



सत्यमेव जयते

Ministry of Micro, Small and Medium Enterprises
Government of India



Confederation of Indian Industry

THEME PAPER ON
GLOBAL VALUE CHAINS
EXPANDING BOUNDARIES
OF INDIAN MSMEs

2018 - 2019

Copyright © (2018) Confederation of Indian Industry (CII). All rights reserved.

No part of this publication may be reproduced, stored in, or introduced into a retrieval system, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording or otherwise), in part or full in any manner whatsoever, or translated into any language, without the prior written permission of the copyright owner. CII has made every effort to ensure the accuracy of the information and material presented in this document. Nonetheless, all information, estimates and opinions contained in this publication are subject to change without notice, and do not constitute professional advice in any manner. Neither CII nor any of its office bearers or analysts or employees accept or assume any responsibility or liability in respect of the information provided herein. However, any discrepancy, error, etc. found in this publication may please be brought to the notice of CII for appropriate correction.

Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi 110003, India, Tel: +91-11-24629994-7, Fax: +91-11-24626149; Email: info@cii.in; Web: www.cii.in



सत्यमेव जयते

Ministry of Micro, Small and Medium Enterprises
Government of India



Confederation of Indian Industry

THEME PAPER ON GLOBAL VALUE CHAINS EXPANDING BOUNDARIES OF INDIAN MSMEs

2018 - 2019

CONTENTS

I. Role of Indian MSMEs in India's Growth	1
1. The MSME Spectrum	2
2. Exports from India	8
2.1 Commodities Exported from India to Top 10 Export Destination	9
2.2 Contribution of Indian MSMEs in The Production of Top Exported Item	20
II. Global Value Chain	23
1. Importance of GVCs	24
2. How Can MSMEs Integrate Into The Global Market?	25
3. Elements Critical for Integration to The GVCs	26
3.1 Standards	26
3.2 Innovation & Adaptation of Updated Technology	27
3.3 IPRS	29
3.4 Adaptation of IT/ITES	30
3.5 Access to Finance	33
III. The Way Forward	39

LIST OF FIGURES

Figure 1: Proportion of MSMEs in Manufacturing and Services	2
Figure 2: Growth Trend in Number of Working MSMEs and Employment Generated	2
Figure 3: Top 10 sectors of Manufacturing vis-a vis engagement of MSMEs	3
Figure 4: Top 10 sectors of Services vis-a vis engagement of MSMEs	3
Figure 5: Tree Map of Manufacturing	4
Figure 6: Tree Map of Services	6
Figure 7: India's Top 10 Export Destination	9
Figure 8: Top 10 Commodities exported to USA	10
Figure 9: Top 10 Commodities with Highest Export Growth Rate- USA	10
Figure 10: Top 10 Commodities exported to UAE	11
Figure 11: Top 10 Commodities of UAE with Highest Export Growth	11
Figure 12: Top 10 Commodities Exported to Hong Kong	12
Figure 13: Top 10 Commodities of Hong Kong with Highest Export Growth	12
Figure 14: Top 10 Commodities Exported to China	13
Figure 15: Top 10 Commodities of China with Highest Export Growth	13
Figure 16: Top 10 exported Commodities to Singapore	14
Figure 17: Commodities with highest growth rate- Singapore	14
Figure 18: Top 10 commodities exported to UK	15

Figure 19: Commodities with highest export growth rate-UK	15
Figure 20: Top 10 commodities exported- Germany	16
Figure 21: Commodities with highest export growth rate	16
Figure 22: Top Exported Commodities to Bangladesh	17
Figure 23: Commodities with highest growth rate- Bangladesh	17
Figure 24: Top 10 Export Commodities to Vietnam	18
Figure 25: Commodities with highest export growth rate	18
Figure 26: Top exported Commodities- Nepal	19
Figure 27: Commodities with highest export growth- Nepal	19
Figure 28: Integral Constituents for Msmes Integrating To Gvcs	24
Figure 29: Critical elements for integration with GVCs	25
Figure 30: Types of Integration with GVCs	25
Figure 31: Types of Standards Affecting Trade	26
Figure 32: ETHICAL TRADE IMPERATIVE	27
Figure 33: Gains to MSME from adoption of Innovation	27
Figure 34: PROPORTION OF SMES ENGAGED IN INNOVATION	28
Figure 35: Proportion of enterprises engaged in innovation	29
Figure 36: Benefits of Cloud Computing	31
Figure 37: Benefits of adopting Digital Technology	31
Figure 38: Proportion reduction in data costs	32
Figure 39: Proportion growth in Data Consumption	32
Figure 40: Proportion increase in adoption of Smartphones	32
Figure 41: MSMEs Barrier to Export Through IT/ITES	33
Figure 42: Factors Discouraging MSMEs from Availing Credit from Formal Sector	34
Figure 43: Credit Flow to MSEs	34
Figure 44: Growth Predicted by 2021	37
Figure 45: Features of Trade Credit	38
Figure 46: Effective Market Linkage	39

LIST OF TABLES

Table 1: Export of Natural Cultured Pearls etc from India	21
Table 2: Export of Pharmaceutical Products from India	21
Table 3: RBI Data on Access to Formal Credit	36
Table 4 : Contribution of MSMEs in Country's GVA	40
Table 5: Contribution of MSMEs in country's GDP	41
Table 6: Comparison of MSMEs contribution to the country's GVA and GDP from 2011-12 to 2015-16	41
Table 7: Distribution of MSMEs in Rural and Urban Areas	42

I. | ROLE OF INDIAN MSMEs IN INDIA'S GROWTH

MSMEs are a significant driver of the growth of the Indian economy, which is why they receive consideration of the policy makers. The 73rd Round of NSS survey on Unincorporated Non-Agricultural Enterprises in Manufacturing, Trade and Other Services Sectors (Excluding Constructions) quantifies the total number of establishments to be 633.92 lakh enterprises of which only 4,000 were large enterprises. Almost 95.58 percent of these organizations are recorded as micro enterprises, the rest being small and large. With almost 51 percent of the MSMEs based in rural areas, the sector contributes towards the economic empowerment and social inclusion of the marginalized through the generation of employment.

The significance of the sector is evident from the government's numerous initiatives to boost its growth, the most recent one being the 12-point initiative launched by the Honorable Prime Minister for overhauling the entire MSME ecosystem towards making it more robust, competitive, and resilient in the national as well as the global scenarios.

The sector's contribution to the national GDP is eight percent. It contributes about 6.11 percent of the manufacturing GDP, 24.63 percent of the services, and 33.4 percent of India's manufacturing output. It's contribution to exports stand at 40 percent. The budgetary allocation to MSME for the year 2018-19 was Rs. 3,790 crores for credit support, capital, and interest subsidy and innovations. Through providing rebates in the interest rates, collateral free loans, incentivizing exports, and introducing mechanisms for better accountability and transparency, the government is promoting the growth of MSMEs.



THE MSME SPECTRUM



The vibrancy of the MSMEs is primarily due to the diverse range of products and services that they are engaged in.

Figure 1: Proportion of MSMEs in Manufacturing and Services

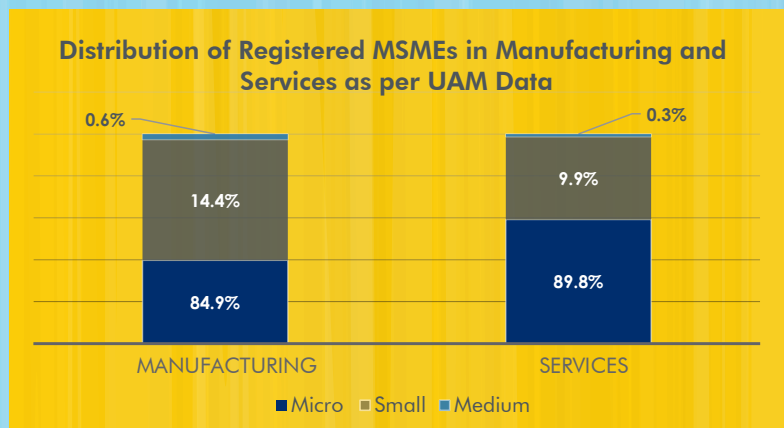


Figure 1 shows the distribution of micro, small and medium enterprises within Manufacturing and Services. The graph reflects that a major proportion of enterprises engaged in both manufacturing and services belong to the micro entrepreneurs

Figure 2: Growth Trend in Number of Working MSMEs and Employment Generated

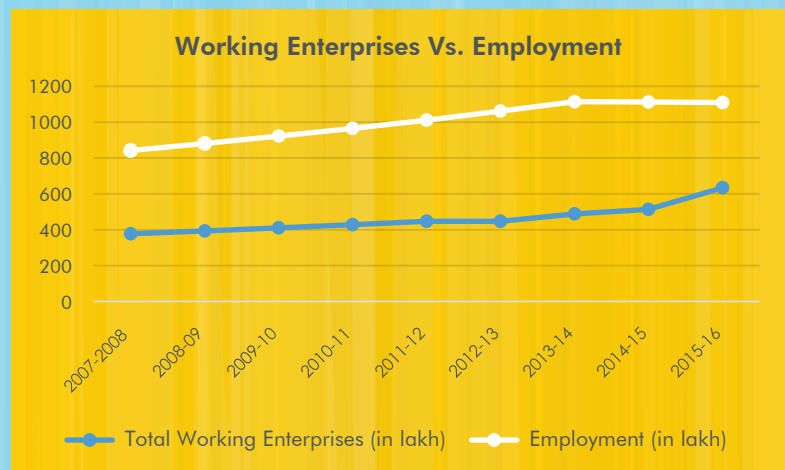
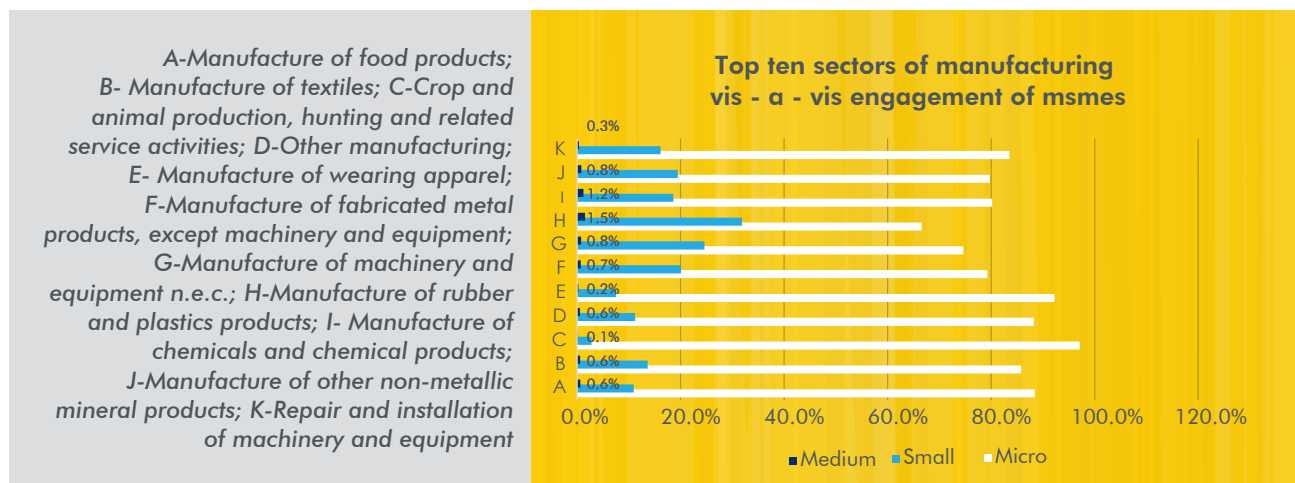


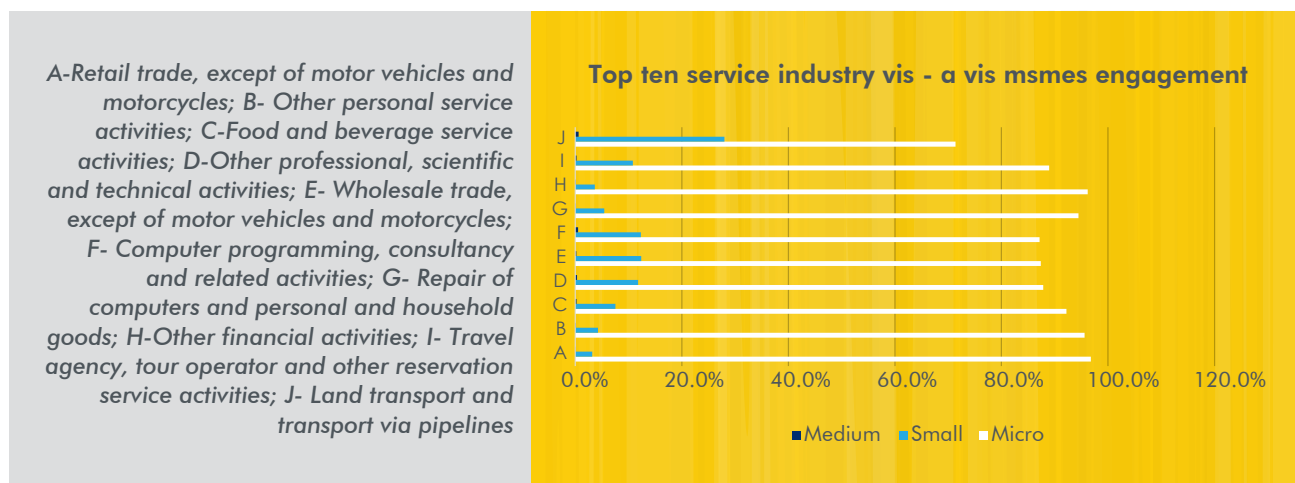
Figure 2 represents the growth trend of the MSMEs in terms of increase in number of working enterprises and consequently the employment generated by the sector. The graph clearly showcases the increase in the number of MSMEs over the last decade with a parallel growth in the number of people employed in the sector.

