



**THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA**



**Nurturing Entrepreneurs – for Sustainability**

कलराज मिश्र  
KALRAJ MISHRA



सूक्ष्म, लघु और मध्यम उद्यम मंत्री  
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Minister  
of  
Micro, Small & Medium Enterprises  
Government of India  
New Delhi-110011

### MESSAGE

It is delightful to know that the Associated Chambers of Commerce and Industry of India (ASSOCHAM) is organizing “**MSME Sammelan : Nurturing Entrepreneurs for Sustainability**” on 16<sup>th</sup> July, 2015 in Lucknow.

Uttar Pradesh is the power house for manufacturing of MSMEs in the Northern India, has tremendous potential to contribute in a big way towards ‘**Make in India**’ campaign.

With the highest number of MSME units operating in the State, the sector accounts for the biggest employment provider in diverse sectors both in traditional and high-tech product lines.

With the new and innovative schemes and programmes in place and with the support of the State Government, Micro, Small and Medium Enterprises are bound to prosper in terms of financial sustainability, technological advancements, export orientation, better marketing strategies and finer product positioning.

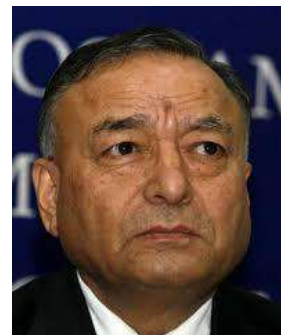
I am hopeful that ASSOCHAM shall continue working efficiently towards this direction and support in the initiatives of the Ministry.

I wish the Summit a grand success.

  
(KALRAJ MISHRA)

## MESSAGE

**D.S. Rawat**  
**Secretary General**  
**ASSOCHAM**



I am happy to learn that The Associated Chambers of Commerce and Industry of India (ASSOCHAM) is organizing MSME Sammelan : Nurturing Entrepreneurs for Sustainability” on 16th July, 2015 in Lucknow.

MSMEs have been acknowledged as the drivers of economic growth of India. The biggest success is yet to come for Indian economy when the country’s MSMEs will be contributing to the economy as per their actual potential.

To give a brief overview of the current scenario of MSME sector in the country and the State, ASSOCHAM has come out with a study in collaboration with Resurgent India Pvt. Ltd. which carries a holistic view of the current scenario of MSME sector. I am grateful to Resurgent India Pvt. Ltd. to accept our request for being Knowledge Partner for the event.

I congratulate my colleagues Mr. U.K. Joshi, Director and Mohd. Zumair for this remarkable initiative. I would also extend my profound thanks to all other stakeholders and partners for their support to make this conclave a grand success.

I wish the summit a great success.

A handwritten signature in black ink, appearing to read 'D.S. Rawat', written in a cursive style.

**(D.S. Rawat)**

## MESSAGE

**Jyoti Prakash Gadia**  
**Managing Director**  
**Resurgent India Limited**



The last year saw India enter a sweet spot as growth rebounded, inflation declined and the external accounts came under control. From then on there has been a lot of positivity around the India growth story and India seems to be poised to enjoy another spurt in growth.

Going ahead, small business sectors are considered to be the key for economic growth as it promotes equitable development. Over the years, this segment has been fuelling economic growth and has been a catalyst to industrialization of rural and assuring more equitable distribution of national income and wealth. This segment is labour intensive and it contributes for generation of employment.

Despite being a catalyst to the economic development and being beneficial to the economy of the country in more than one ways, MSMEs still face numerous hindrances that are obstructing the growth of the segment. The primary problem faced by the sector is access to funds due to its high risk profile. Further, there is a huge demand-supply gap and financial institutions need to exploit this opportunity and offer credit to the segment. Here in this research paper, we discuss about small business sector financing-funding the unfunded.

Jyoti Prakash Gadia  
Managing Director  
Resurgent India Limited

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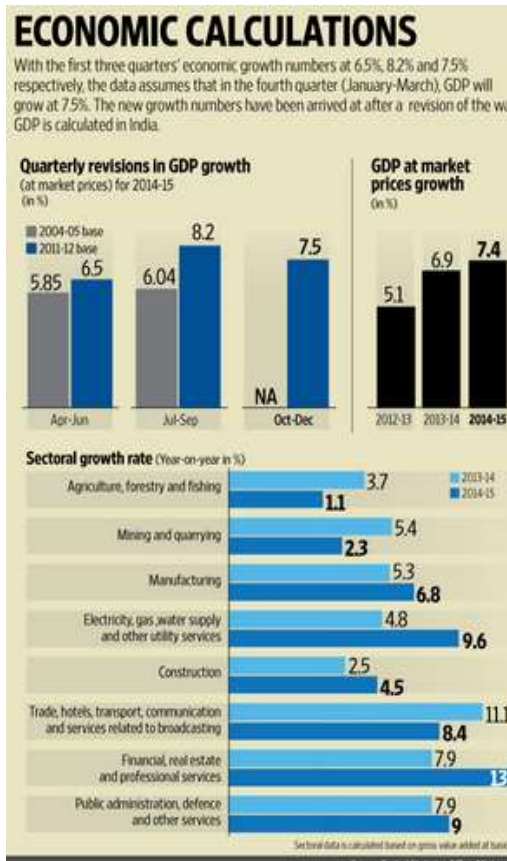
## INDIA MACRO ECONOMIC OVERVIEW

The Indian economy has weathered many challenges successfully in recent times and is currently placed on a cyclical upturn, on the back of strong policies and a whiff of new optimism. In the recent past, the economy faced testing times with issues like lower growth, high levels of inflation and widening current account deficit. Growth is back, with its desirable concomitants of mild inflation and manageable current account balance with stable rupee and rising foreign exchange reserves, signalling improvements in macro-economic stability. The growth rate of the economy, measured by the growth in GDP at constant (2011-12) market prices, improved from 5.1% in 2012-13 to 6.9% in 2013-14 and is projected to clock 7.4% in 2014-15 according to central statistics office (CSO).

India's economy will grow at a rate of more than 8% in 2015-16, while consumer inflation will drop to between 5 and 5.5%. The growth in services sector accelerated from 8.0% in 2012-13 to 9.1% in 2013-14. As per the advance estimates of CSO, the growth in services has increased further to 10.6% in 2014-15. The growth in industrial and services sectors improved significantly, growth in the agricultural sector, affected by a sub-optimal monsoon, declined in 2014-15. The sectors that are estimated to record higher growth in 2014-15 include- manufacturing, construction, electricity, gas, water supply and other utility services, financial, real estate and professional services, public administration, defence and other services. It is also the first time that the economy is projected to be bigger than \$2 trillion. India's GDP is estimated to be \$2.1 trillion in 2014-15.

### Government Initiatives

India has become a promising investment destination for foreign companies looking to do business here. Mr Narendra Modi, Prime Minister of India, has launched the 'Make in India' initiative with the aim to give the Indian economy global recognition. This initiative is expected to increase the purchasing power of the common man, which



*Low inflation has enabled the Reserve Bank of India to cut interest rates by 50 basis points easing pressure on the private sector. Lower rates as well as the government's infrastructure and disinvestment programs are providing a boost to domestic-oriented industries.*



would further boost demand, and hence spur development, in addition to benefiting investors. The steps taken by the government in recent times have shown positive results as India's gross domestic product (GDP) at factor cost at constant (2004-05) prices for Q1 of 2014-15 is estimated at Rs 14.38 trillion (US\$ 231.83 billion), as against Rs 13.61 trillion (US\$ 219.42 billion) in Q1 of 2013-14, registering a growth rate of 5.7%.

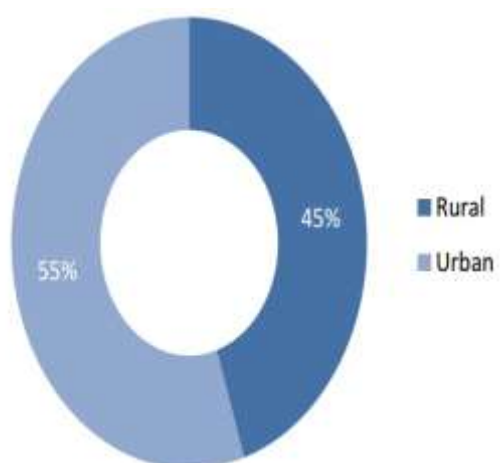
The reason behind better performance of the economy is advantage of low crude oil prices that has impacted favourably the current account balance & will also moderate the price increase in general as petroleum products are used in the production of almost every commodity & service. With the global economy also likely to recover somewhat in 2015, these measures should help in improving the Indian economy's outlook for 2014-15.

