund of VAT: The Committee recommends that there should be a provision of a maximum period of one month for refund of VAT beyond which interest may be payable to the exporters
6.4.11. Service Tax on Inward Remittances: The Committee recommends non-levy of service tax on conversion to Rupees on inward remittances of export proceeds.
6.4.12. Status Holder Incentive Scheme: The MSMEs Exports would benefit if the Status Holder Incentive Scheme could be extended until 2019, which has been withdrawn from the year 2013-14.

6.5 INFRASTRUCTURE

Good infrastructure facilities ensure the proper delivery and safety of the exported product along with savings in time and cost.
6.5.1. 24*7 Facilities: There is a need to allow export consignments under Duty Drawback/FTP incentive schemes, on a 24*7 basis, so as to ensure faster delivery of export product.

6.5.2. Port Congestion: The congestion in ports may hamper the export efforts of MSMEs.The Committee recommend that DGFT/CBEC may look into the matter, and take similar measures including electronic payments.
6.5.3.No Detention of Export Consignments: According to FTP provisions, no export consignment shall be detained at ports.
6.5.4. Uninterrupted Power Supply: It was suggested that uninterrupted power supply to the export-oriented MSME clusters/ industrial parks may be ensured, as it would increase working hours and labour productivity and therefore exportable surplus.
6.5.5. MSME Clusters near Highway/Rail Corridors: Locating MSME clusters close to the National Highway or railway corridors were suggested so as to ensure facilitation for boosting exports. Keeping in view the State Governments may be encouraged to acquire land near Highways and Railways corridors.

6.6 INSTITUTIONAL FRAMEWORK

The institutional framework to support MSMEs is essential for their all-round development and contribution to the exports of the country.
6.6.1 Focus On MSMEs:. An Inter-ministerial grievance redressal mechanism to address the policy related issues of exporters related to DGFT and the Central Ministries. The Board of Trade to discuss export strategy, continuously monitor progress of execution and suggest course correction, with a focus on MSMEs.
6.6.2. Facilitation Support: MSMEs face the problem of unpaid invoicing in exports. It was suggested that a facilitation council should be set up to take up the matter on their behalf at a subsidized cost.
6.6.3 Role of Associations: The awareness among MSMEs of the different schemes seems to be limited. The Committee recommends that in order to guide MSMEs, the export Associations need to be more pro-active and these Associations must regularly update/inform the MSMEs regarding the export related schemes, procedures and facilities of the Government.

7. CONCLUSION

Micro, Small and Medium Enterprises (MSME) sector contributes about 40 per cent in the country's total exports and over 8 per cent to India's Gross Domestic Product (GDP). The sector accounts for around 45 per cent of the manufacturing output and provides employment to about 60 million persons through 26 million enterprises. Inter-Ministerial Committee was appointed for boosting exports from MSME sector in India. The Committee had discussed with different departments dealing with MSMEs and working in sectors with large export potential. Suggestions were asked from the different Export Promotion Councils and Industry Associations on the issues and the problems faced by them. The Committee notes that the major problems for the MSMEs relate to the availability and cost of credit, marketing support, improving productivity, technology/skill up gradation, infrastructure and the institutional framework for the MSMEs and suggest short and medium term measures to enhance exports from MSME sector in India. The Committee was conscious of the fact that a number of the recommendations would increase the budgetary expenditures/reduce tax revenue. However, keeping in view the Current Account Deficit, there is an imperative need to boost exports. It is in this context that the Committee has recommended that fiscal benefits/tax related incentives may be limited to 5 years
Government supported/initiated facilities, including Export incentives, have not yet reached many MSMEs in India, especially those located in rural or rather isolated regions. The main reason for that lacking is the lack of information about existing measures. Thus, the main problem is not that the trade facilities do not exist, but it is mainly the lack of awareness by the MSMEs. As lack of awareness by MSMEs to trade promotional incentives is a major issue, the most important policy measure should touch upon 'reaching out to MSMEs.As a researcher opined that Ministry of MSME should tie up private institutions and Industry associations for providing more number awareness training programmes to MSME Entrepreneurs on how to find channel to get information and access to export facilities.

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