Figure 3: Top 10 sectors of Manufacturing vis-a vis engagement of MSMEs



Source: UAM

Figure 4: Top 10 sectors of Services vis-a vis engagement of MSMEs



Source: UAM

Similarly, in case of MSMEs engaged in Services, the highest number of enterprises are engaged in Retail with a share of 17% of the total number registered service industry in the UAM. Almost 10.1% of the MSMEs are engaged in Food and Beverage activities.

Figure 5: Tree Map of Manufacturing



INDEX - TREE MAP FOR MANUFACTURING

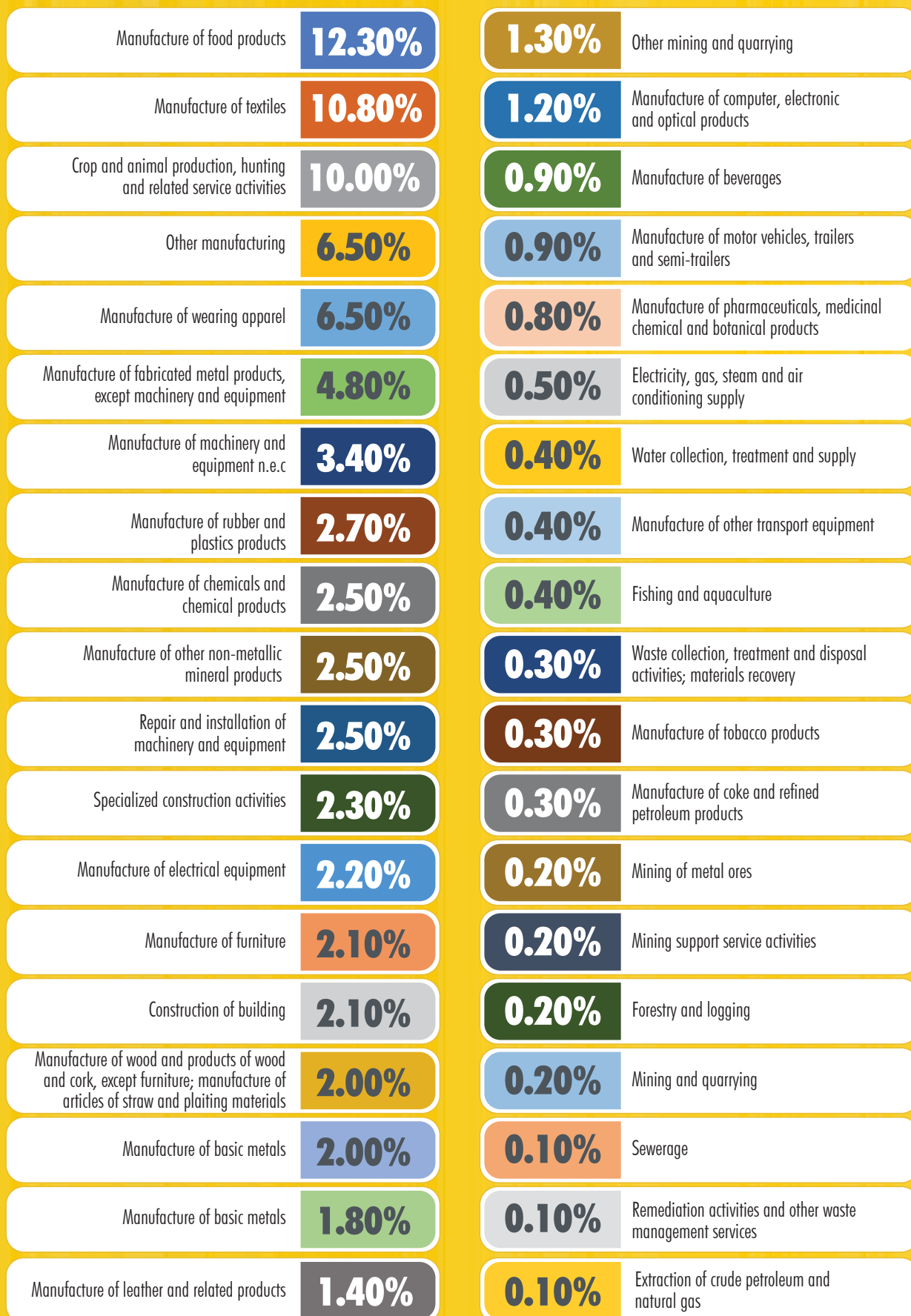


Figure 6: Tree Map of Services

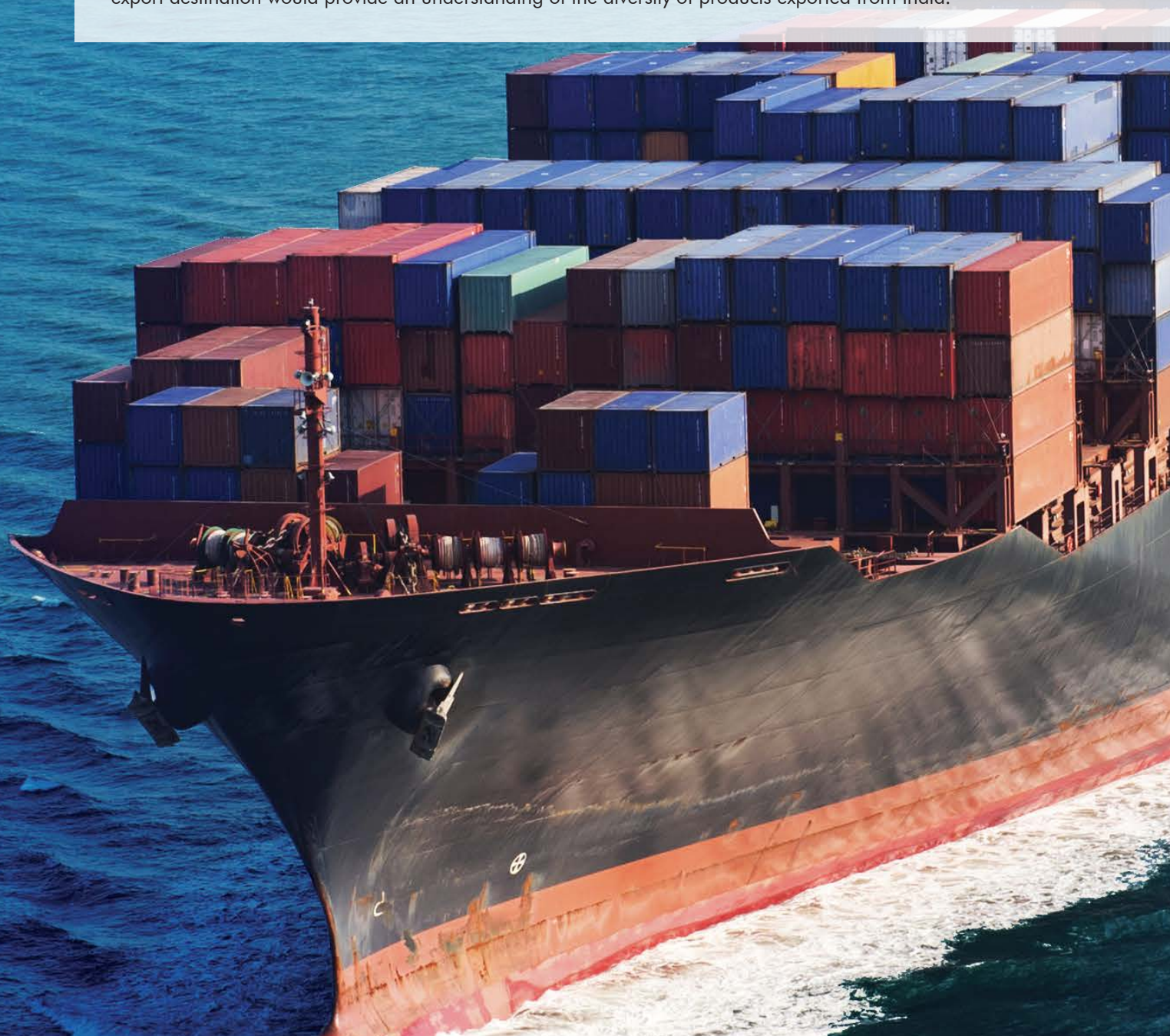


INDEX- TREE MAP FOR SERVICES

Wholesale and retail trade and repair of motor vehicles and motorcycles	1.5%	0.7%	Advertising and market research
Wholesale trade, except of motor vehicles and motorcycles	4.7%	4.7%	Other professional, scientific and technical activities
Retail trade, except of motor vehicles and motorcycles	17.0%	1.0%	Veterinary activities
Land transport and transport via pipelines	3.0%	2.1%	Rental and leasing activities
Water transport	0.3%	1.3%	Employment activities
Air Transport	0.2%	3.3%	Travel agency, tour operator and other reservation service activities
Warehousing and support activities for transportation	1.8%	0.5%	Security and investigation activities
Postal and courier activities	0.4%	1.6%	Services to buildings and landscape activities
Accommodation	0.6%	2.7%	Office administrative, office support and other business support activities
Food and beverage service activities	10.1%	0.1%	Public administration and defence; compulsory social security
Publishing activities	1.2%	2.5%	Education
Motion picture, video & television programme production, sound recording & music publishing activities	1.0%	1.4%	Human health activities
Broadcasting and programming activities	0.2%	0.5%	Residential care activities
Telecommunications	2.1%	0.6%	Social work activities without accommodation
Computer programming, consultancy and related activities	4.2%	0.7%	Creative, arts and entertainment activities
Information service activities	1.9%	0.1%	Libraries, archives, museums and other cultural activities
Financial service activities, except insurance and pension funding	1.2%	0.1%	Gambling and betting activities
Insurance, reinsurance and pension funding, except compulsory social security	0.3%	0.3%	Sports activities and amusement and recreation activities
Other financial activities	3.6%	0.2%	Activities of membership organizations
Real estate activities	1.4%	3.6%	Repair of computers and personal and household goods
Legal and accounting activities	1.0%	11.6%	Other personal service activities
Activities of head offices; management consultancy activities	0.7%	0.0%	Activities of household as employers of domestic personnel
Architecture and engineering activities; technical testing and analysis	1.2%	0.7%	Undifferentiated goods and services-producing activities of private households for own use
Scientific research and development	0.1%	0.1%	Activities of extraterritorial organization and bodies

EXPORTS FROM INDIA

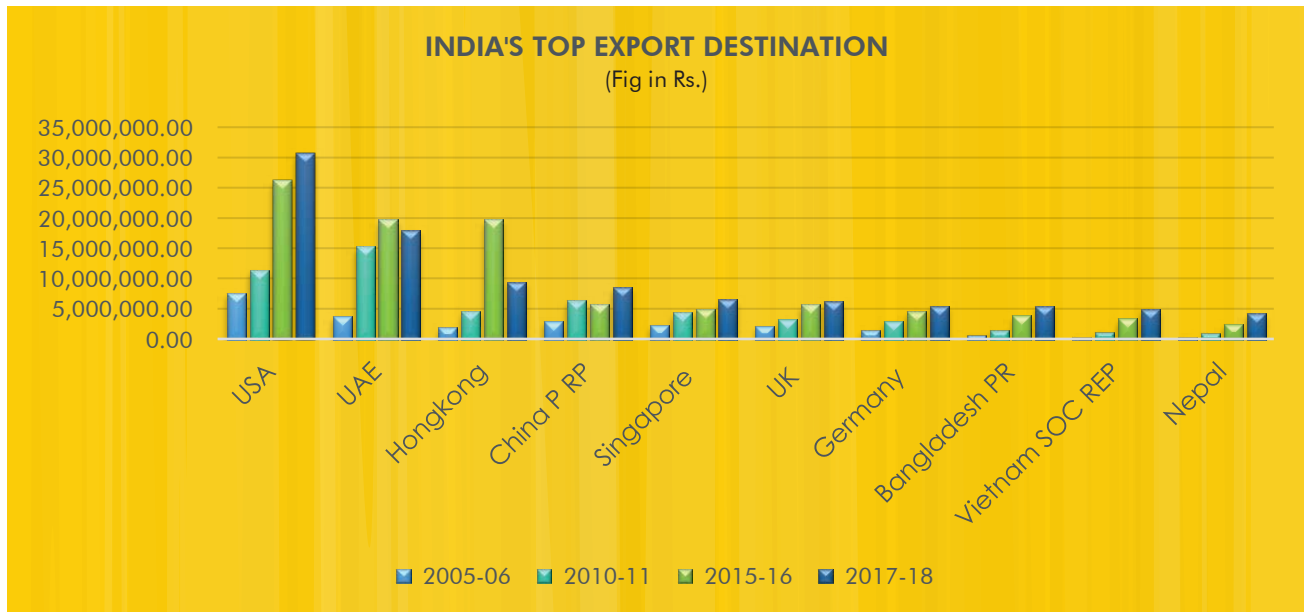
India contributed to 1.68% of the total global exports in 2017.¹ India exports a diverse range of commodities over large geographical expanses. Merchandise Exports during 2017-18 were estimated to a total of US \$ 302.84 Billion registering a growth of 9.78 per cent in dollar terms vis-à-vis 2016-17.² While mapping exports of all commodities to all importing countries would be quite expansive, snapshot of commodities exported to the top 10 export destination would provide an understanding of the diversity of products exported from India.



¹ <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=IN&Language=F>

² <http://pib.nic.in/newsite/PrintRelease.aspx?relid=178671>

Figure 7: India's Top 10 Export Destination



Source: EXIM

2.1 COMMODITIES EXPORTED FROM INDIA TO TOP 10 EXPORT DESTINATION

The figures give a detailed list of items exported from India to the top 10 export destination. The commodities exported have been segregated on the basis of top 10 exported commodities and the commodities registering the highest growth rate. In the absence of relevant data suggesting types of commodities exported by MSMEs, analysis of the types of commodities exported provides gives a clear understanding that MSMEs are engaged in the production of almost all commodities mentioned below.