WPI inflation moderated to 3.4% in 2014-15 from 6% in 2013-14 due to lower food and fuel inflation. WPI food inflation which remained high at 9.4 per cent during 2013-14 moderated to 4.8% in 2014-15 following sharp correction in vegetables prices since December 2013 (except March 2014), moderation in prices of cereals and 'egg, meat & fish'. However, core inflation increased to 3.2% in 2014-15 as compared to 2.9% during 2013-14. CPI Inflation as per the Consumer Price Index- New Series (with base year 2010) averaged 6.8% in 2014-15 as against 9.5% in 2013-14.

Growth is expected to edge up further to 8.2% in FY2016, helped by a supportive monetary policy in 2015, as inflation continues to trend lower and by a pickup in capital expenditure. India is set to become the world's fastest-growing major economy by 2016 ahead of China, the International Monetary Fund (IMF) said in its recent latest forecast advancement in its output.

## Small Business Sector-Overview

### Classification of MSMEs by location (%)



Small Business sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades.

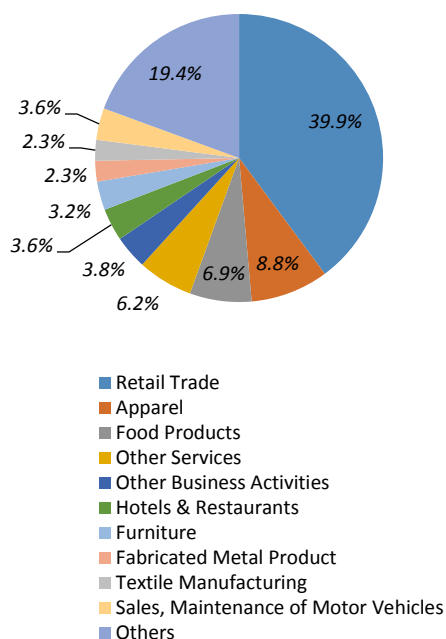
This sector not only plays a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income. The Small Business sector has been a significant contributor to the countries with generating the highest employment growth as well as accounting for a major share of industrial production and exports.

Small business sector across the globe are fuelling economic growth and are the key instruments for promoting equitable development. Small Business sector account for about 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. On the domestic front, small business sector plays an essential role in the overall industrial economy of the country. In recent years, the sector has been consistent in registering a higher growth rate compared with the overall industrial sector.

The Indian Small business sector space is immensely heterogeneous with regards to the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a crucial role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national



### Key Industries in which small business sector



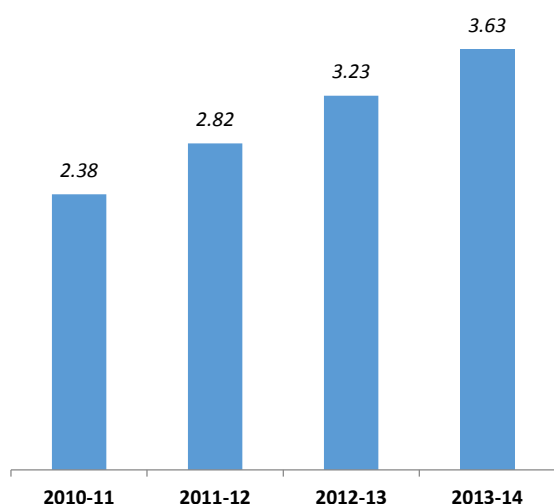
SOURCE: Ministry of Micro, Small & Medium Enterprises

income and wealth. Small business sector complements large industries as ancillary units.

In spite of their limitations, the Small Business Sectors have made a significant contribution towards technological development and exports. They are established in almost all-major sectors in the Indian industry such as: Food Processing, Textiles and Garments, Agricultural Inputs, Leather and leather goods, Chemicals & Pharmaceuticals, Bio-engineering, Engineering, Electricals, Sports goods, Electronics, Plastics products, Electro-medical equipment, Computer Software, etc. Apart from providing the support to the large industries, Small business sectors have played an important role in the development of States in terms of the employment generation. More than 55% of these enterprises are located in six major States of the country, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka.

The Small Business sector has slowly come into the limelight, with increased focus from the government and other government institutions, corporate bodies and banks. Policy based changes and investments into the sector.

### No. Of EMI-II Filled (In Lakh)



**Entrepreneurs Memorandum:** Subsequent to the implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 with effect from October 2006, filing of Entrepreneurs Memorandum (EM-II) came into vogue. Further, in order to encourage the unorganized units to register, the Ministry of MSME has simplified the registration process (replacing the earlier two-stage registration process with a one-step filing of memorandum)

MSMEs have shown constant growth rate around 11% every year till 2010-11. The highest growth in recent time was recorded during 2011-12 (18.45%) whereas during year 2012-13 and 2013-14 growth rate was around 14% and 12%, respectively.

### UTTAR PRADESH (Number of EM-II filed by the MSMEs)

No. of EM II filed in Uttar Pradesh							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Units	30,443	31,629	33,479	33,027	32,304	30,933	45,342
% Change		3.90%	5.85%	-1.35%	-2.19%	-4.24%	46.58%
Share of Uttar Pradesh in EM II filed among all states							
% of Total	17.63%	16.39%	15.70%	13.85%	11.44%	9.58%	12.49%

EM II filed in Uttar Pradesh by Micro, Small & Medium Enterprises over the years								
Region	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Micro	29,346	30,521	31,909	31,579	31,312	30,023	42,759	227,449
Small	1,068	1,087	1,498	1,406	947	867	2,405	9,278
Medium	29	21	72	42	45	43	178	430
Total	30,443	31,629	33,479	33,027	32,304	30,933	45,342	237,157

#### Problems Faced by UP:

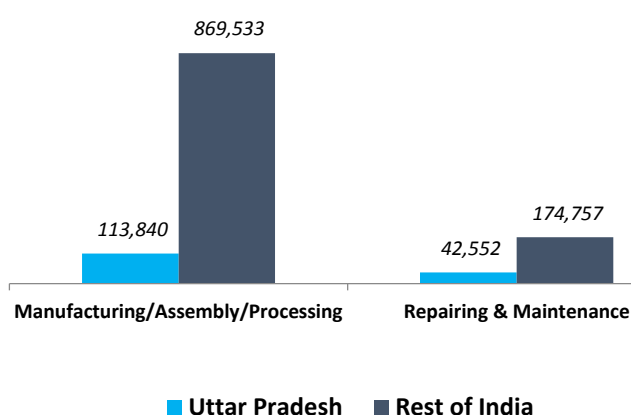
- The scarcity of industrial land is emerging as a major impediment to the entry of new MSMEs in Uttar Pradesh
- While government-owned industrial enclaves such as UP State Industrial Development Corporation have virtually no land for fresh allotment, leasing or buying such land from existing lease holders is an expensive proposition for budding entrepreneurs
- Besides, the option of setting up industrial units on agricultural land is both cumbersome and time-consuming, since it takes several months and even years to get the necessary clearance
- Banks are also reluctant to give advances to units that are to come up on agricultural land, unless all formalities are already complete

## Solutions

Indian Industries Association has taken up this issue with top government officials in the run-up to the MSME conclave. Uttar Pradesh Chief Minister Akhilesh Yadav is likely to announce sops to the beleaguered MSME sector in Uttar Pradesh, which comprises an estimated 3.1 million enterprises

**Working Enterprises:** Rural areas with 200.19 lakh of working enterprises accounted for 55.34% of the total working enterprises in MSME sector whereas urban area located 161.57 lakh working enterprises accounted for 44.66% of the working enterprises of MSME Sector.

