K C Chakrabarty: Empowering the growth of emerging enterprises

Keynote address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the Economic Times Thought Leadership Conclave, Mumbai, 12 April 2012.

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1. Shri Bodhisatva Ganguli, Deputy Executive Editor, The Economic Times, Shri Pramit Jhaveri, CEO, Citibank India, Ms. Paromita Chatterjee, Senior Editor, ET Now, Mr. Venu Srinivasan, Chairman, TVS Motor Company Ltd., Dr. Swati Piramal, Director – Strategic Alliances and Communications, Piramal Healthcare Ltd., distinguished panelists, other distinguished guests, members of the print and electronic media, ladies and gentlemen.

2. At the outset, I would like to congratulate Citibank for completing 200 years since its formation in 1812. It is indeed a matter of great privilege for me to be present here today at the Thought Leadership Conclave on “Empowering the Growth of Emerging Enterprises” and share some of my thoughts on ways for enhancing the efficiency of emerging enterprises in the country, which is indispensable for sustaining and even accelerating the high growth rate witnessed by the Indian economy in the past decade. I firmly believe that the next level of growth in the economy will have to come from the Micro, Small and Medium Enterprises (MSMEs), which can propel India's growth rate from around 7–8 per cent at present to a sustainable 9–10 plus per cent in the medium-to long-term, which is considered as India's desirable growth rate. We need to nurture and strengthen the MSME sector in the country as today’s MSMEs will converge into large industrial houses tomorrow or even MNCs in the times to come. In order to take the country on to a higher and sustainable growth trajectory, it is necessary to significantly enhance our manufacturing capabilities. The manufacturing SMEs are largely complemented by services sector SMEs that offer various services to the manufacturing sector. Strengthening of the manufacturing sector in the country a la China is imperative as manufacturing sector is essential for enhancing exports and creating trade surplus, which will go a long way towards strengthening the country’s situation on the external (BoP) front. The need of the hour is to empower SMEs so that they can take their rightful place as the growth engine of the economy.

3. It is against this backdrop that this Conclave on empowering the growth of emerging enterprises assumes significance. The MSME sector is facing new challenges in the wake of increasing globalization and there is a pressing need for the sector to reinvent itself by enhancing its efficiency and productivity in order to remain competitive, both domestically as well as internationally and take advantage of the new opportunities cropping up in an increasingly globalized world. I congratulate the Economic Times, which has hitherto been at the forefront of spreading financial literacy and awareness in the country, for organizing this Conclave on such an important issue. The informed discussions at these kinds of forums help in garnering and shaping public opinion, building consensus, crystallizing policy inputs and giving us feedback on the required policy initiatives.

A. Importance of SME sector

4. SMEs are universally acknowledged as major contributors to Gross Domestic Product (GDP) and even larger contributors to exports and employment. SMEs play a critical role in the economic and social development of emerging markets by creating jobs and generating income for low-income groups. This fosters economic growth and social stability, and also contributes to the development of a dynamic private sector. Even in countries with large corporations such as the United States, SMEs contribute a very substantial percentage to the employment generated. Studies indicate that formal SMEs contribute up to 45 percent
of employment and up to 33 percent of GDP in developing economies. These numbers would be significantly higher when taking into account the contributions of SMEs operating in the informal sector.

5. According to a recent study by the IFC and McKinsey and Company (McKinsey), there are almost 365 to 445 million MSMEs in emerging markets, of which 25 to 30 million are formally classified as SMEs. In OECD economies, SMEs and micro enterprises account for over 95 per cent of firms, 60–70 per cent of employment, 55 per cent of GDP and a lion’s share of new jobs. In the APEC region, SMEs account for around 90 percent of all businesses and employ as much as 60 percent of the work force. At present, however, they generate only around 30 percent of exports. In developing countries, more than 90 per cent of all firms outside the agricultural sector are SMEs and micro enterprises, generating a significant portion of GDP.