Figure 8: Top 10 Commodities Exported to USA



USA - Top 10 Exports

A- Articles of apparel and clothing accessories, not knitted or crocheted (HS62); **B-** Pharmaceutical products (HS30); **C-** Articles of iron or steel (HS73); **D-** Tobacco and manufactured tobacco substitutes (HS24); **E-** Articles of apparel and clothing accessories, knitted or crocheted (HS61); **F-** Man-made filaments (HS54); **G-** Man-made fibres (HS55); **H-** Cereals (HS10); **I-** Aluminum and articles thereof (HS76); **J-** Footwear, gaiters and the like; parts of such articles. (HS64)

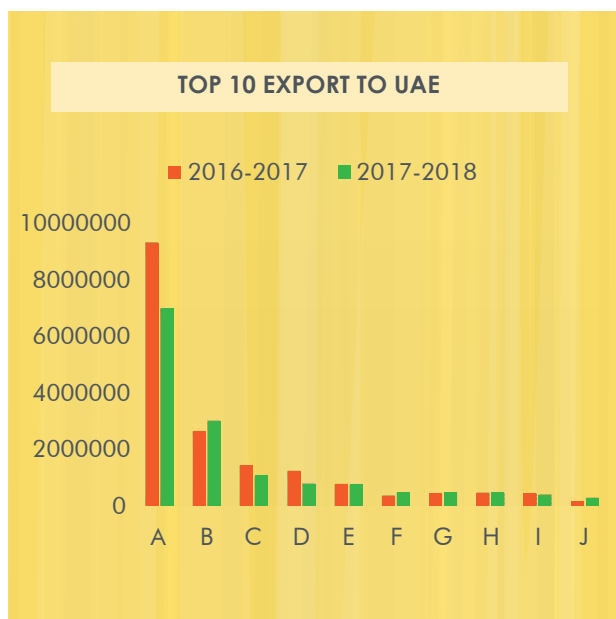
Figure 9: Top 10 Commodities with Highest Export Growth Rate - USA

USA- Exports with Top Growth

A- Albuminoidal substances; modified starches; glues; enzymes (HS35); **B-** Cereals (HS10); **C-** Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (HS86); **D-** Articles of iron or steel (HS73); **E-** Miscellaneous edible preparations (HS21); **F-** Edible fruit and nuts; peel or citrus fruit or melons (HS08); **G-** Animal or vegetable fats and oils and their cleavage products; pre. edible fats; animal or vegetable waxes (HS15); **H-** Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair (HS67); **I-** Paper and paperboard; articles of paper pulp, of paper or of paperboard (HS48); **J-** Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations (HS36)



Figure 10: Top 10 Commodities Exported to UAE



UAE - Top 10 Exports

A- Natural or cultured pearls, precious or semiprecious stones, pre. metals, clad with pre.metal and artcls thereof; imit. jewelry; coin (HS71); **B-** Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS 27); **C-**articles of apparel and clothing accessories, knitted or corched (HS61); **D-** Articles of apparel and clothing accessories, not knitted or crocheted (HS62); **A-** Ships, boats and floating structures (HS89); **F-** Iron and steel (HS72) ; **G-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **H-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85); **I-**Cereals (HS10); **J-** Organic chemicals (HS29)

Figure 11: Top 10 Commodities of UAE with Highest Export Growth

UAE - Top 10 Products with Highest Growth Rate

A- Products of animal origin, not elsewhere specified or included (HS05); **B-** Musical instruments; parts and accessories of such articles (HS92); **C-** Ores, slag and ash (HS26); **D-** Other base metals; cermets; articles thereof (HS81); **E-** Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork. (HS46); **F-** Organic chemicals (HS29); **G-** Zinc and articles thereof (HS79); **H-** Arms and ammunition; parts and accessories thereof (HS93); **I-** Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates (HS16); **J-** Sugars and sugar confectionery (HS17)

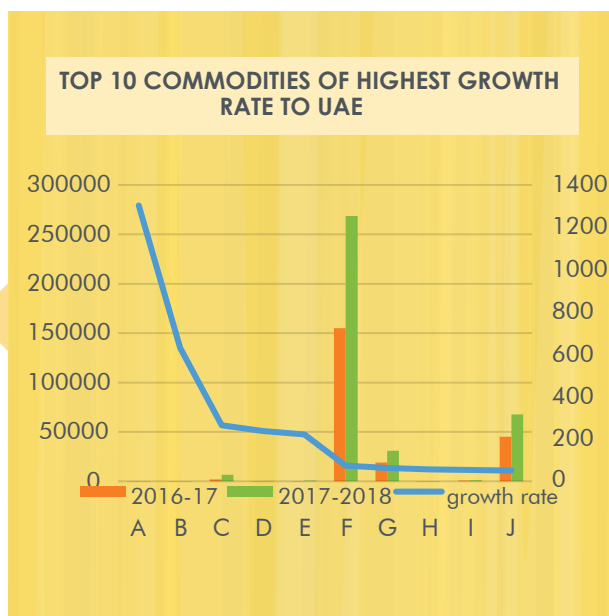




Figure 12: Top 10 Commodities Exported to Hong Kong



Top Exports - Hong Kong

A- Natural or cultured pearls, precious or semiprecious stones, pre.metals, clad with pre.metal and articles thereof; imit.jewelry; coin(HS71); **B-** Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **C-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts(HS85); **D-** raw hides and skins (other than furskins) and leather (HS41); **E-** Iron and steel (HS72); **F-** nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **G-** Fish and crustaceans, molluscs and other aquatic invertebrates(HS03); **H-** Cotton (HS52); **I-** Organic chemicals (HS29); **J-** Essential oils and resinoids; perfumery, cosmetic or toilet preparations (HS33)

Figure 13: Top 10 Commodities of Hong Kong with Highest Export Growth

Hong Kong - Commodities with Highest Growth Rates

A- Lead and articles thereof (HS78); **B-** Residues and waste from the food industries; prepared animal fodder (HS23); **C-** Iron and steel (HS72); **D-** Meat and edible meat offal (HS02); **A-** Tobacco and manufactured tobacco substitutes (HS24); **F-** other base metals; cermet; articles thereof (HS81); **G** -Essential oils and resinoids; perfumery, cosmetic or toilet preparations (HS33); **H-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **I-** Tin and articles thereof (HS80); **J-** Miscellaneous articles of base metal (HS83)

TOP 10 COMMODITIES OF HIGHEST GROWTH RATE - HONG KONG

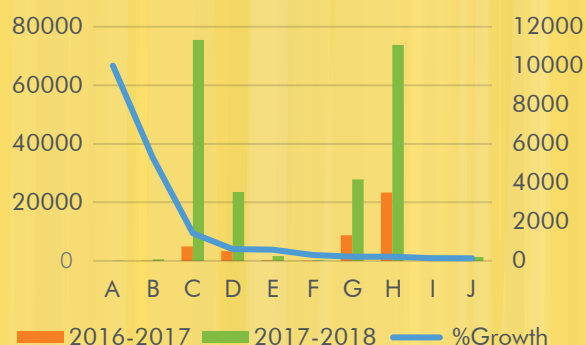


Figure 14: Top 10 Commodities Exported to China



China- Top 10 Exports

A- Organic chemicals (hs29); **B-** Copper and articles thereof (hs74); **C-** Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (hs27); **D-** Ores, slag and ash (hs26); **E-** Cotton (hs52); **F-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (hs84); **G-** Salt; sulphur; earths and stone; plastering materials, lime and cement (hs25); **H-** Plastic and articles thereof (hs39); **I-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (hs85); **J-** Animal or vegetable fats and oils and their cleavage products; pre. edible fats; animal or vegetable waxex (hs15)

Figure 15: Top 10 Commodities of China with Highest Export Growth

China - Commodities with Highest Growth Rates

A- Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof (hs66); **B-** Lead and articles thereof (hs78); **C-** Knitted or crocheted fabrics (hs60); **D-** Beverages, spirits and vinegar (hs22); **A-** Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (hs86); **F-** Paper and paperboard; articles of paper pulp, of paper or of paperboard (hs48); **G-** Zinc and articles thereof. (hs79); **H-** Cocoa and cocoa preparations (hs18); **I-** Cork and articles of cork (hs45); **J-** Organic chemicals (hs29)

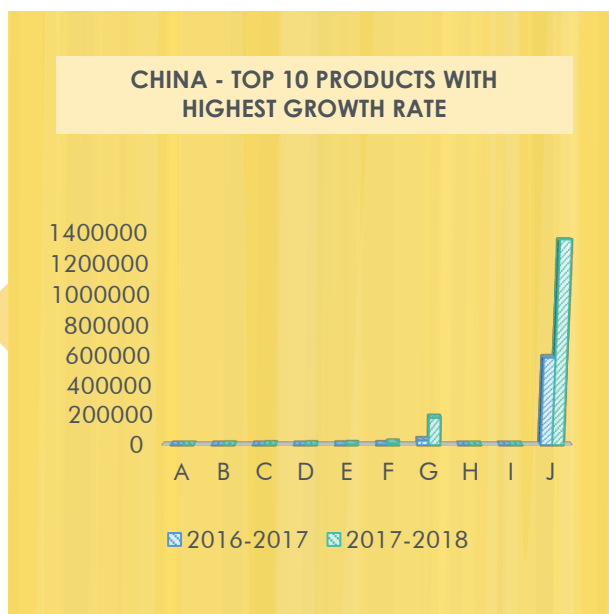




Figure 16: Top 10 Exported Commodities to Singapore



SINGAPORE - TOP EXPORTS

A- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **B-** Ships, boats and floating structures (HS89); **C-** Natural or cultured pearls, precious or semiprecious stones, pre.metals, clad with pre.metal and artcls thereof; imit.jewelry; coin (HS71); **D-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **E-** Organic chemicals (HS29); **F-** Aircraft, spacecraft, and parts thereof (HS88); **G-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85); **H-** Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. and apparatus parts and accessories thereof (HS90); **I-** Copper and articles thereof (HS74); **J-** Iron and steel(HS72)

Figure 17: Commodities with Highest Growth Rate - Singapore

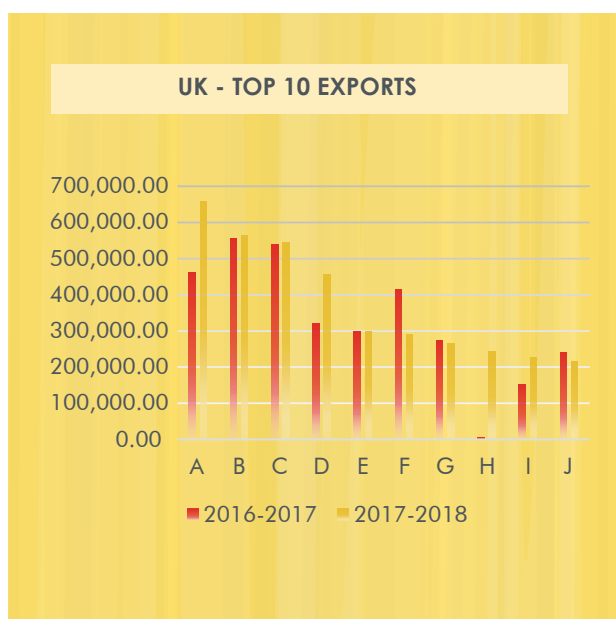
Singapore - Commodities with Highest Growth Rates

A- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **B-** Ships, boats and floating structures (HS89); **C-** Natural or cultured pearls, precious or semiprecious stones, pre.metals, clad with pre.metal and articles thereof; imit.jewelry; coin (HS71); **D-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof(HS84); **E-** Organic chemicals(HS29); **F-** Aircraft, spacecraft, and parts thereof(HS88); **G-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85); **H-** Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. and apparatus parts and accessories thereof (HS90); **I-** Copper and articles thereof (HS74); **J-** Iron and steel (HS72)





Figure 18: Top 10 Commodities Exported to UK



UK- TOP EXPORTS

A- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **B-** Articles of apparel and clothing accessories, not knitted or crocheted (HS62); **C-** Articles of apparel and clothing accessories, knitted or crocheted (HS61); **D-** Natural or cultured pearls, precious or semiprecious stones, pre. metals, clad with pre. metal and articles thereof; imit. jewelry; coin (HS71); **E-** Pharmaceutical products (HS30); **F-** Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS87); **G-** Footwear, gaiters and the like; parts of such articles (HS64); **H-** Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **I-** Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. and apparatus parts and accessories thereof (HS90); **J-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85)

Figure 19: Commodities with Highest Export Growth Rate - UK

UK Top 10 products with highest growth rate

A- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **B-** Cocoa and cocoa preparations (HS18); **C-** Meat and edible meat offal (HS02); **D-** Ores, slag and ash (HS26); **E-** Zinc and articles thereof (HS79); **F-** Arms and ammunition; parts and accessories thereof (HS93); **G-** Furskins and artificial fur, manufactures thereof (HS43); **H-** Nickel and articles thereof (HS75); **I-** Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (HS86); **J-** Aluminum and articles thereof (HS76)

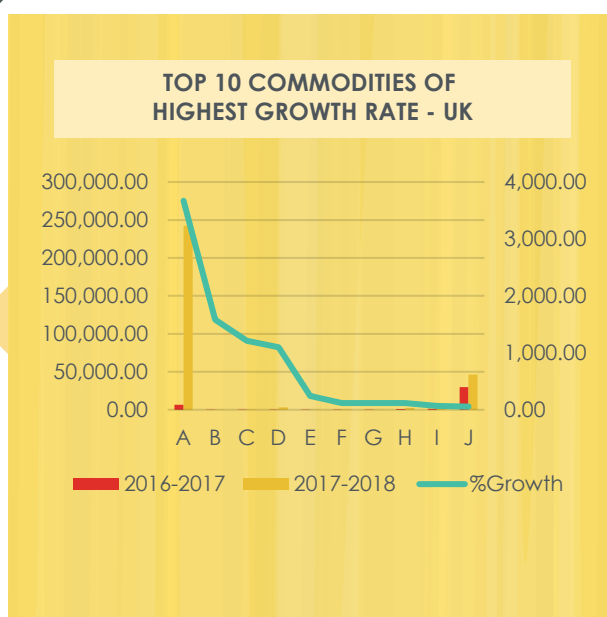


Figure 20: Top 10 Commodities Exported - Germany



Germany - Top Exports

A- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **B-** Articles of apparel and clothing accessories, knitted or crocheted (HS61) ; **C-** Organic chemicals (HS29) ; **D-** Articles of apparel and clothing accessories, not knitted or crocheted (HS62); **E-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85); **F-** Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS87); **G-** Articles of iron or steel (HS73); **H-** Articles of leather, saddlery and harness; travel goods, handbags and similar cont. articles of animal gut (other than silk-worm) gut (HS42); **I-** Footwear, gaiters and the like; parts of such articles (HS64); **J-** Other made up textile articles; sets; worn clothing and worn textile articles; rags (HS63)