Distribution of working enterprises by type of enterprises



Distribution of working enterprises by type of enterprises				
	Micro	Small	Medium	Total
Uttar Pradesh	184,503	3,089.00	150	187,742
Rest of India	1,175,029	71,885.00	2,457	1,249,371

*After realizing the importance of Small business sector, Government has taken various initiatives to boost the growth of the segment. Further, the key attributes of the sector such as, high contribution to domestic production, significant export earnings, low investment requirements, operational flexibility and many others have lead to tap opportunities in various industries.*

**Recent Initiatives by the government:** As the Government recognised the importance of promoting the small economy, a Task Force under the Chairmanship of the Principal Secretary to the Prime Minister was constituted in 2009. The primary objective of the task force is to offer suggestions for the development and promotion of small business sector in the country and recommend an agenda for immediate action to provide relief and incentives to the small business sectors, accompanied by institutional changes and detailing of programme to be achieved in a time bound manner. Further, it also recommends the setting up of appropriate legal and regulatory structures to create a conducive environment for entrepreneurship and growth of small business sectors in the country.

Measures from within the sector to lobby for favourable policies and increasing credit flow are convincing. Further,

the sector has also realized the necessity of technological and modernization initiatives. However, with economic liberalization and changes in the trade policy, small business sectors are now facing increased competition from foreign companies. Under intensive global competition, small business sectors are transforming to a new business environment with emergence of global supply chains. Small business sector form an integral part of almost every value chain and there is a symbiotic relationship between the large corporations and their relatively smaller sized suppliers. However, in a liberalized world, the relationships between the suppliers and buyers are undergoing dynamic changes with the dissolution of existing relationships and formation of new trade linkages that transcend the barriers of nationality and boundaries.

Even the domestic market is no more a protected zone in a controlled economy. The competitive pressures of a free market economy are catching up in India and the domestic market has been flooded with many low cost, reasonable quality, bulk produced products giving tough competition to small business sector.

The Government of India has developed key strategies to promote and support competitiveness in the small business sector, thus leading to have a positive impact on the sector. The key attributes of the segment such as high contribution to domestic production, significant export earnings, low investment requirements, operational flexibility, location wise mobility, capacities to develop appropriate indigenous technology, import substitution, contribution towards defence production, technology-oriented industries, and competitiveness in domestic and export markets etc. help them tap opportunities in various sectors.

Some of the key announcements for small business sector in the Union Budget, 2015 are:

- Announcement of INR 1000CR. Fund to support start-ups & government will encourage new start-ups & young entrepreneurs.

- MUDRA Bank, with a corpus of INR `20,000CR and credit guarantee corpus of INR `3,000CR to be created.
- In lending, priority will be given to SC/ST enterprises.
- MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana
- A Trade Receivables discounting System which will be an electronic platform for facilitating financing of trade receivables of MSMEs to be established.
- Postal network with 1,54,000 points of presence spread across villages to be used for increasing access of the people to the formal financial system.
- Comprehensive Bankruptcy Code of global standards to be brought in fiscal 2015-16 towards ease of doing business.

*HRM aim to improve employee competence and commitment, and include practices such as the usage of recruitment and selection offices, psychological tests and interview panels in selection procedures, compensation practices such as performance payment, incentive programmes and annual bonuses, elements of firm-provided training, and employee appraisal practices*

### **Human resource management in Small Business Sector**

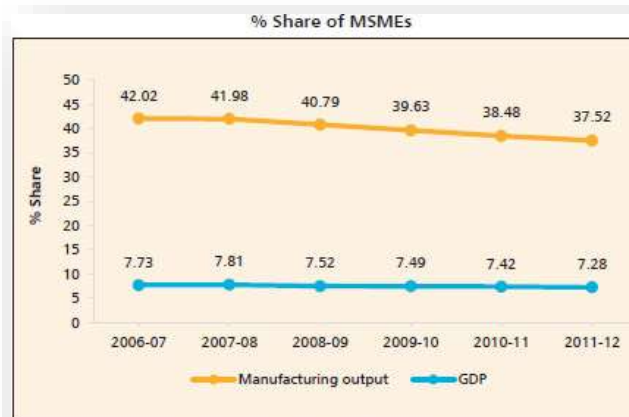
The importance of HRM in small business sectors has received much attention in recent years. Accumulation of human capital constitutes the main engine of macro-economic growth. The increased importance of human capital is apparent at both the demand & supply side of labour market.

As per a survey conducted by the Confederation of Indian Industries (CII), around 80% from the small enterprises and about 20% of the medium enterprises respondents indicated having no formal HR department. MSMEs do engage in HRD, but not necessarily formal training and such individualized, personalized and consultant-like relationships may help owner-managers identify appropriate training and knowledge needs and develop appropriate skills.



Small business sectors today are significantly different compared to the period twenty years ago. The importance of factors such as technology, finances, production process and similar is diminished, whereas more important sources of additional and newly created value of MSMEs are their employees with their intellectual capital/assets, skills, creativity and information.

## SMALL BUSINESS SECTOR CONTRIBUTION TO ECONOMY



Source: Ministry of Micro, Small & Medium Enterprises, Govt of India

The small business sector plays a pivotal role in the overall industrial economy of India. Small business sector constitute more than 80% of the total number of industrial enterprises and support industrial development. Small business sector contribute nearly 45% to manufacturing and about 40% to the Indian export sector. Their contribution to the Indian GDP is 8% and the sector has registered growth rate of 10.8%. Indian small business sectors have moved up from the manufacture of traditional goods including leather, gems and jewellery, agricultural goods to much more value addition in the manufacturing sector to its entry in the value added services as well. Small business sectors can be rightly called as the backbone of the GDP of India. The small business sector in India is growing at an exceptionally fast rate due to which it is proving to be beneficial to the Indian Economy. Contribution of small business sector to the country's gross domestic product (GDP) is expected to increase to 22% by 2020, from the present 17%.

According to latest report by MSME chamber of commerce & Ministry of Micro, Small and Medium Enterprises, India currently has more than 48 million Small business sectors. India aims to increase the share of contribution to its GDP and generate 150 million jobs. The push includes increasing contribution by small firms across sectors – both in private and public; for both local and export markets.

### Key highlights of the Small Business Sector:

- Small Business sector account for about 45% of India's manufacturing output
- Small Business sector accounts for about 40% of India's total exports
- The sector aims to generate 150 million jobs

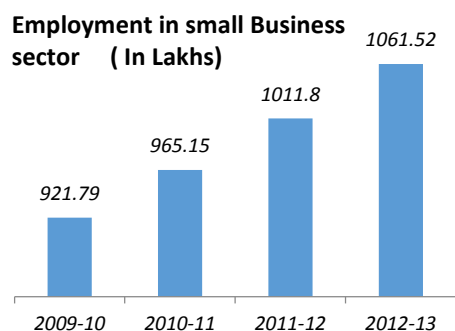
*MSMEs contribution to economy can be considered vital as it contributes to around 45-50 per cent of the country's export. Going ahead in terms of employment generation, it stands next only to agriculture. And in production, it accounts for around 40 per cent of gross manufacturing output.*

- Small business sector manufacture more than 6,000 products ranging from traditional to high tech items
- In the Union budget for 2014-15, the government announced INR 10,000-crore fund to act as a catalyst for the small business sector.

At present, some of the small business sectors are involved in acquiring companies abroad as part of the globalization process. Most of these units are ancillaries and are export oriented. The small business sector has altered itself to cater to the needs of large local manufacturers and suppliers to global manufacturers like Auto Industry. Currently, the segment is getting involved in investment towards R&D in order to equip itself to be competitive globally. Going ahead, outsourcing from multinational companies has played a vital role in fuelling the growth of Indian small business sector as world leaders in specified products. The competencies in labour-intensive manufacturing units, lower transport costs and loose labour policies of the small scale sector have led to major outsourcing in manufacturing and services.

**MSME's Contribution to Exports:** MSMEs have a crucial contribution in India's present export performance. The sector accounts for around 45%-50% of the country's export, of which direct exports from the sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly that takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components has shown excellent growth rates in this decade. The product groups which dominate the exports comprises of sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products. Further, MSMEs are re-orienting its export strategy towards the new trade regime being ushered in by the WTO.

**Performance of this sector can be determined in terms of the following criteria:**



Source: Ministry of MSME

**Employment Generation:** Small Business sector in India creates largest employment opportunities, next only to Agriculture. It has been estimated that a lakh rupee invested in fixed assets in the sector results in generating employment for four persons. Some of the interesting observations related to employment in small business sectors are related to generation of employment according to the industry. For instance, food products industry ranked first, followed by non-metallic mineral products and metal products. Additionally, Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, services and Rubber & plastic products also contributed to generate employment.