6. In the Indian context, the critical role and place of the MSME sector in the Indian economy cannot be over-emphasized in employment generation, exports and economic empowerment of a vast section of the population. As per data released by the Ministry of MSME, there are about 26.1 million enterprises in this sector. The sector accounts for 45 per cent of manufactured output and 8 per cent of the GDP. MSMEs contributed close to 40 per cent of all exports from the country and employed nearly 59.7 million people, which is next only to the agricultural sector. The performance of SMEs in India, though impressive, comes next to China where this sector provides around 75 per cent of the total employment, accounts for around 99 per cent of total enterprises and contributes around 60 per cent to GDP. In the case of Japan, there are 4.69 million SMEs, constituting 99.7 per cent of all enterprises, accounting for 70 per cent of all employment. The SME’s share in Japan’s GDP is 56.8 per cent. In Korea, SMEs account for around 79 per cent of employment and 46 per cent of GDP.

7. Part of the contribution of the SME sector, both to the overall total factor productivity (TFP)\(^1\) (efficiency, as usually defined) of an economy and to employment generation and distributional equality, comes by virtue of its pattern of technology choice. SME technology tends to be intermediate between the highly labour intensive technologies of micro enterprise which achieve only low average labour productivity, and the highly capital intensive technologies of large firms which achieve high labour productivity, but use more capital per worker than is available for the economy as a whole. Its intermediate technology characteristic is what gives the SME sector a special role in the generation of adequate or decent employment. In terms of efficiency, the price-lowering and quality-improving competition is more likely to come from SMEs rather than large firms. The SME sector also plays a key role in generating growth, especially pro-poor growth, i.e., more equitable and inclusive growth. SMEs tend to dominate a country’s new and fast growing industries. In this respect, and in others, SMEs are associated with dynamism.

8. Globalization also increases the importance of keeping the SME sector strong since its role in providing subcontractors for large exporters may be quite important in cases where transportation costs are not low. Being able to rely on efficient low-cost subcontractors can substantially increase the competitiveness of the large exporters and has been an important factor underpinning the successes of Japan, Taiwan and Korea.

B. Challenges faced by SMEs

9. There are various challenges facing SMEs which, inter alia, include non-availability of timely and adequate finance, availability of raw material, technological obsolescence, lack of market information, lack of capability to develop new products, lack of training and lack of access to modern technology.

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\(^1\) TFP has been defined as the portion of output not explained by the amount of inputs used in the production process and essentially captures how efficiently and intensely the inputs are utilized in production process).
of infrastructure facilities, marketing bottlenecks, deficient managerial and technical skills, sub-optimal quality standards, sickness, competition from large enterprises, globalization, non-competitive real exchange rate, etc. The opening up of the world economy in the process of globalization and the rapid and extensive use of information technology have thrown up challenges for the small producers and manufacturers who have to not only survive competition but also keep pace with the rapidly changing technological scenario in the world. Among several technologies that have been developed to aid SMEs, IT & automation technologies are believed to be at the forefront in terms of increasing both productivity and profitability for SMEs in manufacturing. To meet the challenges emanating from increasing globalization, SMEs need to increase their efficiency as measured by total factor productivity (TFP).

(a) **Strengthening SME competitiveness in developing countries**

10. Metcalf, Ramlogan and Uyarra (2003) state that competitive advantage, which must be measured in relation to rivals in markets, is determined by how efficient and effective the prevailing markets for products, labor and capital are. They further add that entrepreneurship; the introduction of new productive combinations and innovation is the driving force that continually creates new competitive advantages and opportunities for profit and growth.

11. Meyer-Stamer (1995) concurs with the view that competitiveness is created at the firm level, but that it is partly derived from a systemic context and emerges from complex patterns of interactions between government, enterprises and other actors, and will therefore exhibit different forms in each society.