Figure 21: Commodities with Highest Export Growth Rate

Germany - Commodities With Highest Growth Rates

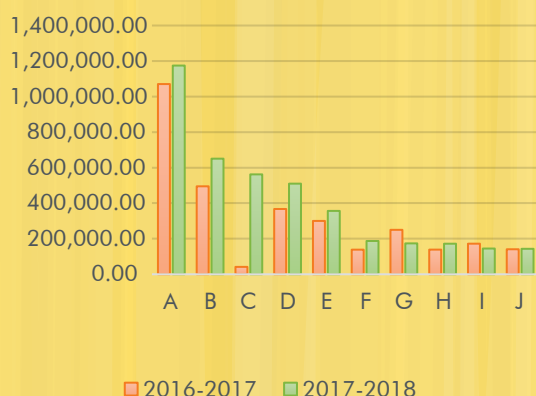
A- Ores, slag and ash (HS26); **B-** Cork and articles of cork (HS45); **C-** Salt; sulphur; earths and stone; plastering materials, lime and cement (HS25); **D-** Residues and waste from the food industries; prepared animal fodder (HS23); **E-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **F-** Cocoa and cocoa preparations (HS18); **G-** Beverages, spirits and vinegar (HS22); **H-** Aircraft, spacecraft, and parts thereof (HS88); **I-** Clocks and watches and parts thereof (HS91); **J-** Vegetable plaiting materials; vegetable products not elsewhere specified or included (HS14)



Figure 22: Top Exported Commodities to Bangladesh



BANGLADESH TOP 10 EXPORTS



Bangladesh - Top Exports

A- Cotton(HS52); **B-** Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS87); **C-** Cereals(HS10); **D-** Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); **E-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); **F-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts(HS85); **G-** Iron and steel(HS72); **H-** Residues and waste from the food industries; prepared animal fodder(HS23); **I-** Man-made staple fibres (HS55); **J-** Plastic and articles thereof(HS39).

Figure 23: Commodities with Highest Growth Rate - Bangladesh

Bangladesh - Commodities With Highest Growth Rate

A- Ships, boats and floating structures(HS89); **B-** Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork (HS46); **C-** Silk (HS50); **D-** Cereals (HS10); **E-** Sugars and sugar confectionery (HS17); **F-** Works of art collectors' pieces and antiques (HS97); **G-** Lead and articles thereof (HS78); **H-** Tin and articles thereof (HS80); **I-** Meat and edible meat offal (HS02); **J-** Headgear and parts thereof (HS65)

BANGLADESH - TOP 10 COMMODITIES OF HIGHEST GROWTH RATE

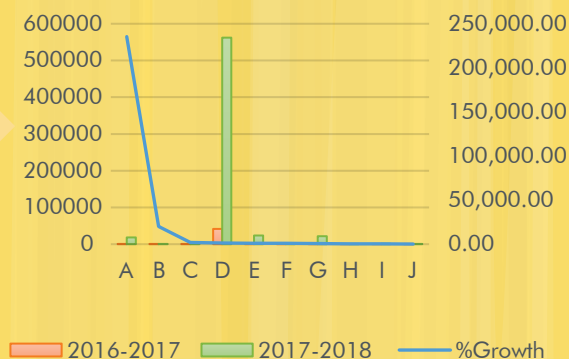




Figure 24: Top 10 Export Commodities to Vietnam



Vietnam - Top Exports

A- Meat and edible meat offal (HS02);
B- Fish and crustaceans, molluscs and other Aquatic invertebrates (HS03); **C-** Iron and steel (HS72);
D- Cotton (HS52); **E-** Coffee, tea, mate and spices (HS09); **F-** Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof(HS84);
G- Residues and waste from the food industries; prepared animal fodder (HS23); **H-** Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85);
I- Oil seeds and olea. fruits; misc. grains, seeds and fruit; industrial or medicinal plants; straw and fodder (HS12); **J-** plastic and articles thereof (HS39)

Figure 25: Commodities with Highest Export Growth Rate

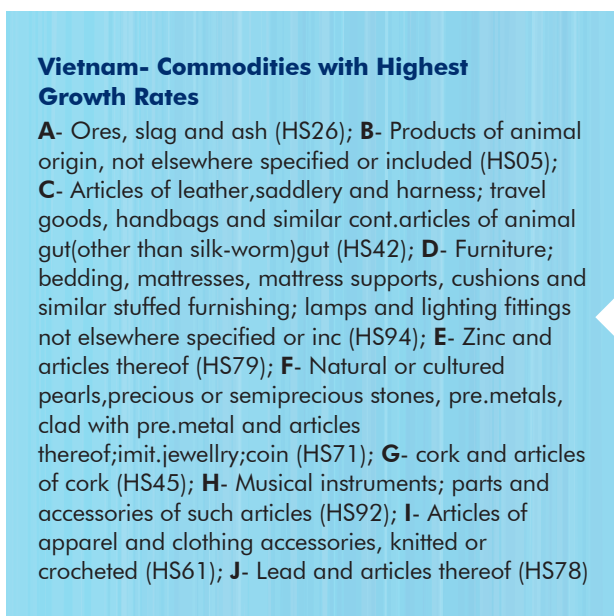
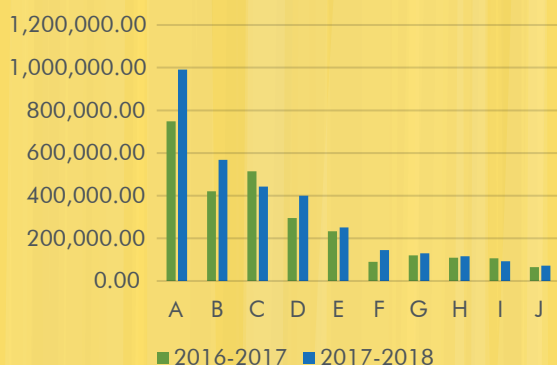




Figure 26: Top Exported Commodities - Nepal

NEPAL - TOP 10 EXPORTS



Nepal- Top 10 Exports

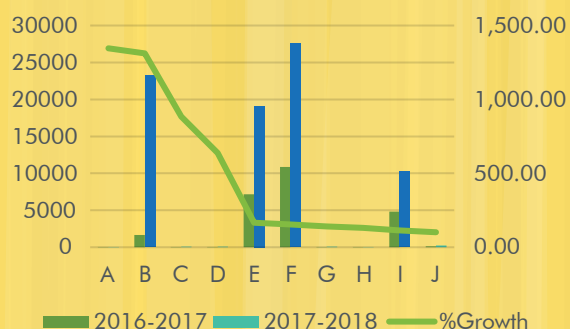
A- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (HS27); B- Iron and steel (HS72); C- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (HS87); D- nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS84); E- Cereals (HS10); F- Salt; sulphur; earths and stone; plastering materials, lime and cement (HS25); G- pharmaceutical products (HS30); H- plastic and articles thereof (HS39); I- electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts (HS85); J- residues and waste from the food industries; prepared animal fodder (HS23)

Figure 27: Commodities with Highest Export Growth - Nepal

Nepal- Commodities with Highest Growth Rates

A- Cork and articles of cork (HS45); B- Fertilisers (HS31); C- Ships, boats and floating structures. (HS89); D- Arms and ammunition; parts and accessories thereof (HS93); E- Ores, slag and ash (HS26); F- Zinc and articles thereof (HS79); G- Other base metals; cermets; articles thereof (HS81); H- Furskins and artificial fur, manufactures thereof (HS43); I- Man-made filaments (HS54); J- Project goods; some special uses (HS98)

NEPAL - TOP 10 COMMODITIES OF HIGHEST GROWTH RATE



2.2 CONTRIBUTION OF INDIAN MSMEs IN THE PRODUCTION OF TOP EXPORTED ITEM

The list of top 10 exported items and the commodities showcasing maximum growth for every country underpins the importance of MSMEs in the manufacturing and contribution in exports of almost every product in the manufacturing sector. Approximately 98.5 percent of the industries fall under the category of MSMEs in India. While some of these enterprises are directly engaged in exports, majority of the MSMEs are engaged indirectly in the export ecosystem through manufacturing intermediate goods for larger industries engaged in exports to international partners.

As per the IIP, there are approximately 21 sectors and over 7,500 commodities produced by the MSMEs. The MSMEs contribute in the production and in the ancillary activities of almost every commodity produced in the country.

For instance, the Gems and Jewelry sector contributing about 6%- 7 %³ of the nation's GDP, is also among the largest exporter of gems and jewelry in the world. It accounts for 95% of the diamond exports and is the fourth largest exporter of gold jewellery. The industry comprises of gold, variety of diamond and platinum and varieties of precious and semi- precious stones.

The Gems and Jewelry industry like every other MSME sector is highly scattered and unorganized. The gold processing industry has over 15000 players across the country, of which only about 80 players have a turnover of over US\$ 4.15 million (Rs.200 million). ⁴

The industry is dominated by family jewellers, who constitute nearly 96 per cent of the market. Organised players such as Tata with its Tanishq brand, have, however, been growing steadily carving a 4 per cent market share. Craftsmen in gold and diamond designing falling under the category of SMEs are spread across the country with different skills confined to specific locations.

³<https://enterprise-services.siliconindiamagazine.com/viewpoint/cxoinsights/the-gems-jewellery-sector-of-india-latest-trends-technologies-nwid-9297.html>

⁴ https://smallb.sidbi.in/sites/default/files/knowledge_base/reports/FICCIStudyonGemsJewelleryIndustry.pdf

Table 1: Export of Natural Cultured Pearls etc from India

India's Export of Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad...(HS71)						
Importing Country	Value in 2015 (in US\$)	Proportion of India's total exports of Gems and Jewelry	Value in 2016 (in US\$)	Proportion of India's total exports of Gems and Jewelry	Value in 2017 (in US\$)	Proportion of India's total exports of Gems and Jewelry
USA	8161113	21.2%	9925481	14.7%	9568807	22.5%
UAE	12302676	32.0%	13286385	31.4%	12042190	28.3%
Hong Kong, China	10918347	28.4%	12049787	28.5%	13649524	32.1%
China RP	122849	0.3%	115091	0.3%	216741	0.5%
Singapore	354089	0.9%	498248	1.2%	563481	1.3%
UK	522723	1.4%	489217	1.2%	461646	1.1%
Germany	110371	0.3%	102362	0.2%	100490	0.2%
Bangladesh	4047	0.0%	2963	0.0%	3339	0.0%
Vietnam	1726	0.0%	1974	0.0%	6722	0.0%
Nepal	6334	0.0%	10703	0.0%	10382	0.0%

Similarly, the pharmaceutical industry with a global share of 3.1 to 3.6 percent with a production worth of \$55 billion. Almost 20 percent of all global generic pharma exports are manufactured in India.

A study by McKinsey and Co. marked patented products, consumer healthcare drugs, biologics, vaccines and the public health market as the major drivers of Pharmaceutical industry.

The SMEs contribute significantly to the country's production of pharmaceuticals. With an overall turnover of Rs.30000 crores and a share of almost 35-40 percent of the nation's pharmaceutical industry, they constitute the backbone of the sector.

The Indian Pharmaceutical industry also share similar characteristic of fragmented production units and larger number of unorganized units. The industry is estimated to have 9,456 SME units accounting for approximately 87% in production and 40 percent in value.

Table 2: Export of Pharmaceutical Products from India

India's Export of Pharmaceutical products (HS30)						
Importing Country	Value in 2015	% of India's total exports of Pharma products	Value in 2016	% of India's total exports of Pharma products	Value in 2017	% of India's total exports of Pharma products
US	4742512	37.8%	5186187	39.8%	4584169	35.5%
UAE	51531	0.4%	61527	0.5%	57460	0.4%
Hong Kong	175384	1.4%	193103	1.5%	222219	1.7%
China RP	247420	2.0%	389942	3.0%	460600	3.6%
Singapore	209512	1.7%	224213	1.7%	235450	1.8%
UK	399089	3.2%	382340	2.9%	321193	2.5%
Germany	397418	3.2%	401406	3.1%	466927	3.6%
Bangladesh	180301	1.4%	226570	1.7%	267081	2.1%
Vietnam	119466	1.0%	122233	0.9%	222286	1.7%
Nepal	97965	0.8%	163150	1.3%	125157	1.0%

Similar trends is followed by other sectors like textile, plastics, organic chemicals, paper, electrical equipment and others. This further highlights the potential of the MSMEs and the importance of their integration with the GVCs.