**UTTAR PRADESH distribution of employment by type of enterprises**

	Micro	Small	Medium
Uttar Pradesh	603,987.00	132,071.00	18,850.00
Rest of India	5,563,628.00	2,094,867.00	387,529.00



Source: Ministry of Micro, Small & Medium Enterprises, Govt

**Production:** Small Business sector play a crucial role in the growth of the country by accounting for 40% of the gross manufacturing output. As per estimates, a lakh rupee of investment in fixed assets in the sector produces 4.62 lakh worth of goods or services with an approximate value addition of ten percentage points. The space has registered impressive growth over the past few years and the growth rate recorded during the various plan periods have been very impressive. Further, the transition period of the process of economic reforms was also affected for some period by adverse factors such as foreign exchange constraints, credit squeeze, demand recession, high interest rates, shortage of raw material etc. Further, when

the performance of this sector is compared with the growth in the manufacturing and the industry sector as a whole, it instils confidence in the resilience of Small business sector.

**Export Contribution:** Small Business sector plays a major role in India's export performance by accounting for 45%-50% of total exports. The surprising fact is that non-traditional products account for more than 95% of the small business sector exports. The exports from the segment have registered enormous growth during the last decade. Further, the growth in the segment has been mostly fuelled by the performance of garment, leather and gems and jewellery units.

**Opportunities:** Small Business sector has performed outstandingly well and enabled the country to attain a wide measure of industrial growth and diversification. By its nature of being less capital intensive and more labour intensive, the sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

The opportunities of growth in the small business sector are extensive due to the following attributes, which makes it a more attractive investment option:

- Less Capital Intensive
- Extensive Promotion & Support by Government
- Project Profiles
- Funding - Finance & Subsidies
- Machinery Procurement
- Raw Material Procurement
- Manpower Training
- Technical & Managerial skills
- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth



- Increasing Export Potential for Indian products
- Growth in requirements for ancillary units due to the increase in number of green-field units coming up in the large scale sector.

**Economic Indicators:** Small business sector constitutes a very important segment of the Indian economy. Small Business sector acts as a catalyst in upholding and encouraging the creation of the innovative spirit and entrepreneurship in the economy, thereby helping in laying the foundation for rapid industrial development. Moreover, the sector also boosts employment generation and balanced regional development. Globalization and liberalization of the Indian economy have also brought a host of opportunities for the industrial sector, particularly the Small Business Sector segment. MSMEs have responded to competition satisfactorily, further there is scope for increasing their export potential, domestic market share and developing them as serious players in the global value chain.

To conclude, though the Small business sector forms the backbone of the nation's economy, there is a strong need to push them on a higher growth trajectory to accomplish sustainable economic goals. Enhancing the global competitiveness of Indian MSMEs can strengthen the sector and, in turn, give a fillip to the overall economy of the country. Augmenting the global competitiveness of Indian MSMEs is crucial to their development, both in terms of revenue and growth. Incessant support from the government and policymakers to the MSMEs can change the complexion of our country and encourage the risk-averse Indian entrepreneurs to create global brands and inventive business models.



## SMALL BUSINESS SECTOR FINANCING – FUNDING THE UNFUNDED

*Finance is life blood of any enterprise. But Indian small business sectors, have always suffered the deficiency of this life blood, despite India having one of the most extensive banking network in the world.*

*The Government has been trying to tackle the problems faced by small business sectors and also have established several committees and study groups along with the Reserve Bank of India and Small Industries Development Bank of India (SIDBI) to study the problems faced by small business sectors.*

Finance is the lifeline of any enterprise. India has one of most extensive banking networks in the world. India's Small businesses employ more than 106 million workers, according to government statistics, in a country that brings a million new workers into the workforce every month. Going ahead, it is also observed that Indian small business sectors have limited access to finance. Majority of the small business sector operates on the funds of its promoters, thus limiting its growth. According to government estimates, only 4% of 57.7 million small business units in India have access to institutional finance, leaving many to rely on informal lenders. Industry experts estimate that demand for loans from the sector outstrips supply by more than \$80 billion This further complicates the situation, as with these sources an enterprise cannot challenge the increasing competition. On account of globalization; small business sectors are beginning to opt for other specialized financial services and options.

The Government has taken various initiatives from time to time to address the problems faced by the small business sector. It has set up numerous, organizations, boards, corporations and training centres have been set up to provide technological, entrepreneurial, managerial and financial assistance to these units. Likewise, several committees and study groups set up by the Government, the Reserve Bank of India and Small Industries Development Bank of India (SIDBI) have studied the problems faced by small business sectors and suggested various measures to address these issues. These have significantly contributed and set up a favourable environment for setting up and nurturing small industrial units. However, high incidence of sickness and subdued credit off-take in this sector indicates that the results have not been as desired.

*The MFIs get loans at 13-14% and lend them at 23-24%, keeping a 10% margin to take care of their operating cost and profit.*

*MUDRA Bank can be a game changer in giving birth to a new set of entrepreneurs, some of whom may scale heights not imagined today.*

To fund the unfunded self-employed as well as small business, Prime Minister Narendra Modi on April 9, 2015 launched the MUDRA YOJANA that will offer loan up to INR 10 Lakh at low rate of interests.

The MUDRA Yojana, which has a corpus of INR 20,000 Crore, can lend between INR 50,000-INR 10 Lakh to small entrepreneurs. It has been set up for development & refinancing activities related to micro units. It will provide refinance to banks & other institutional lenders at 7%.

MUDRA bank is a step by the government to provide services to the small entrepreneurs outside the service area of regular banks. About 57.7 Million small businesses have been identified as target clients & only 4% of these businesses get finance from regular banks. The Mudra bank will ensure that its clients do not fall into indebtedness & will lend responsibly.

### **Role of Mudra Bank**

- Laying down policy guidelines for micro enterprise financing business, registration of MFI entities
- Accreditation, rating of MFI entities would encourage the adoption of best practices across the industry but also regular monitoring of the same Funding & Liquidity
- Laying down responsible financing practices to ward off over-indebtedness and ensure proper client protection principles and methods of recovery
- Development of standardised set of covenants governing last-mile lending to micro enterprises
- Promoting right technology solutions for the last mile
- Formulating and running a credit guarantee scheme for providing guarantees to loans and portfolios being extended to micro enterprises
- Support development and promotional activities in the sector



- Creating a good architecture for last-mile credit delivery to micro businesses.
- To give priority to SC/ST enterprises in lending.

### Benefits

- It will increase liquidity & access to funds for small scale business
- Providing low cost funding for MFI
- Uniformity in regulations & best practices for SHG bank linkage programme, NBFC-MFIs, & trust/ societies/not for profit NBFCs engaging in MFI activities as MUDRA BANK would be the sole regulator for all players in the small business sector



### Recent Developments

MUDRA bank has joined hands with 19 states and regional level coordinators so as to reach the small entrepreneurs who have limited branch presence and are cut off from the general banking system.

The initiative taken by the government is expected to be helpful for the small and micro businesses. It is also expected that these businesses will generate 10 times more number of jobs which are normally generated by the big business firms/companies at present.

### Issues to be Resolved

Aside from refinancing, MUDRA has been assigned the role of regulator also. This dilutes RBI's position as regulator of all the lending institution & thus can cause a chaos.

Also given that there are already refinance institutions such as NABARD & SIDBI, it will be imperative that MUDRA ensures more efficient use of capital. Rather than directly refinancing, it will help if it acts as market maker to further the dissemination of capital. Providing guarantees to bond & loan issues & securitizing loans to MFIs will raise more liquidity for the sector.

## SHG Bank Linkage: Optimizing the potential

*A self-help group (SHG) is a village-based financial intermediary committee usually composed of 10–20 local women or men*

*The SHG-Bank linkage program was conceived with the objectives of developing supplementary credit delivery services for the unreached poor, building mutual trust and confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor*

In India, the concept of micro finance encourages SHGs as means of savings and loan providers. Micro finance has to act proactively not for financial inclusion but also has to work to reduce dependence of poor borrowers on different informal financial sources.