12. SME development strategies will necessarily be country and context specific. Each country will have its own challenges, opportunities and priorities for change. Resources available will vary by country and therefore, results achieved will also be different. Notwithstanding such specificity, some of the SME development lessons which are applicable to most of the countries include:

- Peace and stability is a key requirement for the development of SMEs and for attracting foreign investment. Studies show that war and crime are main deterrents of private investment, in particular, for foreign investors.
- SME development requires a crosscutting strategy, i.e. its success depends on the ability of governments to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments and the ability of SMEs to implement competitive operating practices and business strategies.
- Dialogue and partnerships between the stakeholders is essential (public sector, private sector and civil society).
- Investments in physical infrastructure and business services and the implementation capacity of policy makers, administrators and support structures determine success.
- Enhancing women’s ability to participate in SME development should be taken into account at every stage, as women account for an important share of private sector activity and contribute most to poverty reduction.

(b) **Modernization and diversification: risk mitigation**

13. Modernizing and diversifying SMEs includes both the creation of new ventures in order to revise the structure of the economy and transformation of existing businesses. In the wake of increasing globalization leading to new opportunities and reduction in trade barriers, there is a pressing need for SMEs to diversify into various geographies and markets. A
diversifying SME needs to gear up to the challenge of operating in a vastly different environment and facing increased competition. They also need to mitigate various risks which result from diversification into new markets and geographies. One of the major risks of diversification is currency fluctuation risk. As currency fluctuations can adversely impact SMEs, it is very important for them to protect their exposure in an efficient and effective manner. The SME needs to determine whether it needs to hedge its exposure and what tools it needs for hedging (swaps, options, forward contracts, currency diversification, etc.).

14. Despite the availability of new hedging avenues, a very small proportion of SMEs enter into exchange traded currency futures transactions to hedge their risk. Besides, the quotes offered to SMEs in OTC markets are often at a higher premium. Also, various misconceptions and the lack of awareness amongst SME exporters about currency hedging hold back SME exporters from the currency derivatives market. It is essential for small units to evaluate their cash flow positions and assess the degree of influence exchange rate fluctuations can have on their profitability. Also, before sealing an export deal with an overseas client, SMEs should keep the option of entering into a price variance with their customer, based on exchange rate fluctuations. Additionally, in order to minimize export risks, the SME needs to procure credit rating report of the buyer, get credit insurance for exports and consider professional assistance from debt collecting agencies.

(c) Challenges from globalization

15. Globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Presently, a majority of SMEs in developing and emerging market economies have been less able or unable to exploit the benefits of globalization and, to add to the situation, frequently face pressures in the domestic markets from cheaper imports and foreign competition.

16. Increasingly, SMEs are seeing participation in international markets as critical to their survival, job creation and growth. But the development of a fast-changing and increasingly complex global marketplace has also placed considerable pressures on firms, particularly SMEs.

17. Operating successfully in international markets requires, inter alia, learning to remote-manage using a variety of informal and formal business relationships, gaining familiarity with different business regulations, customs, cultures and languages, and developing appropriate solutions for all the markets in which the firm operates. This poses challenges for business managers and requires them to use, or develop a much larger range of managerial competencies than if they operated solely in their domestic market. It also poses challenges for governments (and business associations and others who assist SMEs) in providing the right, targeted support programmes and other incentives to encourage SMEs to internationalize and to help them overcome the internal and external barriers they face in doing that.

(d) Barriers to SME trade

18. According to an OECD – APEC study, “the numerous benefits to SMEs engaged in international trade are well documented, with a considerable body of evidence that international trading activity stimulates increased productivity growth by strengthening competition and innovation and increasing access to new ideas and technology. International trading activity enables businesses to achieve growth and economies of scale which domestic markets alone would not provide. Exporters are consistently found to outperform non-exporters using a variety of measures of success including profitability, production, wages and sales volumes”. At the same time, the study finds that “… trade barriers can be particularly damaging for SMEs since these barriers are generally outside of their control and are difficult to overcome. And while trade barriers do not only affect SMEs … it is SMEs who
are especially vulnerable and need an open and transparent environment in which to operate.” The major barriers to SME trade include:

a. Lack of access to finance
b. Lack of capacity to internationalize and difficulty in identifying foreign business opportunities (SMEWG)
c. Need for open and transparent business
d. High transportation and related costs (SMEWG)
e. Customs clearance delays due to difficulties in navigating overly complex customs requirements and documentation across jurisdictions
f. Difficulty with intellectual property acquisition, protection, and enforcement
g. Inadequate policy/ regulatory frameworks to support cross-border electronic commerce
h. Difficulty in taking advantage of preferential tariffs and other aspects of trade agreements