II. GLOBAL VALUE CHAIN

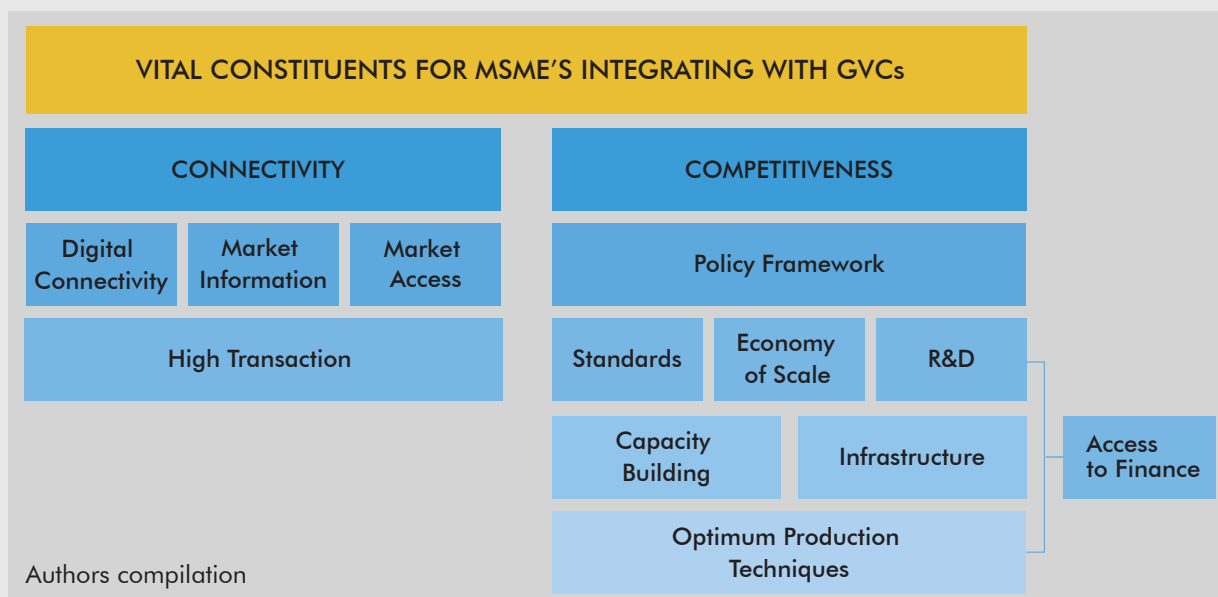


The liberalization policies of the 1990s opened India's doors to global competition with reduced protectionism. For exports, challenges of reaching prescribed standards at competitive prices which requires optimum production techniques were felt. MSMEs which constitute a huge chunk of the industrial framework were challenged given their limited scope of investment in capacity building and infrastructure development to be able to meet the requirements of the international markets.

The definition of trade and market today has changed both metaphorically and geographically. The concept of complete manufacturing of a product at a single place has given way to a diverse array of sourcing of raw materials, processing, and development of the final product. We are moving towards a market which is not determined by borders but by the ability to produce goods and services of a required standard. This expanded platform, the 'Global Market', has been widening and provides the scope to engage experts from across the globe to produce the best quality products.

The Government of India has been responding the challenges by providing a conducive ecosystem where the Indian industries can compete internationally. India has been proactively adapting to the global changes and has been promoting bilateral, regional, and global partnerships to promote trade. MSMEs account for almost 98 percent of the industries in India which makes it imperative to devise strategies for development and linking them to the global market. The Government of India has taken multiple steps and launched landmark program like Make in India, Digital India to project our country's strength in manufacturing and services.

MSMEs engagement in the global value chain offers them an opportunity to grow through exposure to a large customer base and access to technologies which would promote quality matching international standards. Nevertheless, it brings along the challenges of meeting the standards of the supplying country. Every country has its own requirements of standards of commodities exported to their country, hence unifying with the GVC would mean that the Indian SMEs must be adequately equipped to meet these requirements.

Figure 28: Integral Constituents for MSMEs Integrating to GVCs

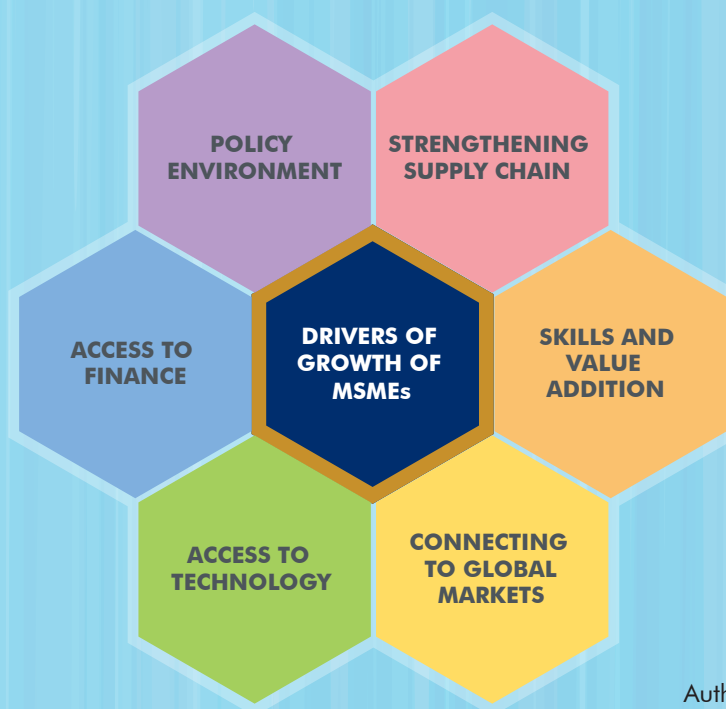
The global market is dynamic in nature which shifts according to availability of cheap labour and optimum skills to produce quality products thus maximizing profit for the manufacturer. Ample availability of both the critical components have recently translated the South and South East Asia as favored destinations for outsourcing and fragmented production. India being the largest and most populous country with a large industrial base has the potential to reap the benefits of the shift in preferences.

1. IMPORTANCE OF GVCs



GVCs allow SMEs to specialise in specific segments of production, rather than having to master all processes required to produce finished goods and thus integrate into segments of global production chains. In turn this paved the pathway towards economic development through productivity growth, exporting more sophisticated products, and a less concentrated export basket (Kowalski et al., 2015). This integration can occur on the 'output' side, through direct cross-border exports and also indirectly, through upstream supplies to larger firms, which provides a vehicle to overcome trade related costs and challenges. But SMEs can also benefit on the 'input' side, through access to cheaper inputs and capital goods as well as through better sourcing or use of foreign technologies, products or knowhow (Lopez-Gonzalez, 2017).

Apart from directly benefitting in terms of growth and increased revenue of the firms, the MSMEs also benefit from the learning and awareness on innovation and new updated technology, which often comes as a spillover of working with international vendors. Participation in the GVCs provides the MSMEs with increased avenues of learning and understanding of the international best practices and replicate them in their production environment. This indirectly aids in capacity building of the enterprises while also contributing to the production process.

Figure 29: Critical Elements for Integration with GVCs

Authors compilation

Outward FDIs can also allow SMEs to access international markets and integrate in GVCs, often indirectly, as upstream suppliers to exporters (OECD-WB, 2015). Survey evidence indicates that proximity to global enterprises, as suppliers, is one of the main drivers of outward FDIs by small businesses, although this form of internationalization is relatively uncommon among SMEs: in a 2009 survey of European SMEs, only two percent indicated direct investment abroad (European Commission, 2010). In this regard, empirical evidence suggests that public measures to support outward FDIs by SMEs are effective in enhancing firm performance in terms of domestic turnover and productivity growth, especially for smaller and younger firms (Bannò et al., 2014).

2. HOW CAN MSMEs INTEGRATE INTO THE GLOBAL MARKET?

Figure 30: Types of Integration with GVCs

MSMEs can integrate their functions into the global market either through directly engaging with the global players or being a part of the supply chain by producing for the bigger firms which are linked to the global vendors. The global networks can be perceived more like a multi-tiered structure where multiple vendors take part in the production process for a larger enterprise which in turn manufactures for the international vendor.

Direct participation in GVCs takes place when SMEs export intermediate goods and services for further processing. Evidence from South East Asian countries shows that selling inputs is particularly important: manufacturing SMEs in these countries have a higher tendency than larger firms to export goods and services that are sold directly into GVCs. (Lopez-Gonzalez, 2017).

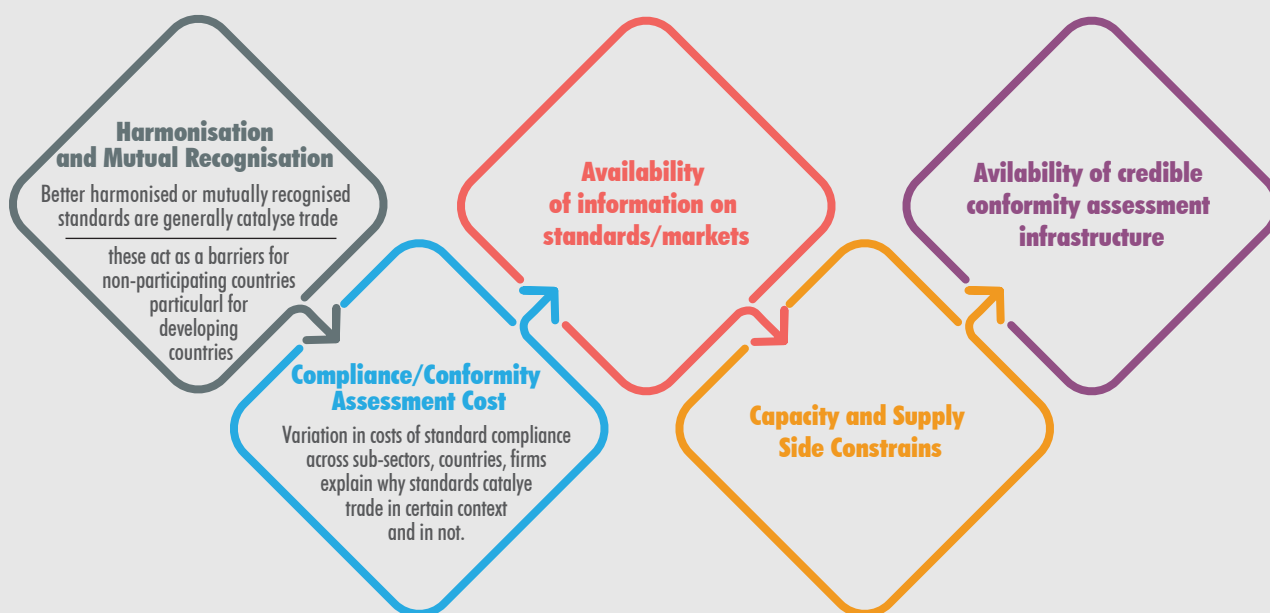
The SMEs also benefit from the GVCs by indirectly forming a part of the export channel through producing and supplying intermediary goods. While the data for contribution to the export figures through direct engagement with the global vendors might be small, their contribution remains much higher when calculated through the indirect contribution by supplying to larger manufacturers for export.

3. ELEMENTS CRITICAL FOR INTEGRATION TO THE GVCs

3.1 STANDARDS

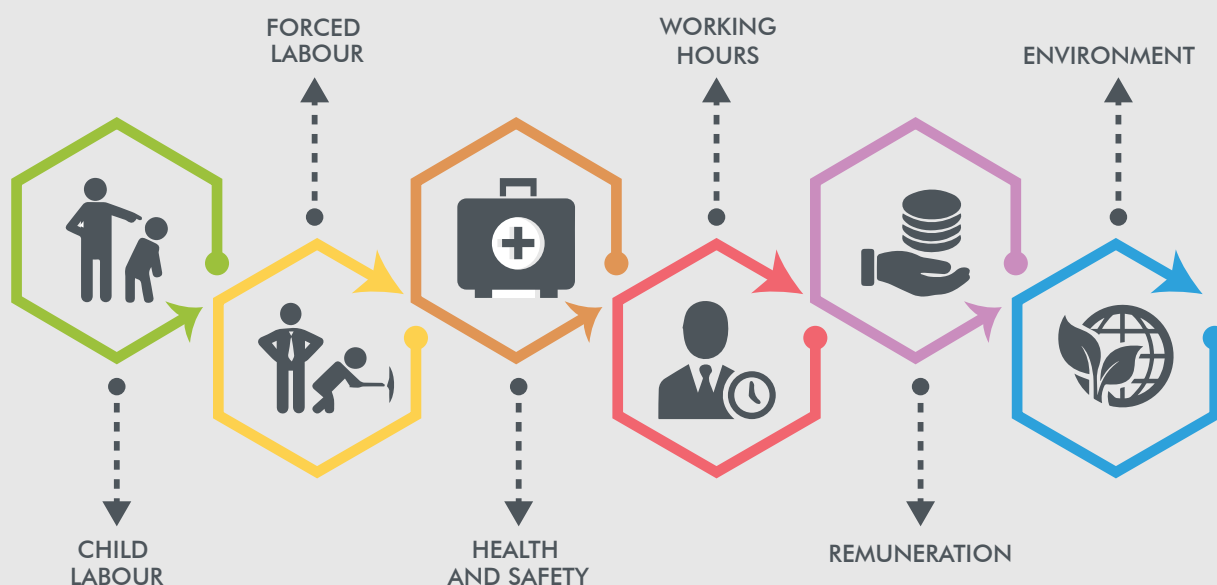
Standards for export or connection to the GVCs have a complex and myriad relationship with trade. Compliance to standards can both aid in boosting exports from a said country and at the same time can also act as a barrier to countries which haven't complied by the required standards set by the importing country. The concept in itself is vast as each country has different standards for different products and every country has its own list of compliances. Some of the standards that affect the trade ecosystem of any country can be concisely defined as

Figure 31: Types of Standards Affecting Trade



The effect of all these compliances vary as per the type of product and the trading countries. Studies suggest that food exports especially from the lower income countries like those of African countries are more sensitive to tightened importer standards. In context with Indian SMEs, they struggle with meeting the standards of international vendors. Meeting the set standards would require the SMEs to incur additional costs on enhancing their product quality and production methods. In addition, exclusive standards of the private companies pose additional barriers and burden for the SMEs.

Apart from the mandatory and voluntary compliances required for exporting, another set of standards following the ILO Conventions, human rights and international and domestic regulations also influence global trade. Termed as Ethical Trade Imperatives where the best interest of the employees is central to these standards, there are six ethical essentials:

Figure 32: Ethical Trade Imperative

SMEs with their limited resources vis-à-vis financial resources and knowledge on such parameters find it very difficult to export where such compliances are mandatory. Also, such compliance at times lack the desired support of the government, civil society, media, corporate houses, customers, and consumers. The ethical dimensions of human and environmental standards go largely unaddressed because the units are either unaware of these or feel that these are extraneous.

