

Unlocking the potential of MSME exports

Strategy Action Plan

Ministry of Micro, Small and Medium Enterprises

Government of India



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Micro, Small and Medium Enterprises

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation¹. As per the NSSO survey 2015-16, the total number of MSMEs in India are 6.3 Crore employing over 111 million persons. It is the second largest employer after agriculture. The sector accounts for 45 % of total industrial production, 40% of total exports and contributes 30% of the country's GDP.

Initiatives by the Ministry

With a view to provide more focused attention on the development of micro, small and medium enterprises, the Ministry of MSME and its attached organization has launched several schemes and programmes that seek to facilitate provide:

- Adequate flow of credit from financial institutions/banks;
- Support for technology upgradation and modernization;
- Integrated infrastructural facilities;
- Modern testing facilities and quality certification;
- Access to modern management practices;
- Entrepreneurship development and skill upgradation through appropriate training facilities;
- Support for product development, design intervention and packaging; viii) welfare of artisans and workers;
- **Assistance for better access to domestic and export markets**
- Cluster-wise measures to promote capacity-building and empowerment of the units and their collectives

Challenges faced by MSMEs

Over the years, the sector has demonstrated remarkable resilience in the face of trialing global and domestic economic circumstances. However, from the aspect of exporting goods and services in the international market, the sector is faced with several challenges which include:

Awareness/ Know how

- Limited information about products & services in demand
- Working of the foreign markets, and in particular difficulties in accessing export distribution channels and in connecting with overseas customers
- Lack of awareness on export promotion and assistance programmes offered by the government
- Unfamiliarity with legal and regulatory frameworks of the exporting and importing countries
- No or zero awareness on IPR issues and various International Trade Agreements (ITAs)

¹ Pg. 16 of PM Task force on MSMEs 2010

Finance

- Access to affordable trade finance
- Costly product standards and certification procedures
- Logistics cost – airport and shipping costs etc.

Technology

- Lack of innovation, low-value addition and poor packaging due to low level of technology adoption
- Unable to meet importer's quality standards and establishing suitable design and image for the export market

Documentation

- Time-consuming and cumbersome documentation process required to comply with foreign and domestic market regulations

Strategy Action Plan

Despite a reasonable growth story and substantial share in overall exports, MSMEs are often faced with these challenges that restrict their entry into the foreign market. Not only do these challenges need to be studied in detail but, an eco-system needs to be created in such a way that these enterprises shall be able to participate in the global value chain on its own and generate enough economies of scale. Thus, in this regard a focused strategy action plan is proposed that aims to create a sustainable ecosystem for entire MSME development. The action plan aims to achieve the following objectives

- Target of USD 100 billion of exports from India by 2020
- Evaluate readiness of MSMEs to export their products and services
- Recognize areas where improvements are required in order to be able to export effectively and efficiently
- Integration of MSMEs into Global Value Chain

STRATEGY ACTION PLAN

#	Challenges addressed	Strategy	Action Proposed	Timeline
Capacity Building				
1	Skilling	Two tier training programme	<p>Tier 1: Single day sensitization and trust building workshops across MSME in India – To develop and strengthen the orientation of MSMEs towards exports, a sensitization drive at a Pan-India level will be conducted. The drive shall cover seminars and sessions covering basic nuances of exports such as :</p> <ul style="list-style-type: none"> ○ Local and global trade scenarios ○ Advantages of exporting products and services by MSMEs ○ Role of DGFT, customs and excise, taxations, etc. ○ Trade show participation, etc. 	Immediate under ESDP Scheme
			<p>Tier 2: Developing export intelligence amongst MSMEs² through extensive sector-based training – With an aim to understand the requirements of MSMEs in developing sector specific products according to international and domestic market demand, extensive training programmes shall be organized through linkages with advisory bodies such as Export Promotion Councils (EPCs)/ Commodity Boards/ Export development authorities etc. These programmes will be conducted by sector experts on various subjects such as :</p> <ul style="list-style-type: none"> ○ Standards related to packaging, branding, bar coding ○ Product testing and certifications ○ Awareness on various export related Govt. schemes and initiatives ○ Documentation and procedures related to exports ○ Overseas payment realization, bank finance, insurances, etc. ○ Obtaining trade license and other regulatory requirements 	Immediate under ESDP Scheme

²A stringent selection criteria shall be developed to identify relevant MSMEs. For instance percentage of revenue from exporters, turnover of the unit etc. shall be used as few parameters for selection of units.