(e) Development of human and natural resources

19. Human resource development issues are fundamental to improving SME competitiveness. Empirical studies show that human capital is a significant determinant of growth. The ability of SMEs to adjust to the competitive pressures that come with trade liberalization and globalization will depend on the level of skills available domestically. Developing countries are investing significantly in their education (mainly basic) and training systems. However, linkages between education and training strategies and SME/enterprise development strategies are still weak, resulting in weak market signals for policymakers and administrators.

20. The education and training systems can influence the level of entrepreneurial activity in developing economies by developing an awareness and appreciation of the same in the wider society. A major area of concern in the Indian context is the low productivity and managerial ability of SMEs and the lower skill levels of the SME workers. The human resource constraints have been affecting both the efficiency and productivity of SME sector in India. A massive programme of skill and entrepreneurship development should form the backbone of SME development. There should be training programmes by the industry associations to upgrade the skills of the workers and to acquaint them with the skills compatible with the new technology. Similarly, the labour laws should be simplified. There is a need to incorporate entrepreneurship training in school curricula. Several studies have cited lack of entrepreneurship skills as a major shortcoming for women entrepreneurs, which can be addressed by incorporation of entrepreneurship training in secondary school curricula. Investment needs to be made in a big way on skill and entrepreneurship development if the goal of sustainable employment is to be achieved.

(f) Corporate governance

21. Weak corporate governance of small firms, burdened further with poor availability of crucial inputs, has made these firms extremely vulnerable. Good governance practices in SMEs will help them grow or attract additional investors. Raising capital has, for a long time, been seen as the major challenge facing SMEs. The absence of good corporate governance practices makes it difficult for them to access finance from banks or investors.

22. Adoption of corporate governance framework by SMEs in India is indispensable for taking this sector to a higher growth trajectory. The lack of corporate governance is mainly due to lack of awareness about corporate governance practices and its impact on corporate
performance. Thus, there is a need to educate SMEs about the benefits of adopting sound corporate governance practices. There also is a need to implement SME’s corporate governance code.

(g) **Local partnerships and clusters**

23. The need to adjust to global competition and instances of prosperous economies being built upon localised groups of firms, have caused governments to turn to policies based on enterprise clusters (a cluster is an agglomeration of firms in a related line of business with clusters, in some cases, being comprised principally of SMEs, such as in Italy’s industrial districts). Cluster development policies have proliferated in both developed and developing economies. Membership of clusters and networks can enhance the productivity, rate of innovation and competitive performance of firms. Clusters and networks can allow small firms to combine advantages of small scale with various benefits of large scale. Schemes and programmes encouraging clusters need to be promoted further. Instead of distributing limited resources to all parts, it is better to apply them to areas which can optimize the returns and maximize the growth.

(h) **SMEs’ access to finance**

24. SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. According to the IFC-McKinsey study, close to 45 to 55 percent of the formal SMEs (11–17 million) in the emerging markets do not have access to formal institutional loans or overdrafts despite a need for one. The finance gap is far bigger when considering the micro and informal enterprises – 65–72 percent of all MSMEs (240–315 million) in emerging markets lack access to credit. The proportional size of the finance gap varies widely across regions and is particularly daunting in Asia and Africa. Closing the credit gap for formal SMEs will be less challenging than for informal SMEs. Close to 70–76 percent of the formal SMEs (18–22 million) in emerging markets already have a banking relationship via deposit/checking accounts, while only about 30–35 percent of SMEs (8–10 million) have access to credit. Hence, the key challenge is to support banks in extending credit facilities to SMEs who have a deposit/checking account, but do not yet have access to credit. Risk-sharing facilities, coupled with the introduction of best practice SME lending approaches are key interventions that can help banks provide credit to SMEs. These interventions need to accompany enhancements to the enabling environment for SME lending such as credit bureaus, collaterals and insolvency regimes.