SHG-Banking linkage programme for credit has been able to reduce transaction costs. It has enabled the banks to achieve better loan recovery and mobilize low cost deposits. It has contributed to a reduced dependency on informal money lenders and other impact on lives of poor households in a significant way. They reduce poverty through increases in income and enable the poor to build their assets

(NBFC-MFIs) likely to have overall debt of INR 360 billion to INR 420 billion by March 2016, re-finance from MUDRA Bank could constitute a major portion of the overall debt of the MFIs. Assuming an annual growth rate of 10%-15% for SHGs and 30%-35% for NBFC-MFI for the next two years, the overall microfinance portfolio is likely to cross INR 1 trillion as per ICRA estimates.

The SHG-bank linkage program has proved as useful channel for credit delivery system with a wide acceptance by banks, NGOs and various government departments. The following tables show the agency-wise savings of SHGs and loan disbursed to SHGs.



Outstanding Bank Credit to Micro and Small Enterprises				
Year	Public Sector Banks	Private Sector Banks	Foreign Banks	Total
2005	67,800.00	8,592.00	6,907.00	83,299.00
2006	82,434.00	10,421.00	8,430.00	101,285.00
2007	102,550.00	13,136.00	11,637.00	127,323.00
2008	151,137.00	46,912.00	15,489.00	213,538.00
2009	191,408.00	46,656.00	18,063.00	256,127.00
2010	278,398.00	64,534.00	21,069.00	364,001.00
2011	376,625.00	87,857.00	21,535.00	486,017.00
2012	396,343.00	110,514.00	21,760.00	528,617.00
2013	500,250.00	152,554.00	31,993.00	684,797.00

*SHGs is a savings-led model providing opportunities to the members to pool their small savings*

### SHG Schematic

The SHG Bank linkage programme, starting from the pilot project in 1992, has evolved as a major mainstream channel under which the poor are able to access formal financial institutional services.

The SHG-Bank linkage programme has turned into a solid structure with more than 73.18 lakh savings-linked Self Help Groups (SHGs) covering over 9.50 crore poor households as on 31 March 2013. The total savings of these SHGs with banks amounted to ₹ 8,217.25 crore. The number of credit-linked SHGs under the programme stood at 44.51 lakh.

Efforts were undertaken to plug the gap in the outreach of the programme in identified States viz., Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal.

*Apart from the conventional ways of financing an enterprise there are various alternative options to finance a business. These alternative or unconventional ways of financing offer a wide range of choice for the promoter to raise fund for his business and also offers a range of options to choose from.*

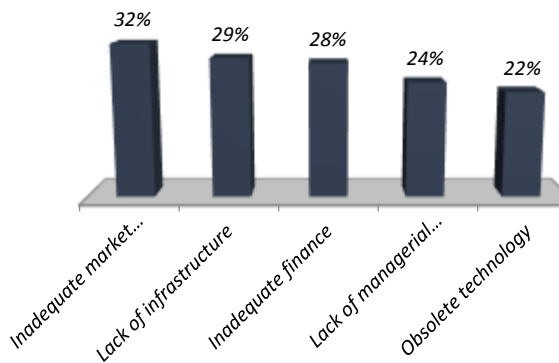
### **Transformed the lives of Poor/ A solution to Poor**

The World Bank has set a target for ending extreme poverty in this world by 2030 and declared that all policies and strategies of the Bank would henceforth be directed to achieve this goal.

Financial service providers have a big role in achieving this poverty eradication goal. However, financial services alone are inadequate for lifting the poor sustainably above poverty. Realizing this fact, many microfinance practitioners are adopting a holistic approach by addressing the myriad problems faced by the poor.

Freedom from Hunger and the Microcredit Summit Campaign have been working with several financial service providers in India to demonstrate that such add-on services can be practically and sustainably combined with microfinance services to transform the lives of the poor.

## KEY HINDRANCES FACED BY SMALL BUSINESS SECTOR



Source: Report of Working Group on Rehabilitation of Sick MSMEs, Reserve Bank of India

*Along with these challenges, the contribution of small business sectors in the GDP of the country is something around 8% and it is further increasing with each passing year.*

One of the challenges that continue to slowdown the pace of the microfinance sector is the flow of funds from banks that has shown improvement in the last year, but is far too short of the demand aggregated at the MFI level. While most banks have been lending to a few more established MFIs, the small and medium organizations continue to struggle for funding.

**Dearth of easy finance and credit instruments:** Though the government has specified schemes to fund businesses, what is lacking is the awareness. Most of the times, something doesn't work fine, businessmen will be under pressure to go for extended financing.

**Limiting regulatory polices:** Implementing the 'Make in India' campaign in letter and spirit, India has taken the initiative of improving 'Ease of Doing Business' by heavily cutting down documentation process. It has reduced the mandatory documents required for import and export of goods to three documents each.

**Unavailability of modern, affordable technology:** Despite the increasing adoption of newer technologies by large enterprises, the small enterprises are not very confident about the prospects of technology. They lack the trust. They often ask: "What if technology fails and our business flops". Technology providers need to build confidence with fool-proof methodologies and techniques to minimise fail-impact on overall business, or have a back-up plan.

**Lack of basic infrastructure facilities:** One of the major constraints for MSMEs is lack of infrastructure facilities and the absence of marketing platforms

*According to International Finance Corporation (IFC), the total financing demand gap in small business sector is of INR 2.93 Trillion.*

**Competition in International Market:** Advanced

competition in the global market further affects the profit making of Indian small business sectors. International producers offer better quality products at quite low prices. The limited access to international market is also a challenge.

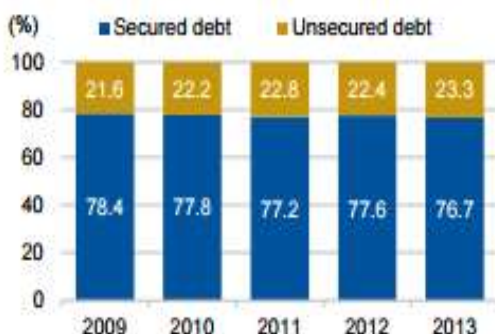
Small Business sector mostly operate in the service sector, and most entrepreneurs do not have access to immovable collateral to secure finance or get the sanctioned limits to be raised. Entrepreneurs have limited internal resources to capitalize (equity) the business and limited managerial experience, both of which make accessing debt capital from formal sources challenging. As a result, an enterprise is vulnerable to working capital strain.

Although Small business financing and microfinance models have started yielding desired results, equity financing remains a challenge. Given that banking and lending services represent the bulk of MSME financing in the developing world, especially for small firms, equity financing presents an opportunity for the development of a complementary financial product.

MSMEs in India have reported that as high as 93% of their financing needs are met by internal and informal sources.

## ENABLING ENVIRONMENT FOR GROWTH OF FINANCE TO SMALL BUSINESS SECTORS

### Proportion of Unsecured Debt Increasing for Small Companies



Source: Ind-Ra, company reports and publicly available information

The newly appointed NDA government in India has worked like a shot in the arm for the country's economy. A recent study by ASSOCHAM confirmed that this new wave of leadership for India is expected to double foreign investments to USD 60 billion. This is surely a major boost from the distressed condition of the Indian economy. Growth of MSMEs needs to be reinforced by holistic fiscal support and enabling policies. There have been significant efforts to strengthen the enabling environment for small business sector, which have had a positive impact on the sector as a whole. However, challenges in formulating and implementing effective policy continue to impede the growth of Small business sectors and small business sector finance.

### Schematic Key elements of Enabling Environment

**Legal & Regulatory Framework:** Given the importance of the MSME sector for economic growth, the government and regulators have instituted several policies to facilitate the growth of the sector and encourage participation by financial institutions. The current study assesses key legal and regulatory interventions that promote formal finance in the MSME sector

**Government Support:** Policies to facilitate multi-pronged support – skill, development market linkage, technology adoption and infrastructure, Funding support to credit guarantee schemes to enhance unsecured financing, Financial support to increase penetration of credit rating

**Financial Infrastructure Support:** Credit bureaus to track credit history of enterprises, Collateral registry for



immovable assets, Small and Medium (SME) Stock Exchange to facilitate primary and secondary transactions for SME securities

Small business sector function in a highly competitive environment and require an enabling environment to sustain growth. Well-rounded fiscal support, a strong policy framework, and incentives promoting innovation by financial institutions can significantly increase the penetration of formal financial services to the small business sector. While there have been commendable efforts by the government and the financial sector to develop and implement multiple support mechanisms for the small business sector, many of the current interventions have not been completely successful in meeting their original objectives.