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			<ul style="list-style-type: none"> o Logistic, road transportation, air/ sea shipment 	
On-ground handholding support – Hub and Spoke Model				
1	Market research and development	National Resource Center (NRC) for MSME Exporters	<p>The National Resource Center (NRC) will act as a hub and dedicatedly work towards conducting new research and enhancing existing knowledge base on exports. It would also act as a networking hub, connecting industry, academia, export-linked institutions, large export houses and Government. The centre is intended to not only help MSME exporters, but also to act as a foundation for the entire MSME business eco-system. Some of the functions that will be performed by NRC include:</p> <ul style="list-style-type: none"> o Market research & competitive analysis: To understand the current demand of exporting countries, in-depth market studies will be conducted that shall cover the following – types of products/ services in demand, expectations in terms of standards, quality, timelines, packaging, labelling etc. o Product mapping: In order to devise an action plan that is aligned to the strengths and weaknesses of MSMEs, it is proposed to carry out a product mapping across sectors. The aim is to link MSMEs into those foreign markets where they already possess comparative advantage. o Country specific knowledge papers: To enhance the knowledge base of Indian exporters, MSME specific country papers shall be prepared. These papers shall also be used to provide inputs for various inter-governmental meeting on MSME co-operation. Network of industry associations having presence in other countries shall also be leveraged. o Mapping of financial instruments: Mapping of relevant financial and insurance institutions including MFIs and Fintech companies along with their schemes available for MSME exporters shall be done. o Appraisal and monitoring of various schemes: To take timely corrective action, a performance appraisal of current schemes of M/o MSME shall be undertaken. A 	Short term

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			<p>monitoring framework shall be developed to understand the quantum of benefits availed under such schemes by MSMEs.</p> <ul style="list-style-type: none"> ○ Detailed analysis of various trade agreements: Analysis of FTAs, bilateral and multi-lateral trade agreements to identify areas of MSME concern for their implementation to India's interest is to be done. Furthermore it is also proposed a formal platform is created by Ministry of MSMEs to ensure that the ministry is involved in all the bilateral and multi-lateral trade negotiations which have impact on the MSMEs. ○ Study of select SEZ and EPZs: SEZs and EPZs play a key role in rapid economic development and are an essential constituent of Foreign Trade Policy with special focus on MSMEs. Thus, it is important to harness the potential of these export zones. In view of this, a study of select SEZ/ EPZ across the country shall be conducted to re-assess their role and objectives. ○ Partnership with various international agencies – To promote procurement from Indian MSMEs and to further enhance their capabilities, NRC will also engage with various international agencies including UN organizations. ○ Handbook for MSME exporters: A guide/handbook shall be developed to help export community to understand the processes involved in export business, access the potential markets etc. The guide shall consists of practical information which will be useful for exporters. ○ Call center: Apart from the above activities, a call centre shall also be established which will be responsible for providing backend services to Export Facilitation Centers (EFCs), answering all market related and other enquiries of MSMEs ○ Online platform for MSMEs to overcome barriers: With an aim to assist MSMEs in overcoming the barriers faced during the entire exporting lifecycle, it is proposed that a tech-enabled online portal shall also be developed that shall feature the following information: 	

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			<ul style="list-style-type: none"> - Market selection: Country wise list of global products & services in demand and related information on how to enter specific foreign markets - Access to export finance: Information on loans and credit offered by various financial institutions, NBFCs, MFIs etc. and list of various financial advisors - Access to skill: Training partners, training courses, list of Business Development Services (BDS) providers etc. - Other necessary information <p><u>The platform could be built on the lines of “Opentoexport” which is an online community backed by UK Government and business to help UK businesses get started selling their products and services overseas.</u></p>	
2	Access to on-ground facilitation	Export Facilitation Center (EFCs)	<p>The Export Facilitation Centers (EFCs) will be the one stop service point for MSMEs that are interested in exporting their products and services. These centers will provide end-to-end on-ground facilitation and handholding support to MSME exporters who are already trading overseas or are trying to access foreign markets. The objective is to help businesses target international customers and better understand international markets. Thus, it is proposed to establish 100 Export Facilitation Centers (EFCs), which will be run by a team of International Trade Advisors (ITAs)³. The advisors will offer professional advice to MSMEs. The range of services that will be offered by EFCs include:</p> <ul style="list-style-type: none"> o Information dissemination: Information dissemination on various schemes and benefits available and required support in availing the same. o Documentation & Procedures: Comprehensive handholding support to exporters in understanding end-to-end process and documentation involved in exporting. These may include – common export documents, transportation documents, compliance documents, certificate of origin, certificate required for shipments of specific goods, invoicing etc. 	Immediate