25. In addition to loan financing, SMEs have the option of collaborating with venture capital investors. Other significant forms of SME financing include leasing, trade credit and fiscal incentives in the form of tax breaks. Access to finance is essential for improving SME competitiveness, as SMEs have to invest in new technologies, skills and innovation. Issues pertaining to access to finance cannot be resolved by implementing financing schemes or programs in a vacuum. It is also noteworthy that efforts to resolve access to finance issues are not solely the responsibility of governments. SMEs also need to take initiative in this direction by implementing sound business practices and continuously investing in good internal management systems: in accounting, planning, financial, operations and human resource management. In the Indian context, in spite of various measures taken by the RBI and the Government, availability of credit to SMEs continues to remain a major issue in the development of the SME sector in the country.

(i) **Impact of the global financial crisis on SMEs**

26. The problem of access to finance faced by SMEs has been strongly exacerbated by the global financial crisis as SMEs and entrepreneurs have suffered a double shock: a drastic drop in demand for goods and services and a tightening in credit terms, which have severely affected their cash flows. Governments have responded generally by three types of
measures aimed at: i) supporting sales and preventing depletion of SMEs' working capital; ii) enhancing SME’s access to liquidity; iii) helping SMEs maintain their investment level. The Euro zone debt crisis has also impacted SMEs adversely. However, in the Indian context, the sharp depreciation of the rupee against the US dollar in recent months has made SME exports more attractive, which should, to some extent, help in nullifying the adverse impact of the sharp fall in external demand. In these difficult times on the export front, it is imperative for SMEs to tap the huge demand in the local markets. MSMEs are the best vehicle to create local demand and consumption and also to fight the global meltdown. At the international level, the G20 is spearheading the work on SME Finance through SME Finance subgroup under its Global Partnership for Financial Inclusion (GPFI) (Dec 2010).

C. Indian context

27. Keeping in view the importance of SME sector in fostering growth and promoting employment, the Government of India enacted the Micro, Small and Medium Enterprises Development Act, 2006. Public Policy in India has accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. Some of the major constraints faced by the MSME sector and the important measures taken by Government of India and Reserve Bank of India to address them have been set out below.

28. As with the SMEs operating elsewhere, access to timely and adequate credit is critical for MSME growth and development in India as well. To ensure enhanced credit flow to the sector, and more so to the micro units, based on the recommendations of the Prime Minister’s Task Force on MSMEs (Chairman: Shri T.K.A.Nair, Principal Secretary, Government of India), banks have been advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises. Advances extended to the MSE sector are treated as priority sector advances and as per the extant Reserve Bank guidelines, banks are required to extend at least 60 per cent of their advances to the MSE sector to Micro Enterprises by 2012–13 and achieve a 10 per cent annual growth in number of micro enterprise accounts. The Reserve Bank is closely monitoring the achievement of targets by banks on a quarterly basis and banks have been advised to device strategies to step up their lending to micro units. However, the MSME sector needs to be competitive and should not expect subsidized interest rates as this may not help them much as the cost of credit forms a relatively small proportion of their overall cost. Table 1 provides outstanding credit to MSME sector by scheduled commercial banks.

