

MSMES & START – UPS 2017 REVOLUTION – DRIVING INDIA GROWTH

ABOUT IICA

Set up in 2008 as the premiere knowledge institution with its state-of-the-art infrastructure & with its linkages with the SMEs & Corporate housed aiming at providing credible intellectual leadership in corporate regulation, governance and running sustainable businesses. IICA propels knowledge and training through its network of school & centres. Its work enables corporate growth, reforms and regulations, thus offering real time solutions.

The Centre for MSME, an integral part of Indian Institute of Corporate Affairs (IICA) is currently engaged in:- Organizing continuous need based capacity building short term training programs as well as sponsored workshops / programs. Spotlighting of topical issues through conferences, seminars and workshops. Providing opportunities to trainers for proper training and continuous knowledge up-gradation.

BACKGROUND & OBJECTIVE OF THE PROGRAMME

The Micro, Small and Medium Enterprises (MSME) sector is an important pillar of Indian Economy as it contributes to the growth of Indian economy with a vast network of around 31 million units at present, creating employment for 70 million people, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. MSMEs are manufacturing more than 7,000 products ranging from traditional to high tech items. MSME in India have acquired global competitiveness in sector: Auto components, Leather goods, Textile & garments, Engineering items, Gems & jewellery etc.

According to the estimates of the Ministry of MSME, with 38% contribution to the nation's GDP, this sector generates around 70 millions jobs.

As per the forth All India Census of MSMEs, there has been a big increase in the enterprises engaged in the service sector which constitute 68.21% of all the units while the MSMEs in manufacturing sector only constitutes 28%. One reason for this decline in manufacturing sector units is because access to infrastructure today does not come easy as costs are high. Things however are looking up now as the government has launched several schemes to address the requirements of MSMEs. To enhance the competitiveness of the MSMEs, the Government now is focused on cluster development like never before.

Keeping in mind the potential of MSME sector, it become all the more important to give special attention for growth of small and medium Enterprise sector since they only have the potential to provided wage employment for Indian labor force highest next only to agriculture as well as to provided goods and service at a lower cost.

In recent years India has witnessed a rapid growth in numbers of new business and first generation entrepreneurs. In 2014, venture capital funding of Indian start-ups touched \$ 3.86 billion, a phenomal increase of 261 percent from 2013, **according to research firm PrivCo**. India is one of the fastest-growing and third largest start-up ecosystems in the world, after the US and the UK, **says the India start-up report 2014 by NASSCOM**.

Most small business in India are setup by first generation entrepreneurs. They often have a product or service idea and some zest to work hard. However, the limited market access

namely capital access, brand promotions solutions, marketing support, logistics & sales support, and information & communication technology (ICT) support stall the zeal to take the enterprise to the next level. So there are both opportunities to explore and challenges to overcome for any Start-up and SME to actually contribute to the India Growth.

OBJECTIVE:

The programme aims to create a platform to specially provide needed exposure to the SMEs and start-ups Leaders for building robust, sustainable and profitable Futuristic Businesses Models. The Conference initiative by IICA, as a multi-stakeholder approach, endeavours to trigger a strategy for a new wave of SMEs leveraging the benefits of the entrepreneurial conducive ecosystem for India's growth.

MAJOR SME CLUSTERS

UNIDO estimates that there are at least 388 important industrial clusters in the country covering sectors such as textiles, leather, electronics, auto components, chemicals and pharmaceutical located all over the country. In additions there are around 2800 micro-enterprises clusters, 400 handloom clusters, 3000 handicraft clusters and close to 4000 artisan and agro processing clusters in the country providing employment to a large cross section of society; contributing significantly to its economic growth.

BUSINESS REGULATIONS FOR MSME – CURRENT SCENARIO

In the country's federal set up, business regulations are enacted and implemented by all three tiers of Governance- Central, State and Municipalities.

Access to utilities (power, water), environment clearances, labour laws and commercial taxes (VAT etc) also fall in the domain of the state and local authorities. With the inter-connectedness of the markets, there are additional laws with respect to inter-state trade, arising from tax rate distortions, compliance issues. Moreover, there are compliances associated with central agencies for direct taxes, excise and service tax.

GOVERNMENT POLICY SUPPORT TO ADDRESS THESE CHALLENGES

- 1) Public Procurement Policy to ensure stable market for the MSEs
As per the Public Procurement Policy, all Central ministries and PSUs will have to ensure that a minimum 20 per cent of all their total annual purchases of products or services are from MSEs, and within this limit, 4 per cent of the orders should be placed to the SC/ST entrepreneurs.
- 2) Offset Policy for Defense Procurement
Offset under defense purchases are suitably focused to support the MSMEs in the country, in upgrading their capacities, capabilities & technology.
- 3) Micro & Small Enterprises Cluster Development Programme
- 4) National Manufacturing Policy targeted to increase manufacturing sector growth of 12-14% over medium term to increase share of manufacturing in GDP from 16% to 25%.
- 5) Credit Linked Capital Subsidy Scheme (CLCSS) meant for technology up gradation of Micro and Small Enterprises are existing. The scheme provides 15% Capital Subsidy (limited to maximum Rs. 15.00 lakh) for purchase of Plant & Machinery.