MSMEs expect the new Narendra Modi led NDA government to focus on their key challenges and provide definitive schemes and programs to help solve long pending matters

### Potential Intervention to increase Financial Access to Small Business Sector

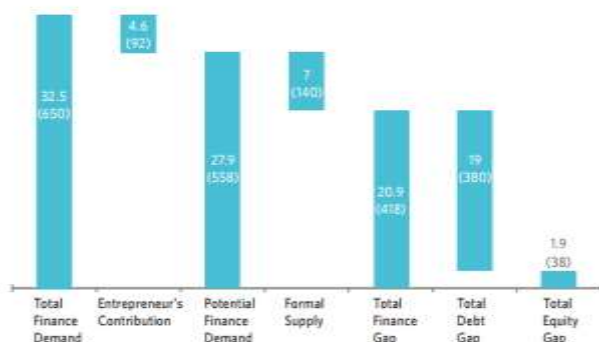
The current financing gap in the small business sector market presents a huge potential opportunity for formal financial institutions to expand their market reach. However, to achieve this, both the financial institutions and enterprises require substantial support from government and private sector.

Building on the efforts already underway, there are several potential interventions that can be undertaken to expand the access to MSME finance in India through enabling infrastructure, liquidity management, and risk management. Some of these potential interventions include:

#### Enabling Infrastructure

- Encourage securitization of trade-receivables in the sector through appropriate legal infrastructure.

OVERALL FINANCE GAP IN MSME SECTOR (IN INR TRILLION)\*



\*Figure in brackets is in USD Billion

SOURCE: MSME Census, RBI, SIDBI, FICCI RESEARCH, IFC-INTELLECAP ANALYSIS

APPROXIMATE TO BE IN 2022-2024

APPROXIMATE TO BE IN 2022-2024

- Promote institutions to syndicate finance and provide advisory support to MSMEs in rural and semi-urban areas
- Incentivize formation of new MSME-specific venture funds by allowing existing government equity funds to make anchor investment in venture funds.

#### **Liquidity Management**

- Improve debt access to non-banking finance companies focused on these enterprises and provide regulatory incentives for participation in the sector.
- Develop an IT-enabled platform to track MSME receivables to facilitate securitization of these trade receivables, or alternatively expand the scope of SIDBI and NSE's IT-platform NTREES to facilitate securitization.
- Provide credit guarantee support for MSME finance to non-banking finance companies.

#### **Risk Management**

- Develop a better understanding of financing patterns of service enterprises in the sector
- Expand the scope of the sector's credit information bureau to collate and process important transaction data, including utility bill payment.
- Strengthen the recently established collateral registry and create stronger linkages with other financial infrastructure
- Facilitate greater debt access to non-banking finance companies.

## CONCLUSION & SUGGESTION

There is an INR 3.57 trillion (US\$ 71.4 billion) institutional demand-supply gap in the small business sector in India, which formal financial institutions can viably finance. Of this, the debt gap is INR 2.93 trillion (US\$ 58.6 billion) and the equity gap is INR 0.64 trillion (US\$ 12.8 billion).

Micro and small enterprises together account for 97% of the viable debt gap. Working capital demand accounts for an estimated 61% of this debt demand. This represents a significant opportunity for Indian financial institutions that seek to address the “missing middle” by providing debt products and services specially designed to meet the needs of this large market.

The government’s “Make in India” initiative and its emphasis on increasing the share of manufacturing in the gross domestic product (GDP) from the present 14%-15% to 25% by 2022 has the potential to transform the fortunes of the small business sector, enabling it to scale hitherto unheard-of heights. A large number of small primary lenders will require significant investments in monitoring & compliance. Internal mechanism for risk assessment & mitigation is required. Otherwise it would result in erosion of capital through NPA’S. For the model to work there should be a synergy between the lenders & the refiner. Nevertheless, a challenge would be on incentivising lenders & the appropriation of this fund across different segments of the society including women (that for a large part of microfinance borrower class) & weaker section in general.

Small business sector contributes to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. Small Business Sector in India faces a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower. The small business sector

MUDRA Bank was primarily launched with the objective of refinancing.

Refinancing is a very effective method of expanding resource flow to any activity

contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 % of the manufacturing output and 40% of total exports of the country. To make this sector to become more a vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives.

This marks the beginning of a deeper & broader enterprise driven economic model in place of the existing corporate driven growth model. In so far as efficiency of capital use is concerned, there is mixed evidence on whether the Small Business sector is inherently more efficient than the corporate. Although it is certainly true that MSMEs tend to have lower capital to labour ratios, it is also true that the value added per unit of capital may actually be lower. In the aggregate, the probability is that an MSME-led growth process would require a higher investment rate to achieve a particular growth rate than a corporate-led strategy. This, taken with the lower marginal savings rate of the MSMEs, implies that the burden for generating the requisite savings would fall more heavily on the government. On the other hand, there is no doubt at all that MSME-led growth would generate far higher employment growth than the corporate-led. This would in itself reduce the need to support aggregate demand through fiscal action since the private consumption arising from such incomes will be higher.

It is true that the Small Business sector does not stand isolated from other industry sectors and the recent reform measures towards improvement of the overall business ecosystem are likely to push up the small business sector too, but considering the massive contribution of the sector to the economy and its ongoing turmoil, it is imperative that exclusive attention is paid to it. Non-availability of credit, high interest rates, faulty power supply, ease of doing business, start-up and registration, exit and rehabilitation, labour issues, tax exemption, manufacturing and export promotion - all these concerns should be addressed keeping in view the specific interests and challenges of the small business sector.

## Unfolding Investment Opportunities in Uttar Pradesh

### Introduction

For all round development of any state it is necessary that resultant economic and social benefits of development reach all sections of society. The policies and planning of the state should be such that there is improvement in the living standard of people across all sections to enable them to lead a dignified life. Based on this principle, the state government will strive to create an environment that is conducive to development of infrastructure, industry as well as trade. Infrastructure and Industrial development is key to the development of the State.



**Mr. U.K. Joshi**

Director, ASSOCHAM

***Uttar Pradesh is considered as the heartland of the country. The state offers loads of investment opportunities to the entrepreneurs across the globe. All you need is to unfold these investment opportunities, before you arrive at a judicious decision on investing your business acumen and of course the money here. For that purpose, we provide you a brief insight about U.P. as below:***

**As A State :** Uttar Pradesh, the largest state in population (approximately 200 million as per census-2011) and fifth in terms of area (2,40,928 sq. km.), is situated in northern part of India and is surrounded by Bihar in the east, Madhya Pradesh in the south, Rajasthan, Delhi, Himachal Pradesh and Haryana in the west and Uttaranchal in the north. The state has good communication network. It has one of the longest rail and road lengths.

- ❖ TRANSPORTATION
- ❖ GEOGRAPHY
- ❖ CLIMATE
- ❖ RIVERS AND LAKES
- ❖ FLORA AND FAUNA

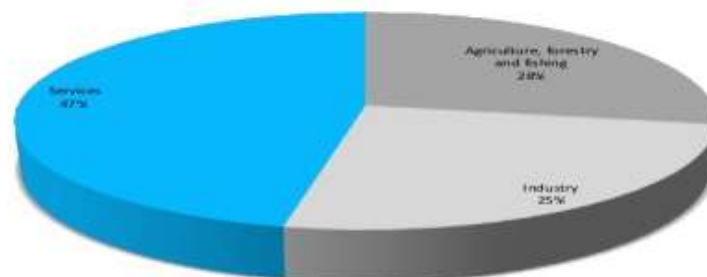
**As An Investor:** Uttar Pradesh offers enormous possibilities of enterprise and success, it is the biggest emerging market in India and the government is determined to continuously improve industry-conducive climate:

- ❖ Investor-friendly Government
- ❖ Improving power scenario
- ❖ Ample availability of water throughout the State
- ❖ Good connectivity and good logistic Support for investments.
- ❖ Efficient telecommunication network and optical fibres connectivity in the making
- ❖ State wide reforms for Good law and order, best industrial relations and lowest man-days.
- ❖ Presence of leading IT, Biotechnology, Electronics, Telecommunications and BPO companies.
- ❖ Among the fastest growing and largest markets in India.

**Nurturing the Start-up – for building Economy**

## Economic Overview of the State

COMPOSITION OF UTTAR PRADESH'S ECONOMY



Source : Institute for Competitiveness Analysis

**Capital Investment:** Uttar Pradesh has generated a capital investment and employments in the State during the 11th plan.