³Stringent criteria shall be developed for selection of International Trade Advisors. Assessment shall be done on the basis of past industry experience, education, years of experience etc.

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			<ul style="list-style-type: none"> ○ Market Access: Supporting MSMEs in understanding appropriate markets for their products and services. Apart from this, assistance will also be provided to MSMEs in terms of linking interested parties, developing inter-firm linkages between SMEs & large firms to promote “Made in India” and connecting MSMEs and innovators. This would foster better trade relations and help in exploring new markets for the MSMEs. ○ Finance: Assisting exporters in linking them with financial institutions such as NBFCs, new Fintech Start-ups etc. to avail credit at competitive rates. ○ Technology: Guiding exporters on selecting advanced manufacturing technologies, and adopting modern methods of international marketing for exploring and capturing new trade markets. ○ Training and workshops: Dedicated sector based training programmes on subjects such as export compliances & standards, packaging & labelling issues, how to develop products of international standards, etc. will be organized in the clusters of high export potential. Additionally, skill based capacity development programmes shall also be taken up for skilling new and existing entrepreneurs with an intent to exports. ○ Other necessary support: Support to exporters shall also be provided in areas of facilitating legal assistance required, reducing logistics cost, achieving highest product standards etc. 	
Technology and Infrastructure				
1	Access to technology	Leveraging network of existing technology centers	Considering the fact, that the manufacturing sector is facing tough competition from international markets, especially china, hongkong, Indonesia etc., it is essential that a focus should be given on quality products that are export ready. Keeping this in view, the Ministry of MSME is already implementing a “ Technology Centre Systems Programme (TCSP) ” that seeks to reinforce the capabilities of Technology Centers or tool rooms by establishing 15 new and upgrading 18 existing TCs . Additional 20 New Technology Centres announced by the Hon’ble PM on 2/11/18 Necessary efforts by the Ministry are	Ongoing under Technology Center Systems Programme (TCSP) &

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			<p>underway to strengthen the capacities of these TCs which are responsible for providing an integrated suite of services to MSMEs on fee basis, ranging from technical to management advisory. Besides, there are other schemes such as Atal Innovation Mission, National Knowledge Network (NKN), Dept. of Science & Technology (DST) schemes, are already under implementation. It is proposed to integrate all these schemes and programme through Center of Innovation which will be set up with the following objectives:</p> <ul style="list-style-type: none"> ○ To identify needs for innovative products and processes for MSMEs across three verticals of business – access to finance, access to market and access to technology ○ Develop a network of industrial clusters and technical institutions to convert technical knowhow and research into commercially viable products and services ○ To develop a consultancy platform for translation of research and innovation into new business ideas and enterprises ○ To assess future S&T demand for timely interventions ○ Lifecycle analysis ○ Business incubation and technology incubation ○ Research into regulatory reforms ○ Research in the areas of technology database, IPR issues etc. ○ Models for commercialization of technologies ○ Partnership with research institutes and industry associations to bring them on a common platform 	Incubation Programme of M/o MSME
Finance				
1	Access to Finance	Interest Subvention	Access to finance is a challenge for MSMEs, however, the challenge is relatively less pervasive for MSMEs that export due to defined processes and procedures and their requirement to meet international standards. The problem of finance is especially prevalent for MSMEs that do not export. This would include MSMEs that may have the potential but do not have the necessary knowhow or financial support to move up the value	Already announced on 2/11/18