29. The problem of access to finance for the MSME sector is intrinsically linked to the problem of financial exclusion in the country. The ability of banks to rapidly increase their coverage of MSMEs through credit facilities would depend on their ability to expand their reach to the hitherto unbanked segments of the country. The problem of financial exclusion is particularly severe in the MSME sector, which is revealed by the data provided by the 4th Census of the MSME Sector which indicated that only 5.18% of units had availed finance through institutional sources with a further 2.05% relying on non-institutional sources for finance. However, the remaining 92.77% of units had no access to finance or depended on self finance. In this regard, the various initiatives taken by the Government of India and Reserve Bank such as adoption of the Business Correspondent (BC) model, relaxation of KYC norms, simplified branch authorization, preparation of board approved financial inclusion plans, mandatory opening of 25% of new branches in unbanked rural centres, preparation of financial inclusion plans by banks, etc. are expected to accelerate the process of financial inclusion in the country and the MSME sector is expected to be among the beneficiaries of the same through better access to bank credit.
Outstanding credit to the MSE sector by SCBs

(No. of A/Cs – in million) (Amount – Rs. in billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
<th>All Scheduled Commercial Banks</th>
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<tbody>
<tr>
<td></td>
<td>Last Friday of</td>
<td></td>
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</tr>
<tr>
<td>March 2008*</td>
<td>3.967</td>
<td>1511.37</td>
<td>0.819</td>
<td>469.118</td>
</tr>
<tr>
<td>March 2009</td>
<td>4.115</td>
<td>1914.083 (5.75%)</td>
<td>0.678</td>
<td>466.563 (30.64%)</td>
</tr>
<tr>
<td>March 2010#</td>
<td>7.217 (75.38%)</td>
<td>2763.189 (66.81%)</td>
<td>1.131</td>
<td>648.247 (38.94%)</td>
</tr>
<tr>
<td>March 2011</td>
<td>7.398 (2.51%)</td>
<td>3694.30 (33.70%)</td>
<td>1.718 (51.90%)</td>
<td>881.16 (35.93%)</td>
</tr>
</tbody>
</table>

* Change in definition of the sector as per the MSMED Act 2006 advised to banks in 2007.
# Retail trade included in service sector.
Source: Scheduled Commercial Banks.
Note: Figs. in parentheses indicate Y-o-Y % growth/decline.

30. Apart from bank credit, there is a growing need for *venture/risk capital* for financing high-growth-potential and start-up SMEs. The Government of India, in the Union Budget 2012–13 has proposed to set up a Rs.5000 crore India Opportunities Venture Fund with SIDBI in order to enhance availability of equity to the SME sector. *Access to Equity capital* is another genuine problem. At present, there is almost negligible flow of equity capital into this sector. SEBI has permitted BSE and NSE to set up an Exchange for MSMEs, which would help Indian SMEs to raise funds from capital markets.

31. The SME sector often feels the constraint of *non-availability of skilled labour*. It is indeed ironic that in a nation of more than a billion individuals, skilled labour is cited as scarce. India needs to capitalize on its unique demographic dividend (it has a very large and young workforce). The Government of India and various State governments have been implementing a number of schemes and programs over the years. The Rural Self Employment Training Institutes (RSETIs) are also working in this direction. In line with the overall target set by the Prime Minister’s National Council on Skill Development, the Ministry of MSME and the agencies under it have targeted conducting skill development programmes for 4.78 lakh persons during 2011–12. Further, the Ministry aims to train 5.72 lakh persons in the year 2012–13 through its various programmes for development of self-employment opportunities as well as wage employment opportunities in the country. In addition to the initiatives taken by Government agencies, the industry, through a process of training and handholding, has to contribute to building up a large base of appropriately skilled workforce available for employment in MSMEs.

32. Apart from the above mentioned factors, efforts are on to promote *factoring services* to tackle delayed realization of receivables, which adversely affects the recycling of funds and business operations of MSME units. To facilitate factoring services, the Parliament has recently passed the Factoring Regulation Bill that would address delays in payment and liquidity problems of micro and small enterprises. The Factoring Bill creates the legislative environment for factoring and makes the process easier.