**Infrastructure Facilities:** Further, in order to promote investments and to boost industrialization in the State, Uttar Pradesh has developed many **SEZs, Industrial Clusters, Information technology Parks, Agro Parks.**

## Art & Culture

Over 2000 years ago the area which is now Uttar Pradesh was part of Ashoka's great Buddhist Empire. It was also part of the Mughal Empire. The Chikan is very famous in the world. Chikan is hand - woven embroidered cloth. Silk saris known as Kimkhawb, Chikan work from Lucknow, metal ware of Moradabad and Aurangabad, woodcarving of Saharanpur etc.

## Uttar Pradesh as a Tourist Destination

Embedded in the heart of India is Uttar Pradesh, a land where cultures have evolved and religions converge. The greatness of Uttar Pradesh lies not only in this confluence, but also in the emergence of cultural and religious traditions along some of the greatest rivers in the Indian sub-continent – **the Ganga and the Yamuna.**

Exploring Uttar Pradesh along the mighty rivers takes the visitors on a magical trip. The Heritage Arc in Uttar Pradesh provides an opportunity to explore the state in all its glory. The Heritage Arc signifies heritage in terms of cultural, historical and natural aspects. Moving on this arc from one end of the state to the other, takes travellers through Agra region, Lucknow region and Varanasi region, with several exciting destinations along the way.



## Opportunities in Various Industries

### ❖ *Agro-Processing Sector In Uttar Pradesh*

Varieties of fruits, such as mango, guava, litchi, lemon, jack fruit, bael etc. and vegetables like potato, tomatoes, cauliflowers, garlic, chilies, peas, turmeric etc. are grown in Uttar Pradesh in a very large quantity. But neither the farmers are able to harness due benefit, nor does it help generation of employment potential. It is all because of poor pre and post harvest management and lack of availability of appropriate fruit and vegetable processing industries (FVPI). The huge annual loss, amounting to 25 to 40% of the total fruits and vegetables produced, occurs on account of poor methods of harvesting and transport facilities.

### ❖ *Opportunities In Sugar Based Industry*

Uttar Pradesh Sugar Industry is one of the largest sugar industries in the Indian economy. The lavish measures in form of new promotional policies for the Uttar Pradesh sugar industry by the state government of Uttar Pradesh was introduced at a time when it was much needed to further boost the growth of the Uttar Pradesh sugar industry.

### ❖ *Opportunities In Mango Based Industry*

Uttar Pradesh is the leading mango producing state with production of 3,623.22 thousand tons. The UP mango varieties Dashahri, Langra and Chausa are of excellent quality. There is limited competition for these varieties within different mango producing states of India and Pakistan is the only other supplier in the world market. The Central Institute of Sub-Tropical Horticulture, located in Lucknow, has developed ideal new varieties, which are dwarf varieties and are early-bearing with attractive appearance and pleasant aroma and uniform size of fruit.

### ❖ *Opportunities In Guava Based Industry*

Guava is a hardy crop and can adapt itself to marginal lands. Further, it gives two fruiting's per year. Guava is the second most important fruit crop in UP and is currently grown in 15,600 ha, with a production of 140526 tons per year, with average yield of 9 MT/ha.

## Smart Cities in Uttar Pradesh

### ❖ *Noida As An It Hub*

With a population of over 1.8 million, Noida is one of the **largest planned industrial townships** of Asia surrounded by greenery; it has the fastest growing GDP in Delhi-NCR. The **future plans** for Noida include, CNG Plants all over the city, introduction of Wi-Fi capability in the entire city, plans to install CCTV cameras on the Noida Expressway.

### ❖ *Allahabad as an industrial hub*

With a land bank of 1,200 acres at its disposal in Allahabad, Uttar Pradesh government is projecting the Sangam City as a major industrial hub of the future.

The proposed Eastern Dedicated Freight Corridor (EDFC), christened as Amritsar-Delhi-Kolkata Industrial Corridor, would also traverse Allahabad.

**Nurturing the Start-up – for building Economy**

The Akhilesh Yadav, government is seeking Early Bird Project status for Allahabad manufacturing cluster, which would require 2,500 acres, of which 1,200 acres is already available with government agencies.

### ❖ ***Lucknow As A Start Up Destination***

There are numerous factors which are working together to shape the growth. Some of the key developments favouring Lucknow . An 'IT City' is proposed to be built on about 100 acres of government land at Gajaria farms on Sultanpur Road in Lucknow. The state government had given approval for the city in April 2012. The state has proposed 40 IT/ITeS parks (apart from IT SEZs), two biotech zones and a knowledge park.

## **Energy in the State**

State government has accorded high priority to the development of energy Development of Infrastructure Facilities 11 sector, so that uninterrupted power supply is ensured to the industries and State is developed as power-surplus during the Twelfth Five Year Plan.

- ❖ Effective implementation of provisions of the Energy policy of the State and its successive modifications will be ensured. State government will encourage power generation through Public, Private sectors and Public-Private Partnership (PPP). Besides Micro Hydro-electric power generation through Non-conventional energy, other power generation sectors like solar, biogas, biomass, and garbage will be specially promoted.
- ❖ The plants installed for the generation of electricity from solar energy will be accorded the status of 'industry' and all the benefits under this policy will be available to solar power plants.

## **Special Economic Zones**

In the context of changing global economic scenario, Special Economic Zones (SEZs) have an important place. At present, 23 SEZs have been notified in the State, of which 8 SEZs have been established. Amendments in SEZ Act-2005 and SEZ Rules-2006 have been proposed by the Central Government. The State's SEZ Policy would be reviewed and implemented in the light of these amendments.

State is endowed with ample raw material for area specific industries; to enable maximum utilization of these raw materials by setting up area specific industries, Special Area Specific Industrial Parks hold particular significance. Hence, great emphasis is being placed on establishment of such parks by the State government.

- ❖ The first Bio-tech Park in the State has been set up at Kursi Road in Lucknow. Similarly, to encourage the establishment of other Bio-tech Parks, Information Technology Parks, Pharmaceutical Parks and Dairy farms, the concerned departments would formulate separate policies to provide necessary facilities. These facilities will be in addition to those proposed in this policy (IIIP 2012).

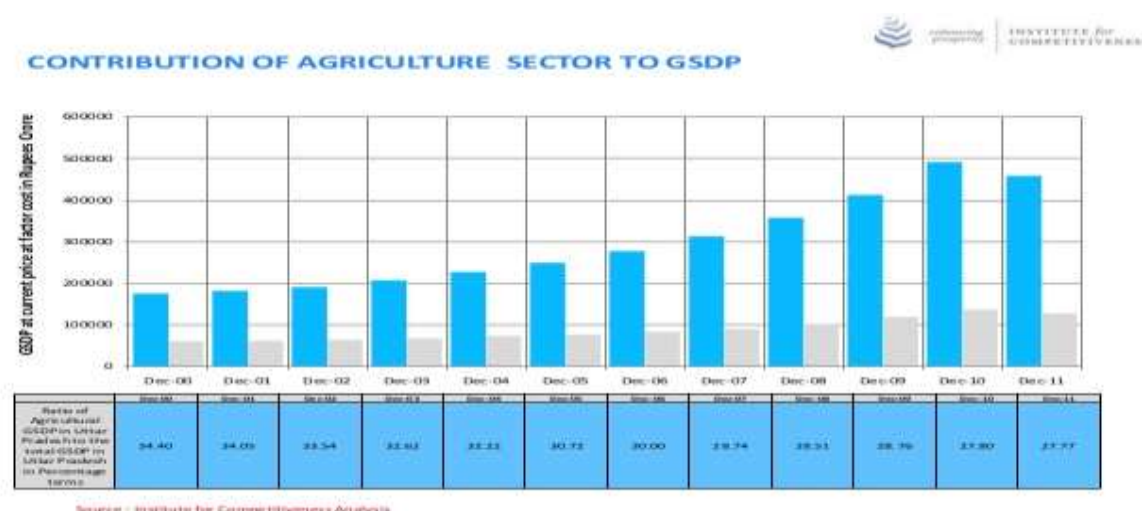
### **Nurturing the Start-up – for building Economy**

- ❖ In order to avail maximum benefits of the ample availability of polymers, being produced by Gas Authority of India Limited in its plant at Auraiya, an extensive Plastic Park based on the polymer as raw material, will be set up through U.P. State Industrial Development Corporation.