- 6) The Technology Upgradation Fund Scheme (TUFS) provides for interest reimbursement/capital subsidy/margin money subsidy for textile units seeking credit for technological up gradation.
- 7) The 10 component schemes under the NMCP targeted at enhancing the entire value chain of the MSME sector are at various stages of implementation by Ministry of MSME. The strategy also recommended some sub-sectors for immediate focus such as Textiles and Garments, Leather and Leather Products, Auto Components, Drugs & Pharmaceuticals, Food Processing and IT Hardware.
- 8) Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) launched with the objective of making available credit to MSEs, particularly micro enterprises, for loans up to Rs. 100 lakh without collateral/ third party guarantees.
- 9) SME Platforms in Stock Exchanges - For providing general purpose equity to MSMEs, separate platforms for SMEs were set up in 2012 in the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).
- 10) Priority sector lending by the commercial banks - To ensure sufficient credit availability to the Micro, Small Enterprises, the credit to this sector is included under the priority sector lending. RBI has advised the banks to achieve the 20% year on year growth in credit to MSEs.

CURRENT INITIATIVES – EASE OF DOING BUSINESS

In this context, various initiatives to improve the competitiveness and ease of doing business have been proposed such as:-

- Stress on cluster development
- Development of Electronic Manufacturing Clusters
- Improving the business regulatory framework in India
- Boosting India's manufacturing exports
- Revisit labour laws giving higher flexibility and greater employment opportunities.
- Implement GST at the earliest to boost GDP
- Revise the definition of MSMEs with enhanced capital investment limit.
- Enhancing skill levels of current workforce to improve productivity.
- Encourage young entrepreneurs & revamping of skill development & capacity building programs.
- Technology up-gradation & support for emerging sectors

DEFINITION OF START-UPS (for the purpose of Government scheme)

Startup means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

Provided that such entity is not formed by splitting up, or reconstruction, of a business already in existence.

Provided also that an entity shall cease to be a Startup if its turnover for the previous financial years has exceeded INR 25 crore or it has completed 5 years from the date of incorporation/ registration.

Provided further that a Startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

Source: Start-up India Action Plan

GOVERNMENT'S INITIATIVES TO BOOST STARTUPS

TAX EXEMPTION

The Finance Act, 2016 has made provision for Startups to get income tax exemption for 3 years in a block of 5 years, if they are incorporated between 1st April 2016 and 31st March 2019. To avail these benefits one must get a Certificate of Eligibility from the Inter-Ministerial Board of DIPP.

Tax exemption on investments above Fair Market Value have been introduced for investments made in Startups (as per definition). For details, visit link:

<http://startupindia.gov.in/uploads/pdf/Notification%20related%20to%20Tax%20Exemption%20on%20Investments%20above%20Fair%20Market.pdf>

EXEMPTION FROM COMPLIANCES

Startups falling under the list of 36 “white” category industries have been exempted from all the applicable compliances under 3 Environment Laws viz. The Water (Prevention & Control of Pollution) Act, 1974; The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003 and The Air (Prevention & Control of Pollution) Act, 1981. To get the list of “white” category industries, visit link:

http://startupindia.gov.in/uploads/pdf/MoEF_New_Category_of_White_Industries_05_03_2016.pdf

A 'fund of funds' of INR 10,000 crores for Startups has been established which shall be managed by SIDBI. The fund will invest in SEBI registered Alternative Investment Funds (AIFs) which, in turn, will invest in Startups. Thus, this fund will act as an enabler to attract private capital in the form of equity and quasi-equity for Startups.

MUDRA Bank: The launch of MUDRA (Micro Units Development Refinance Agency) Bank with a capital amount of INR 20,000 crore and a credit guarantee amount of INR 3,000 crore will help small and Medium Enterprises (SMES) and startups resolve problems related to financing. Also, a budget of INR 1 crore was allocated for startups by the government. The good news is that the bank kicked off its operations in April 2015 and until now, quite a few entrepreneurs have received support.

Ministry of Entrepreneurship and Skill Development: The creation of a separate ministry for entrepreneurship and skill development shows the government's seriousness in promoting

entrepreneurship and encouraging skill development initiatives in India. The government has set up a goal of imparting skills development training to 30 crore people by 2020 to help them get jobs.

eBiz portal: This is the first Government to Business (G2B) portal launched by the current government and is owned by the Department of Industrial Policy & Promotion (DIPP) under Ministry of Commerce and Industry. Through this portal, the government aims to facilitate carrying out of businesses in India.

GROWTH FACTORS FOR MSMEs IN INDIA

- a. World's largest democracy with 1.2 billion people
- b. Enabling business environment with greater global participation
- c. Access to technology as a result of the IT revolution
- d. Progressive simplification and rationalization of direct and indirect tax structures
- e. Land of abundant natural resources and diverse climatic conditions
- f. Strong market fundamentals
- g. Impetus on Infrastructure Development
- h. Competitively priced skilled labour

Indian Institute of Corporate Affairs (IICA) with its linkages with the MSMEs and Corporate houses is uniquely placed to play the role of a functional inter-phase/ facilitator to increase corporate and SMEs involvement in Indian start-up ecosystem to facilitate more, connections and collaborations in near future.

The conference in day long sessions spread over panel discussions will touch key issues such as SMEs and Start-Ups Ecosystem, Major Issues for Concern & Challenges Having Direct Impact on MSMEs & start-ups, Fundraising & Investment Due Diligence - Do's and Dont's for Startups and SMEs, Goods & Service Tax (GST) - Impact of GST on business, Capital Raising Options for MSMEs and Start-ups etc.