The Government of India has realized how the mandate of standards influences the export of MSMEs. Thus, schemes focused with improving the standards of the MSMEs in exporting have been formulated, such as the Quality Management Standards & Quality Technology Tools (QMS/QTT) Scheme, ZED Scheme to ensure and encourage the SMEs to produce quality goods and meet international standards.

3.2 INNOVATION & ADAPTATION OF UPDATED TECHNOLOGY

**Figure 33: Gains to MSME from
Adoption of Innovation**

With the integration of the regional markets into one global trade platform, GVCs have ushered in a new wave of competition which requires continuous innovation to design better and advanced products. With multiple regions and minds at work, the life span of devices has shortened, and products are becoming obsolete at a fast pace. This phenomenon has induced an environment where innovation has become the need of the hour for any enterprise to sustain its market visibility and share. Hence, in the present market ecosystem, innovation and adaptation to recent technology has become almost indispensable.

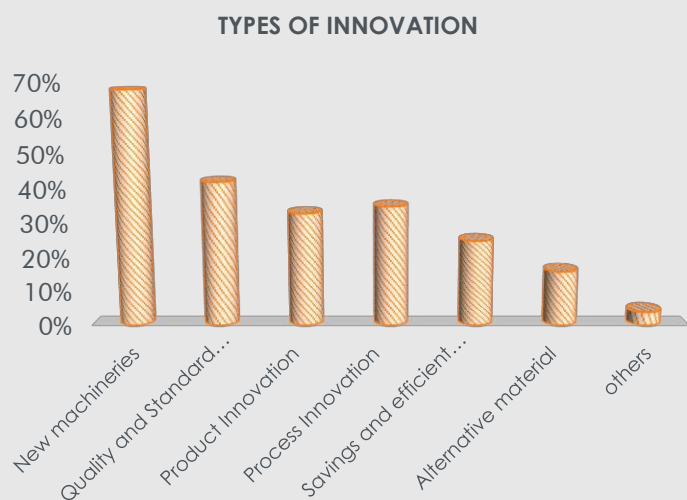
With the adaptation of GVCs as a conventional mode of production, regions have gained their own importance resulting in transfer of knowledge. This has been possible through shifting of

Access to updated technology is critical for enabling SMEs to integrate with the GVCs. Use of appropriate technologies would address issues such as optimum production at appropriate costs, and encourage them to compete globally. At the same time, Innovation allows firms to increase their potential in terms of both producing better quality goods and catering to the global market in more efficient way.

3.2.1 TYPES OF INNOVATION ADOPTED BY INDIAN MSMEs

Study by National Innovation Survey provides trends of adoption of technology and innovation by the SMEs in India. As per a study conducted by the National Innovation Survey, acquiring new machinery was observed to be the dominant type of innovation for all groups except those with number of workers exceeding 1000. While Smaller ones focused more on catering to innovation through acquiring better and updated machines, larger enterprises focussed more on product standardisation and quality assurance. Smaller firms' access to innovation is hindered by weak links for FDIs and new collaborations.

Figure 34: Proportion of SMEs Engaged in Innovation



Types of Innovation

- Introducing Newer Machineries
- Product Quality and Standardisation
- Product Innovation
- Process Innovation
- Savings and efficient use of inputs
- Alternative Material
- Others

Product innovations by smaller firms are mainly minor innovations i.e. new to the firm

Involvement in R&D activities increases with size of the firm

Smaller firms usually engage in house innovation activities primarily using their own resources. Extramural R&D activities are rare for medium sized firms and even rarer for smaller firms

3.2.2 ACCESS TO TECHNOLOGY AND INNOVATION

Technologies are acquired from open domestic markets, from collaborators and also from foreign markets either as full set technology or as partial or complementary technology. Firms with labour size below 100, 100 to 499 and 500 to 999 acquired technologies from all the three sources and mostly from open domestic market whereas firms with 1000 and above labour size obtained technologies mainly from foreign market and from collaborator. It becomes clear that large firms only have access to foreign markets in terms of obtaining technologies

Figure 35: Proportion of Enterprises Engaged in Innovation



3.2.3 GOVERNMENT INITIATIVES TOWARDS PROMOTING INNOVATION

Studies suggest that the use of digital technology can lower export costs of an average MSME by 82% and reduce the time involved in exporting by 29%.

The GoI has initiated many schemes to encourage R&D and Innovation in various fields to make it accessible to SMEs. Recognizing this, Government of India has declared 2010-2020 as the decade of innovation and a new policy focusing on Science, Technology and Innovation has been declared. The National Science and Technology Management Information System, Department of Science and Technology has evolved new initiatives such as STICK (Science, Technology, Innovation and Creation of Knowledge) to keep the SMEs abreast of the changing paradigms of innovation and technological advancement. The concept of Inclusive Innovation has been added to the policy priorities which primarily caters to the needs of the SMEs with innovation for and innovation by the people at the bottom of production pyramid.

3.3 IPRs

Intellectual Property Rights are crucial not only for protecting indigenous knowledge of the SMEs, they also attract investment to commercialization their innovation. The Tokyo Action statement considers IPR reforms as essential and recommends governments of all countries to enhance SMEs' value obtained from intellectual assets and intellectual property from a development perspective, evidence shows that strengthening IPR protection may have a positive impact on the attraction of FDI and technology transfer to developing countries (lippoldt, 2005).

Excerpts from Tokyo Action Statement

Raising awareness about IPR among SMEs

•
Rights among SMEs

•
Promoting systems to value and manage IPR assets

•
Creating online marketplaces where SMEs can offer their IPR assets;

•
facilitating the filing of patents by SMEs

•
Helping SMEs to legally acquire IPR assets from universities and research centers

Intellectual Property Rights has been an area where the struggle for patenting technology for Indian SMEs have been struggling. Keeping in mind the urgency and importance of generating awareness on IPRs with the Indian MSMEs, the Government of India has taken up several initiatives to make the SMEs aware of IPRs and its potential in attracting business.

With improved awareness on IPR, MSMEs will have the ability to make confirmed decisions on protecting their business ideas and business strategies. Hence, the Government of India has launched the Intellectual Property Rights for Enhancing awareness about IPRs to enable the MSMEs for being more competitive in the global environment. The IPR project of the Indian Government is estimated with a total expenditure of US\$12.5 million over a time period of five years. The scheme is expected to play an important role in attainment of a more competitive position in the global market in terms of acquiring a competitive edge through exclusive innovations.

Access to more information about the benefits of IPR, handholding support towards filing IPR, and orienting the SMEs towards the benefits of patenting is the need of the hour to integrate the SMEs to the GVCs and make them competitive in the global market.

3.4 ADAPTATION OF IT/ITES

IT and IT enabled Services today remain indispensable in any business. The use of digital technology is evident from the span of the internet connectivity enveloping the country. According to IMAI, there are about 462,124,989 internet users were reported in December 2017 accounting for 34.1percent penetration. While a report by BCG- Google study anticipated the growth of internet users to almost 650 million users⁵, IBEF predicted increase in number of inter users to 730 million⁶ by 2020.

The internet platform has enabled the MSMEs with the required awareness, in addition to providing a platform for easy monetary transactions. The web platform also provides an interactive forum where the SMEs can connect to the global trade regime. Relaxed regulatory framework for digital transactions by the government like relaxed KYC norms, exemption from two factor authorisation, linking of Aadhar to bank accounts, launching of UPI, has moved India into a path of digital revolution.

IT and ITes have not only been limited to web-based platform of financial and business transaction, they also contribute to the indulgence of SMEs into more sophisticated gadgets and modes of production. Technologies like Internet of Things (IoT), Cloud Computing, online book keeping applications, sensor systems for freight containers are few of the numerous other digital applications which are being used by the MSMEs to strengthen their stakes in the GVCs.

⁵ <https://media-publications.bcg.com/BCG-Google-Digital-impact-in-FMCG-Sep2017.pdf>

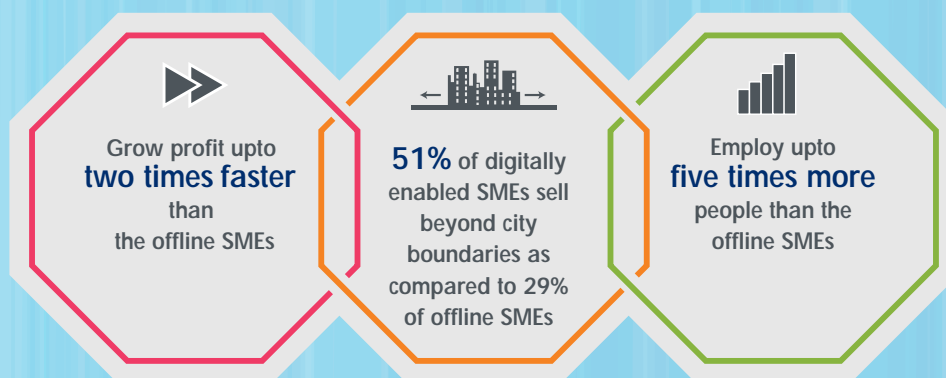
⁶ <https://www.ibef.org/industry/information-technology-india.aspx>

Figure 36: Benefits of Cloud Computing



Based on analysis of data from ITOPS and a primary telephonic survey by Kantar IMRB in November 2016 of 504 SME, it was found that SME who adopt digital technologies⁷,

Figure 37: Benefits of Adopting Digital Technology



A study by Google- BCG anticipated internet users in rural India to grow by almost 16 percent by 2020. The digital payments industry is also forecasted to grow to 500 billion dollars by 2020 contributing to 15 percent of the GDP. With wave of internet enveloping the entire nation, the time is apt for actively pushing the digitization drive to reap maximum benefits by the MSMEs. As per studies, the number of digitally sophisticated MSMEs is expected to double by next three years. In India, the cost of data has fallen by 95 percent in the last three years, making it the cheapest globally. These low costs have driven an eight-fold increase in data consumption across the country—including among previously non-digital MSMEs.⁸

⁷ <https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/01/Impact-of-internet-and-digitisation.pdf>

⁸ https://www.omidyar.com/sites/default/files/file_archive/18-11-21_Report_Credit_Disrupted_Digital_FINAL.pdf

Figure 38: Proportion Reduction in Data Costs

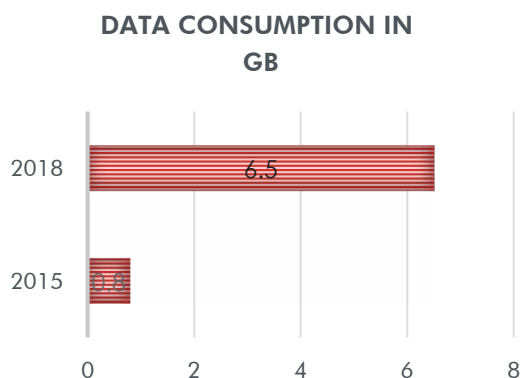


Figure 39: Proportion Growth in Data Consumption

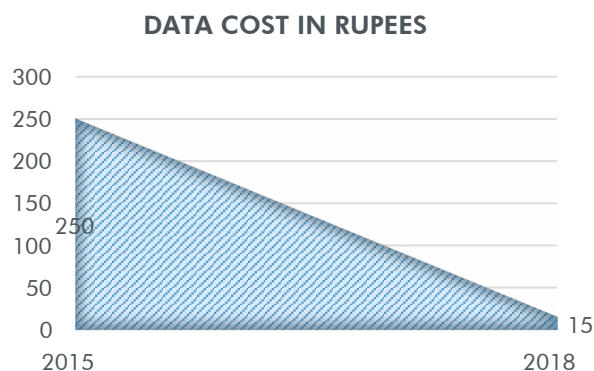
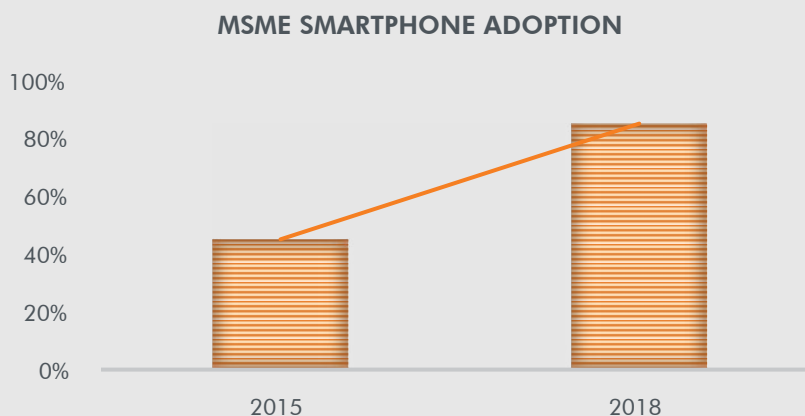


Figure 40: Proportion Increase in Adoption of Smartphones



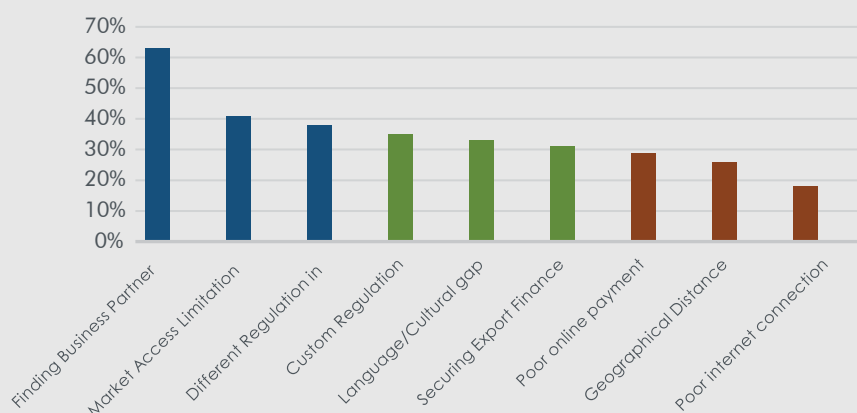
The number of digitally sophisticated MSMEs is expected to double over next three years, reflecting a rising digital maturity. MSMEs typically follow a set pattern in their digital adoption, starting from basic online searches to digital banking and sales

However, in terms of usage of digital technology in promoting exports or/and connecting to the GVCs, the MSMEs face numerous issues like those of proper connectivity for enabling prolonged access to the global network, access to a secured and universal payment platform, language barriers, market intelligence on the prospective markets etc.