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			<p>chain. Therefore, there is need to address the issue of finance amongst such enterprises.</p> <p>In this regard, it is suggested that such MSMEs be introduced to alternative sources of finance. While the Public Sector Banks hold a much larger share when it comes to providing credit to MSMEs, NBFCs have witnessed significant growth over the years and are primed to gain market share in the coming years. As on 31 March 2018, NBFC-microfinance institutions (MFIs) provided credit to over 25 million clients in India, with a total lending of more than ₹48,094 crores (\$7 billion).[1] In comparison to Public Sector and Private Sector Banks, the cost of funds for NBFCs is higher which essentially leads to a higher interest rate for MSMEs (>15% as compared to ~9-10% for PSBs). However, NBFCs follow less stringent yet more robust scoring methodologies that make it more convenient for MSMEs to avail support from NBFCs. While it is understood that MSMEs are relatively less sensitive to interest rates, it is suggested that an interest subvention (in the form of reimbursement) be introduced which reduces the effective rate of interest for MSMEs. This has been done earlier, for example, Tamil Nadu offers a 3% interest subvention for various types of loans (availed from its State Finance Corporation) bringing down the effective rate of interest. This will ease access to finance for MSMEs while offering them loans at a rate comparable to Public Sector Banks thereby increasing credit uptake and helping such MSMEs move up the value chain. Certain conditionality's can be introduced to ensure NBFCs target the intended audience such as a certain percentage of loans should be to first time exporters. Loans against work orders/purchase orders from foreign buyers can also be explored. Alternatively, mechanisms to reduce the effective cost of funds for NBFCs may be explored.</p>	
2	Access to	Export	Access to finance is one of the major constraints facing the MSME sector. Overall credit	Short term

^[1] Microfinance Institutions Network (MFIN). *Annual Report 2017–2018*. MFIN was appointed as the Self-Regulatory Organization (SRO) for the sector by RBI on 16 June 2014.

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	Finance	Credit Hedge Fund	<p>demand as on 31st March 2018, of MSME sector is estimated to be three \$ 370 billion as against the supply of \$139 billion, resulting in the finance gap of \$ 230 billion⁴ . Low income and North east states account for major addressable credit gap in MSME sector. Although VC and PE funds have been investing in startups but MSME sector continues to be underserved by formal external equity and is heavily dependent on informal sources. Major reasons attributable to the situation are insufficient and asymmetric financial information, stringent collateral requirement, complicated documentation procedures delayed payments, high risk NPA perception etc. The issue has also been highlighted in Inter-ministerial report on MSME exports 2012.</p> <p>It is therefore proposed to set up a first loss export credit hedge fund to be run through private fund manager(s) for grant of export credit to the MSME exporters. It will be a professionally managed fund, which will be used to diversify and manage the risks associated with export credit.</p>	
Market				
1	Access to market	Formulation of MSME export promotion scheme	<p>To enhance export capabilities and competitiveness of MSMEs, an exclusive schemes shall be formulated for MSMEs w.r.t. export promotion. Broadly, these scheme shall cover the following components:</p> <ul style="list-style-type: none"> ○ National Resource Center (NRC), Export Facilitation Center (EFC), and Export Credit Hedge Fund etc. ○ Fiscal incentives on various fee charged from MSMEs such as testing, certification, licensing fee, bank loan processing fee, membership fee for EPCs, R&D etc. ○ Considering electricity as an important cost of production, a subsidy on electricity fee shall also be offered ○ Subsidy on fee charged against various statutory compliances of buyer countryrequired to be fulfilled by MSMEs 	Immediate

⁴Pg 2 of RBI mini street memo dated august 17, 2018

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			<ul style="list-style-type: none"> ○ Provision for reimbursement of logistic/ freight charges incurred by MSMEs in exporting their products ○ Organization/participation/visits in various domestic and international exhibitions, trade fairs, buyer-seller meets, development programmes and other events ○ Special aid packages for North East and other hilly areas, women entrepreneurs, artisans, marginalized societies, etc. ○ Various components leveraged from other export oriented schemes of different Ministries and Departments for maximization of benefits to MSMEs ○ Export oriented training programmes ○ Other policy level interventions 	
Governance Framework				
1	Governance	Governance Council	To ensure efficient and effective delivery of all MSME export related interventions, it is proposed to formulate a governing council that shall be chaired by Secretary, M/o MSME and Co-chaired by DC, M/o MSME. The council shall comprise of senior officials and members from M/o MSME, Commerce, MSME Export Promotion Councils, Export Development Authorities, Commodity Boards, and other bodies.	