33. Growing incidence of *sickness* of SSIs is yet another area of concern. When the sickness prolongs it leads to the closure of units and unemployment. The mortality of the SSI
units is high. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. The data showing the position of sick small and micro enterprises as at the end of March 2010 & 11 is given below:

<table>
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<tr>
<th>End of</th>
<th>Total No. of Sick Units</th>
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<tr>
<td></td>
<td>Units</td>
</tr>
<tr>
<td>March 2010</td>
<td>77723</td>
</tr>
<tr>
<td>March 2011</td>
<td>90141</td>
</tr>
</tbody>
</table>

34. Timely detection of sickness is critical as any delays in this regard make the possibility of revival of potentially viable sick units recede. In order to hasten the process of identification of a unit as sick, a proposal for modifying the extant definition of sickness, in line with the recommendations of the Working Group on Rehabilitation of sick SMEs, is under consideration of the Government of India and Reserve Bank of India. As it is observed that rehabilitation of sick MSMEs could not be taken up due to non-availability of promoters’ contribution in a large number of cases, RBI has recommended to the Government of India to set up a Rehabilitation Fund for rehabilitation of sick MSMEs. All Scheduled Commercial Banks have also been advised to review and put in place MSE Loan policy, Restructuring / rehabilitation policy and Non-discretionary One Time settlement scheme for recovery of non-performing loans, duly approved by their Board of Directors.

35. An exit route for non-viable units is necessary to manage sickness. The present mechanism available in India for MSMEs is archaic. Business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. The existing legislations may have to be toned up so as to provide for efficient liquidation of non-viable businesses.

36. To ensure competitiveness of the MSEs, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends. The state of infrastructure, including power, water, roads, etc. in areas where SMEs are located is inadequate and unreliable. Further, the MSE sector in India, with some exceptions, is characterized by low technology levels, which acts as a handicap in the emerging global market. Prime Minister’s Task Force on MSMEs recommended several measures having a bearing on the functioning of MSMEs, viz., credit, marketing, labour, exit policy, infrastructure/technology/skill development and taxation. The implementation of the recommendations, in a time bound manner, is being monitored by Government of India at the highest level.

37. The government has adopted the cluster approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of MSEs in the country. During the year 2011–12 (up to 31 January 2012), 8 new clusters were taken up for diagnostic study, 5 for soft interventions, and 4 for setting up of common facility centres (CFCs). With this, a total of 477 clusters have been taken up for diagnostic study, soft interventions, and hard interventions. Apart from these clusters, 134 infrastructure development projects have also been undertaken.

D. Concluding observations

38. SMEs play a critical role in the economic and social development of emerging markets and their role needs to be strengthened further in view of their contribution towards fostering equitable growth and employment generation. It is imperative to enhance SME
competitiveness, which requires the creation of enabling legal, regulatory and administrative environment, access to finance and capable institutional structures and most importantly, human capital.

39. The next level of growth in the Indian economy will have to necessarily come from the MSME sector, which can propel India’s growth rate from the present level of around 7-8 per cent to a desirable level of 9-10 per cent and beyond in the medium-to long-term. In order to transform India into a major manufacturing hub like China, the Indian SMEs must embrace change so that they can survive and find a place for themselves in the global competitive environment. The most important change needed is in the attitude of the stakeholders and the mindset of the institutions which are engaged in the task of small enterprise development. Efforts should be made to take full advantage of opportunities made available by globalization. This is possible only through enhancing efficiency and competitiveness of the enterprises through continuous technological innovations, quality improvement, better access to finance, diversification into new geographies and markets, modernization, adoption of better risk management and corporate governance practices, better human resource management, better infrastructure, investment climate reform, etc. All stakeholders in the development of SMEs, viz., government, RBI, banks and other agencies like MSME associations/ chambers and large industry associations should gear up to provide an enabling environment to the SMEs for taking them to a higher and sustained growth trajectory. SMEs, on their part, should strive hard to take advantage of the available opportunities while staying clear of the potential pitfalls that confront them in their natural progression into large corporations or even into multi-national corporations of the future.

I wish the Conclave all success. Thank you.
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