Research on barriers to export through usage of digital technology prioritizes some of the issues affecting the MSMEs engaged in use of ICT as a platform for exports⁹.

⁹<https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5a83876b71c10b85cc1bd35d/1518569362142/MSME+Report-APAC.PDF>

Figure 41: MSMEs Barrier to Export Through IT/ITES



Source: Future of Business Survey 2017

With intent to encourage the use of digital network as a platform for business along with utilizing it to reach out to the MSMEs, the government of India has come up with an array of digital solutions for all overall development of the MSMEs through encourage trade on the web platform starting with the domestic market like MSME Sambandh as well as addressing grievances online.

3.5 ACCESS TO FINANCE

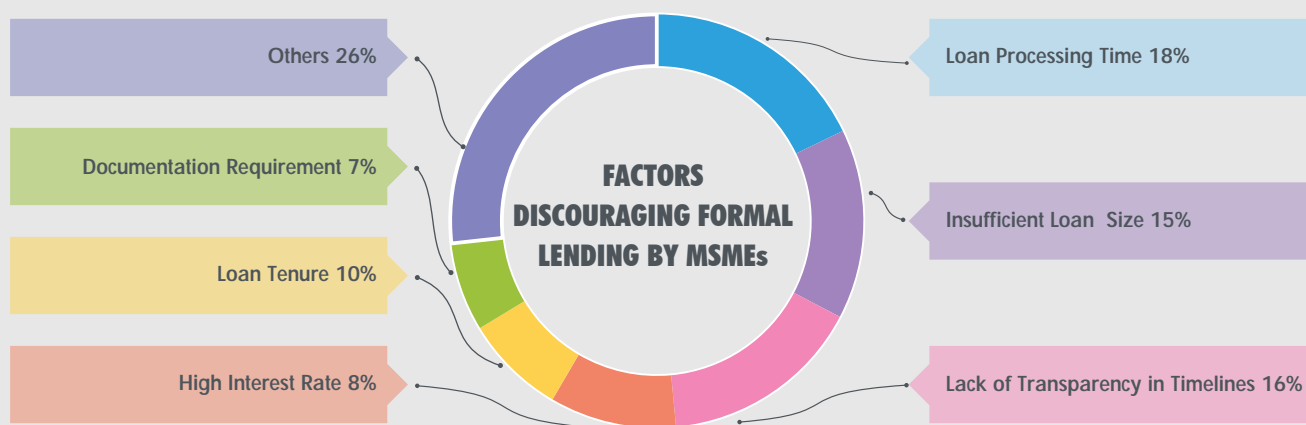
Access to Finance is one of the key factors which influence the business conditions of any entrepreneur. It remains crucial both in sustaining the present business conditions and growth and expansion. While large entrepreneurs' borrowing process have been comparatively painless, MSMEs face a lot of hurdles in availing assistance from the financial institutions. Access to finance at the required time affects business transactions of MSMEs and has been a persisting problem. Due to rigorous background checks and issue of collaterals and stringent lending norms, MSMEs find it relatively easier to borrow from informal sources.

The seed capital for start-ups is usually arranged from relatives or by deploying own savings. Accruals from personal resources and borrowing from friends and family often causes the entrepreneur to carry a debt burden which affects the profits and expansion.

A study by the BCG and Omidyar Network specifies that access to formal credit is still a challenge for majority of MSMEs.

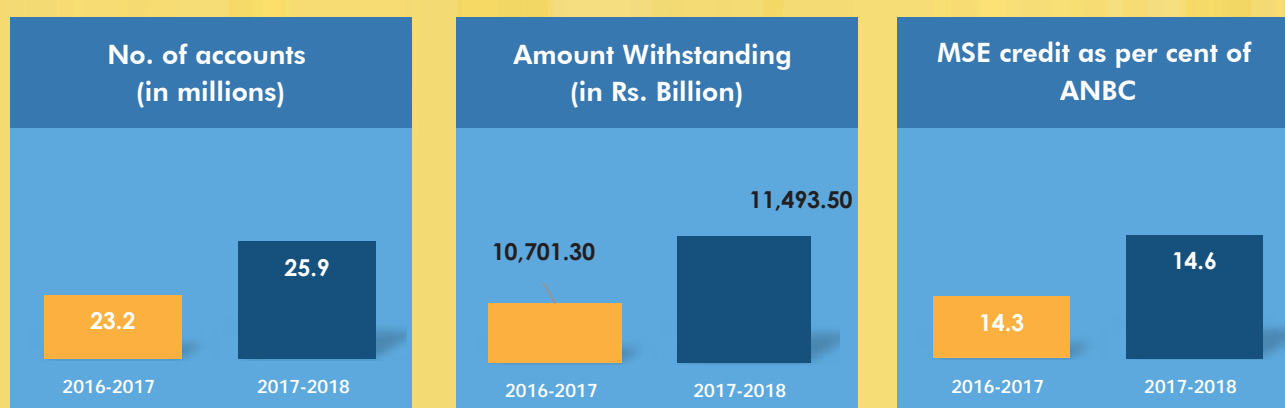
Almost 40% of the lending to the MSMEs take place through informal channels. As per the study, the total estimated credit demand of the MSMEs will be Rs.45 lakh crore of which almost 56% of the demand will be met through formal channels of credit while the rest is financed through informal channels where the interest rates are higher those offered by formal channels. The report also suggested that an additional 25% of MSME borrowing is invisible and is through personal proprietor loans.

Figure 42: Factors Discouraging MSMEs from Availing Credit from Formal Sector



Source: Credit Disrupted- Digital MSME Lending in India

Figure 43: Credit Flow to MSEs



Source: Priority Sector Returns submitted by SCBs

An assessment of the MSMEs access to Formal Finance Factors by RBI suggests the following trends



TRENDS OF **BORROWING** BY MSMEs

- If a firm is already in operation for more than 5 years, it is less likely to have formal finance as a major source of financing. This may be due to the life cycle of an MSME firm where capital outlays are mostly required in initial years. This may also suggest lack of scaling up by the MSME firms after they start their operations.
- As compared to manufacturing, services sector MSME firms have higher probability of having formal funding as an important source.
- As compared to smaller MSMEs with a turnover of less than ₹10 lakh, larger sized firms were found to have higher probabilities of having formal funding as the most important source.
- Medium-sized firms are more likely to have formal access to finance relative to micro and small entities.
- Older owners have better odds of accessing formal funding as the most important source as compared to owners of younger age.
- The probability of accessing formal source as the most important source did not vary much with higher achievements in education. Training of entrepreneurs rather than their education level is an important step in increasing the flow of credit to the MSME sector.

Table 3: RBI Data on Access to Formal Credit

EMPIRICAL RESULTS		
Variable/Category		Odds Ratio
Firm age (Base<5 years)	5-10 years	0.587***
	> 10 years	0.775*
Firm activity (Base-Manufacturing)	Service	1.444**
	Both	4.056**
Number of employees (Base<10)	43393	1.191
	20-50	1.431*
	51-100	1.791
	>100	0.938
Annual turnover (Base<10 lakh)	10-50 lakh	4.369***
	50-100 lakh	6.737***
	100-500 lakh	8.467***
	500-1000 lakh	11.808***
	1000-5000 lakh	15.376***
	>5000 lakh	15.577***
Training attended (Base-No)	Yes	3.131***
Size (Base-Micro)	Small	1.264
	Medium	1.708*
Social Group (Base-General)	SC	0.969
	ST	0.474**
	OBC	1.391**
Gender (Base-Male)	Female	1.086
Education (Base-Illiterate)	Primary	0.466
	Secondary	1.232*
	High School and Junior College	1.329
	Graduation and above	1.415
LR chi2 (31) = 705.03	Pseudo R2 = 0.2508	
***: Significant at 1 per cent;		
**: Significant at 5 per cent;		
*: Significant at 10 per cent.		

<https://www.rbi.org.in/scripts/AnnualReportPublications.aspx?id=1231>

Source: RBI staff estimates.

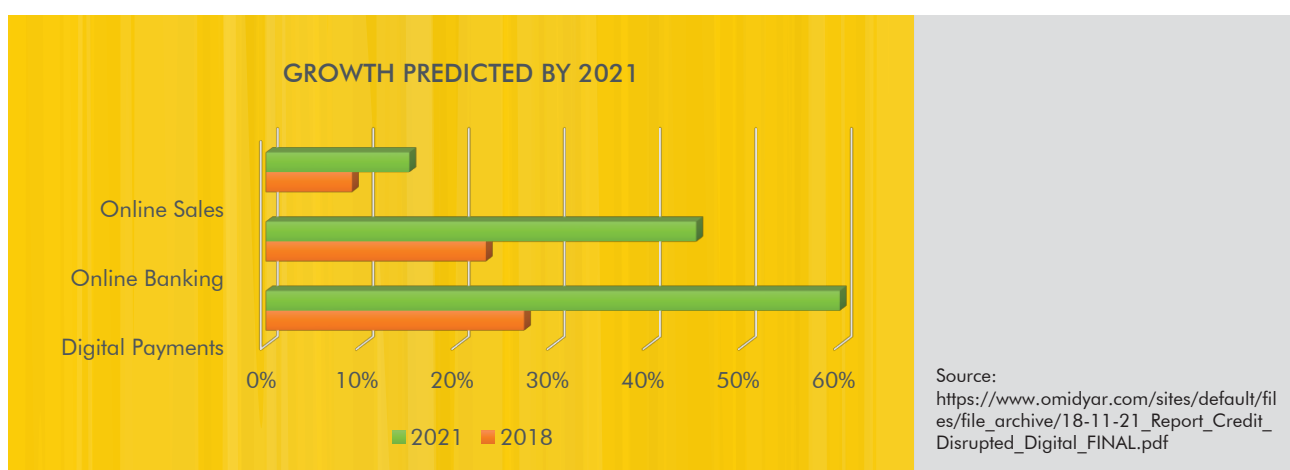
Impediments in accessing credit handicap the ability of MSMEs to connect to GVCs. The need for finances is primarily due to lack of access to trade credit, hard bargaining by buyers for steep discount, default in payments, higher cost of production, lack of credit insurance, tighter lending norms against uninsured payments and others. In such scenarios, financial instruments such as Trade Credit, Cash in Advance and others help MSMEs to certain extent.

3.5.1 DIGITISATION OF ACCESS TO FINANCE

Financial transactions through use of digital platform has initiated a behavioral change where it is transforming into one of the preferred mode of financial proceedings. With the increased digital penetration to the rural area, use of digital technology has become a way of life in almost every sphere of life. Financial Institutions have also started making the best of this transformation and encouraged cashless transactions through multiple payment portals. Owing to its numerous benefits and ease of use, digital transactions is expected to grow in multitude.

RBI's data suggest that digital transactions grew manifold post demonetization. With the growing penetration of the digital network and technology, the portal for online banking, online sales and digital payments is predicted to grow as shown in the graph below.

Figure 44: Growth Predicted by 2021

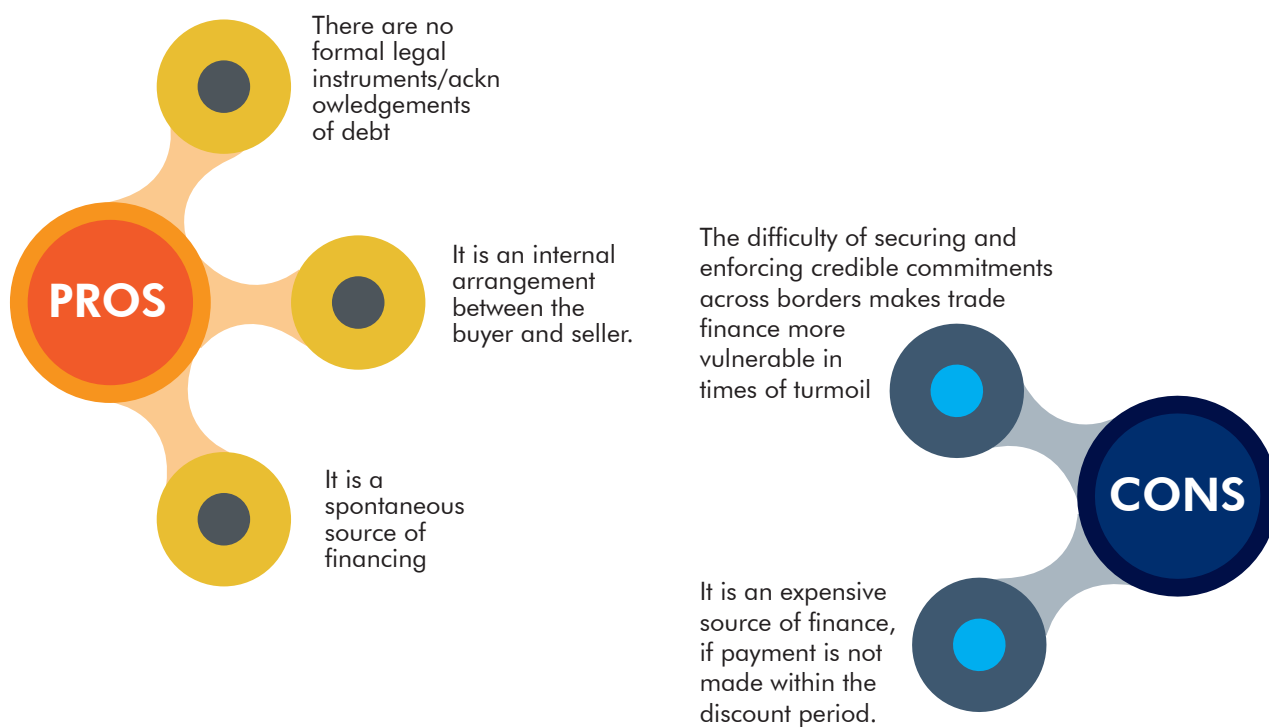


3.5.2 FEATURES OF TRADE CREDIT

Trade credit is one of the most important sources of working capital for firms, not only in advanced economies, but in India as well. Trade credit accounts for roughly 11% of the external finance for large firms in India. In the case of SMEs, this proportion is nearly double at around 20%. Globally, the extant evidence appears to suggest that, on average 19.7% of all investment financed through external sources is via trade credit. Trade credit is the single most important source of external finance for firms and is used as a hedge for financing needs.¹⁰ Studies suggest that trade credits finance more than half of the short-term liabilities and one third of total liabilities of a firm.

¹⁰ <https://www.dnb.co.in/Publications/LeadingSMEOfIndia2017/Leading-SMEs-of-India-2017.pdf>

Figure 45: Features of Trade Credit



III.

THE WAY FORWARD



The dynamism of the global trade platform requires every country to keep adapting the changing trends to sustain in the global market. India since it's opening up of the economy has constantly strived to keep up in the global race through constantly revisiting its trade policies. However, the need of the hour is to engage its MSMEs which constitute almost 95% of the Indian economy. The acknowledgement of the importance of MSMEs is manifested in the numerous initiatives taken by the Indian government to provide an enabling environment to integrate into the GVCs. Through landmark policies like Make in India and other supporting policies, India has announced its arrival in the global market.

Various Schemes and Programmes to enhance the standards and quality of production has been launched to facilitate the MSMEs to join the global production groups. While most of our MSMEs are indirectly connected to the GVCs through producing intermediate goods for larger companies, more endeavour needs to be made to enable them to become a direct beneficiary of the global opportunities. More opportunities to the MSMEs in the global trade would require a more robust integration of the regional market to the global market.

Figure 46: Effective Market Linkage



In addition, supporting policies, awareness and effective use of multilateral agreements on trade will further help the MSMEs to explore opportunities in global markets through strengthening of their global value chains.

ANNEXURE A

KEY FACTS AND FIGURES ON MSMEs

I. MSME COUNT

Total Number of enterprises in the country¹¹ – 633.92 lakhs

Total number of large industries- 4000

Total number of MSMEs in the country - 633.88 lakhs

II. CONTRIBUTION

Contribution of MSME sector in the country's Gross Value Added (GVA) as indicated in Table 4

Table 4 : Contribution of MSMEs in Country's GVA

CONTRIBUTION OF MSMEs IN COUNTRY'S GVA AT CURRENT PRICE				
(Figures in Rs. Crores adjusted for FISIM ¹² at current prices)				
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)
2011-12	2583263	-	8106946	31.86
2012-13	2977623	15.27	9202692	32.36
2013-14	3343009	12.27	10363153	32.26
2014-15	3658196	9.43	11481794	31.86
2015-16	3936788	7.62	12458642	31.60

Contribution to GDP- 6.11% of the manufacturing GDP, 24.63% of the services, and 45%¹³ of India's manufacturing output.

¹¹ NSS (National Sample Survey), 73rd Round on Unincorporated Non-Agricultural Enterprises in Manufacturing, Trade and Other Services Sectors (Excluding Constructions)

¹² FISIM stands for Financial Intermediation Services Indirectly Measured. In the System of National Accounts it is an estimate of the value of the services provided by financial intermediaries, such as banks, for which no explicit charges are made; instead these services are paid for as part of the margin between rates applied to savers and borrowers. The supposition is that savers would receive a lower interest rate and borrowers pay a higher interest rate if all financial services had explicit charges

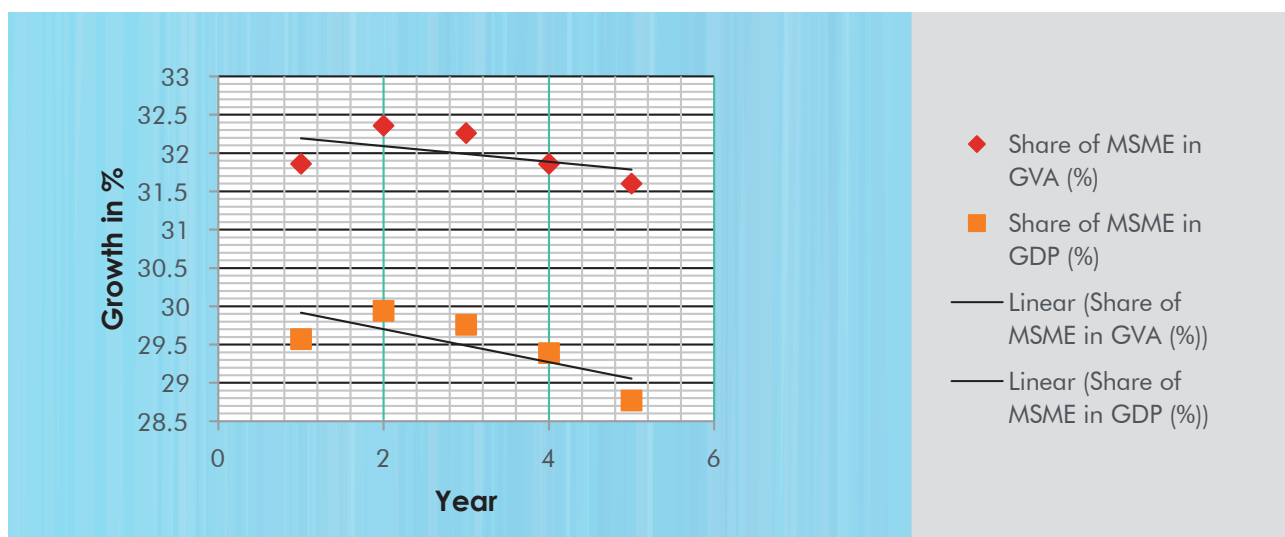
¹³ <http://www.pib.nic.in/PressReleaseFramePage.aspx?PRID=1514371>

Contribution of MSME sector in the country's Gross Domestic Product (GDP) as Indicated in Table 5

Table 5: Contribution of MSMEs in country's GDP

CONTRIBUTION OF MSMEs IN COUNTRY'S GDP AT CURRENT PRICE		
(Figures in Rs. Crores adjusted for FISIM14 at current prices)		
Year	Total GDP	Share of MSME in GDP (in %)
2011-12	8736329	29.57
2012-13	9944013	29.94
2013-14	11233522	29.76
2014-15	12445128	29.39
2015-16	13682035	28.77

Table 6: Comparison of MSMEs contribution to the country's GVA and GDP from 2011-12 to 2015-16



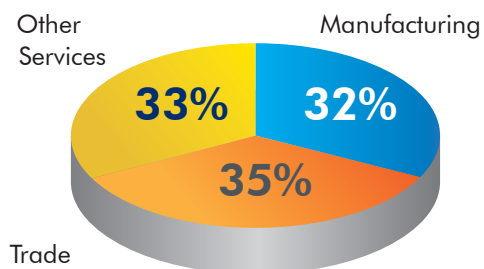
CONTRIBUTION TO EXPORT

Contribution to exports- MSMEs accounted for 40%¹⁵ of the total exports of the country

¹⁵ <http://www.pib.nic.in/PressReleaselframePage.aspx?PRID=1514371>

EMPLOYMENT

Figure 47: Activity wise distribution of jobs created by MSME sector



- As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs in the rural and the urban areas across the country.
 - 360.41 lakh in Manufacturing,
 - 387.18 lakh in Trade and
 - 362.82 lakh in Other Services and
 - 0.07 lakh in Non-captive Electricity Generation and Transmission
- Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector.
- Small sector with 3.31 lakh estimated enterprises provides employment to 31.95 lakh (2.88%)
- Medium sector with 0.05 lakh estimated enterprises MSMEs provides employment to 1.75 lakh (0.16%) persons.

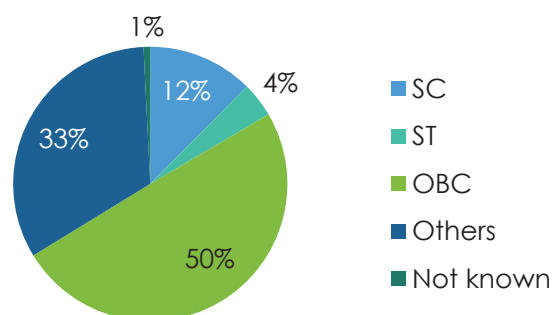
Table 7: Distribution of MSMEs in Rural and Urban Areas

Sector	Micro (in lakhs)	Small (in lakhs)	Medium (in lakhs)	Total (in lakhs)	Share(%)
	24.09	0.78	0.01	324.88	51
Urban	306.43	2.53	4	309 00	49
	630.52	3.31	0.05	633.88	100

Distribution of MSMEs By Social Category

Sector	SC (%)	ST (%)	OBC (%)	Others (%)	Not known (%)
Rural	15.37	6.70	51.59	25.62	0.72
Urban	9.45	1.43	47.80	40.46	0.86
All	12.45	4.10	49.72	32.95	0.79

Percentage distribution of MSMEs as per social class



REFERENCES

- <http://www.oecd.org/sti/ind/global-value-chains.htm>
- https://www.oecd-ilibrary.org/science-and-technology/investing-in-innovation-and-skills_9e296b43-en
- http://www.oecd.org/global-forum-productivity/events/Changing_structure_of_gvcs.pdf
- https://www.oecd-ilibrary.org/science-and-technology/skills-and-global-value-chains_cdb5de9b-en
- https://www.oecd-ilibrary.org/science-and-technology/the-links-between-global-value-chains-and-global-innovation-networks_76d78fbb-en
- https://www.wto.org/english/res_e/publications_e/gvcd_report_17_e.htm
- https://www.wto.org/english/res_e/booksp_e/aid4tradeglobalvalue13_e.pdf
- <https://openknowledge.worldbank.org/handle/10986/29593>
- <http://ficci.in/spdocument/20249/Grant-Thornton-FICCI-report.pdf>
- https://unctad.org/en/Docs/diae20095_en.pdf
- <http://www.wtcmumbai.org/wp-content/uploads/2017/02/TRADE-CREDIT.pdf>
- https://www.ecb.europa.eu/home/pdf/research/compnet/Enhancing_the_role_of_SMEs.pdf?9235c9ba9b76a6a403bc10723d6dd11e
- https://www.ecb.europa.eu/home/pdf/research/compnet/Enhancing_the_role_of_SMEs.pdf?9235c9ba9b76a6a403bc10723d6dd11e
- https://www.unido.org/sites/default/files/2016-03/GVC_REPORT_FINAL_0.PDF
- <https://www.pwc.in/assets/pdfs/publications-2011/innovation-msme-2011.pdf>
- <http://nationalinnovationsurvey.nstmis-dst.org/>
- <https://msme.gov.in/nmcp/building-awareness-intellectual-property-rights-ipr-msme>
- <http://www.iosrjournals.org/iosr-jbm/papers/Vol15-issue2/C01521321.pdf>
- https://msme.gov.in/sites/default/files/MSME%20Achievement_English%202014-18.pdf
- <https://msme.gov.in/relatedlinks/annual-report-ministry-micro-small-and-medium-enterprises>
- <http://commerce-app.gov.in/eidb/>
- <http://www.intracen.org/itc/market-info-tools/trade-statistics/>
- <http://nationalinnovationsurvey.nstmis-dst.org/download/indian-national-innovation-survey-report.pdf>
- <https://www.weforum.org/agenda/2016/09/what-makes-south-asia-the-fastest-growing-region-in-the-world/>
- http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/Publications/448813-1171648504958/SAR_integration_ch2.pdf
- <https://www.adb.org/news/features/booming-south-asia-driving-economic-growth-asia>
- <https://data.worldbank.org/indicator/SL.TLF.CACT.ZS?locations=CN-ID-BD-AF-BT-BN-KH-IN-LA-MY-MM>



**Ministry of Micro, Small and Medium Enterprises
Government of India**

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises. Several statutory and non-statutory bodies work under the aegis of the Ministry of MSME. These include the Khadi Village Industries Commission (KVIC) and the Coir Board, besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialization (MGIRI).

The Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSMEs. The Ministry is committed towards an agenda of inclusive development and has taken various initiatives and measures to ensure that demographically as well as geographically weaker sections benefit from its work.

Through consistent efforts during 2014-2018 (till date) the MoMSME has been able to create 1,40,67,000 jobs in the Khadi and Village Industries Sector. Also, through the Prime Minister's employment generation programme, approximately 2,31,543 units have been set up providing employment to 17,77,688 people. The MSME Technology centre has trained 7,56,894 people. In addition, it has also been able to train almost 2,07,367 people through its ATI Assistance to Training Institutions helping them with livelihood generation. MoMSME has also been keen towards adoption of digitization to instill transparency and accountability to its vast MSME members. Schemes such as SAMADHAN, SAMBANDH, UAM and others has been instrumental in meeting the agenda.

Also, the Ministry has been endeavoring in improving the standards of production making it at par with the global standards such that MSMEs can participate in the global market. For the purpose, the ministry has initiated various schemes for affordability and ease of access to testing centres. Also, schemes such as Zero Defect Zero Effect Scheme has been pivotal in promoting adaptation of quality tools/systems and energy efficient manufacturing. The MoMSME has also initiated schemes for improving access to formal credit of the MSMEs. Schemes such as CLCSS, CGTMSE and others has been helping the MSMEs to avail easy credit from the banks registered under the scheme.

These and many others has aided in the development and growth of the MSMEs throughout the geographic expanse of the country helping in bridging the gap towards inclusive and sustainable development of the country.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 265 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2018-19, India RISE : Responsible. Inclusive. Sustainable. Entrepreneurial emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development; financing growth; promoting next gen manufacturing; sustainability; corporate social responsibility and governance and transparency.

With 65 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

The Mantosh Sondhi Centre

23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)

T: 91 11 45771000 / 24629994-7 • F: 91 11 24626149

E: info@cii.in • W: www.cii.in

Follow us on:



cii.in/facebook



cii.in/twitter



cii.in/linkedin



cii.in/youtube

Reach us via our Membership Helpline: 00-91-124-4592966 / 00-91-99104 46244
CII Helpline Toll Free Number: 1800-103-1244