## Performance of Different Sectors in the State

In terms of economic size, Uttar Pradesh is the third biggest state in India. If we look at the last ten years state's economic contribution to Indian economy, it indicates a declining trend till 2011-12 thereafter its contribution is indicating an upward trend. This indicates that the state economy has started improvement in its activity and has resulted in better contribution to the Indian economy.

### ❖ Agriculture Sector's Performance



Uttar Pradesh is the most populous and densely populated state of India. The state constitutes about **16** per cent population and **7.3** per cent of the geographical area of the country. It is the 2nd largest state-economy and contributes about 8 per cent to country's gross domestic product. The economy is predominantly agriculture covering a sizeable part of the highly fertile Upper Gangetic Plain. About **79** per cent population lives in the rural areas and **62** per cent of the total workers are employed in agriculture. The state is known for its wide diversity and variations in natural resources, climate, soil, topography and institutional and socioeconomic conditions across its regions.

Over the years, these have led to uneven performance of the agricultural sector and disparities in the rural and economic development across regions. These regional disparities and inequities have been the major policy concerns of the decision-makers. This study has analysed the productivity levels and variations in performances of agriculture across districts and regions and their linkages with rural poverty. The aim was to identify factors affecting land and labour productivity and in turn, poverty reduction. It will ascertain scope for agricultural productivity growth and help in designing location-specific strategies and interventions 26 January-June 2012 for enhancing performance of agriculture and reducing poverty in the state.

## ❖ Performance Of Industrial Sector

Uttar Pradesh State Industrial Development Corporation (UPSIDC) and the Department of Infrastructure & Industrial Development are nodal agencies for the development of industrial infrastructure in the state. Udyog Bandhu is an industrial development agency which facilitates investment, operation and establishment of industrial undertakings in the state. The abundant resources, policy incentives, availability of workforce, large consumer markets and infrastructure in the state make it an attractive investment destination.

## ❖ Performance Of Services Sector

Service sector plays a very important role in Uttar Pradesh's economy as well as India's economy. The service sector has been the largest contributor of gross state domestic product and the sector contributes 56.6 % of GSDP in 2013-14 which has increased from 47.0 % of GSDP in 2004-05.

Uttar Pradesh's service sector plays an important role in India's service sector. In terms of size of the service sector, the sector ranked 3<sup>rd</sup> amongst the states in India after Maharashtra and Tamil Nadu. The state's service sector contribution to India's service sector has recorded a marginal decline from 7.8 % in 2004-05 to 7.7% in 2013-14 during the last three years, its contribution has recorded an improvement.

**Noticeably, the sector growth has reached its peak level of 11.7% percent in 2009-10 thereafter it has recorded a downfall. The last three years performance indicates that the state service sector has outperformed India's service sector in terms of its growth.**

## Investment Policies for Doing Business in India

- ❖ In general, all Electronics and IT products are freely importable, with the exception of some defence related items. All Electronics and IT products, in general, are freely exportable, with the exception of a small negative list which includes items such as high power microwave tubes etc.
- ❖ Second hand capital goods are freely importable.
- ❖ Zero duty Export Promotion Capital Goods scheme (EPCG) which allows import of capital goods at zero% customs duty is available to exporters of electronic products. The export obligation under EPCG Scheme can also be fulfilled by the supply of Information Technology Agreement (ITA-1) items to the DTA provided the realization is in free foreign exchange.
- ❖ Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export purposes. Sales from Domestic Tariff Area (DTA) to SEZs are being treated as physical export.

## ***Foreign Direct Investment in Uttar Pradesh:***

As per the International Monetary Fund (IMF), Foreign Direct Investment, commonly referred to as FDI is an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor. It is not 'portfolio foreign investment (supine investment in another country's securities like bonds and stocks)'. Inorganically or organically done investment in another country is not FDI.

The economic development witnessed during the past two decades in India rests to a great extent on Foreign Direct Investment (FDI). FDI has been a vital non-debt financial force behind the economic upsurge in India. Special investment vantages like cheap cost wages and tax exemptions on the amount being invested attract foreign companies to invest in India. FDI in India is done across a wide range of industries and its relentless influx reflects the tremendous scope, faith and trust that foreign investors have in the Indian economy.

### **Steps Taken By Government to Promote FDI**

The Indian Government has taken a number of steps to show its willingness to allow more foreign direct investment in the country. In the infrastructure development sector, it has relaxed the norms pertaining to area restriction, the laws regarding gaining a comfortable exit from a particular project and the requirements relating to minimum capitalization. If companies are ready to commit 30 percent of their investments for affordable housing, then the rules for minimum capitalization and area restriction will be waived off. It is expected that this will benefit the construction sector a lot, especially in the form of greater investment inflow.

The situation will only get better once sectoral conditions are further relaxed and the terms that have been used in the policy are clarified up to a greater extent. This is likely to get more investment especially in the newer areas. This will also act as a fillip for entities eagerly interested in developing plots for serviced housing. This is going to be a major development considering the fact that the land in the urban areas is inadequate. One also needs to factor in the high costs of land in this regard. It will also lead to the creation of cost-beneficial, affordable houses. It will help with the 'Smart Cities' programme as well. In the insurance sector too, the government has increased the upper limit of FDI from 26 percent to 49 percent. It is an amalgamation of different areas of investment such as:

- ❖ Foreign portfolio investment
- ❖ Foreign venture capital investment
- ❖ Foreign institutional investment
- ❖ Non-resident investment
- ❖ Qualified foreign investment

**Exports:** The state offers various fiscal incentives, subsidies, marketing support and has established the Export Promotion Bureau in 1999 to facilitate exports from the state. The state has great potential in handicraft sector which constitutes about 60% of the total exports from the state. In addition to this, the other major export products from the state are marble products, art pieces, bags, gems and jewellery, apparel, electronics, computer, hardware, software, leather, silk carpets, etc. The prominent export zones in the state are Noida, Agra, Moradabad, Lucknow, Kanpur, Varanasi, Jhansi and Lalitpur. The state has set up Export Promotion Industrial parks at Greater Noida and Agra.

## Make In India – Initiative for Promoting Investment

A major new national program designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure. There's never been a better time to make in India.

### *How 'make in India' will benefit Uttar Pradesh?*

Uttar Pradesh Chief Minister Akhilesh Yadav underlined the importance of his state in ensuring the success of Prime Minister Narendra Modi's 'Make in India' scheme, saying UP has all the necessary resources for it.

Uttar Pradesh will have the most important role in 'Make in India' campaign. The state has already organised programme to lay the foundation stone/inauguration of 62 projects worth Rs 6,796 crores under Noida, Greater Noida industrial development authority and Yamuna expressway industrial authority here.

It will help in ensuring success of 'Make in India', the state should be given due importance as it has all the necessary resources'.

Referring to steps being taken to develop infrastructure like the construction of Agra-Lucknow expressway connecting Lucknow and Delhi, he said efforts were on to develop the entire state on the lines of Noida and Greater Noida which have better infrastructural facilities.

## Institutions Set Up For Inviting Investments by Government of Uttar Pradesh

❖ **Udyog Bandhu :** "Udyog Bandhu" is an organization of the State Government of Uttar Pradesh in India; dedicated to facilitate Investment in Industrial and Service Sectors, besides solving various problems of existing & up-coming industries as well, related to different Government departments.

### ❖ **Pradeshya Industrial & Investment Corporation Of Uttar Pradesh Limited (PICUP)**

PICUP is a Nodal Agency on behalf of State Govt. for undertaking following activities:

- ❖ Mega Projects - Capital Investment above Rs. 200 Cr.
- ❖ SEZ Projects
- ❖ Industrial Investment Promotion Scheme - 2003
- ❖ Industrial Investment Promotion Scheme - 2012

**Nurturing the Start-up – for building Economy**



## ❖ Subsidy Schemes – 2012

### Challenges of doing business/investing in Uttar Pradesh

- ❖ **Foreign Investment:** Foreign investors can now invest directly in most sectors in India without obtaining the prior approval of the Indian government. However, there are still several sectors where a foreign investor cannot directly invest or must first obtain the approval of the Indian government.
- ❖ **Labour & Employment:** Negative covenants in employment contracts in the form of non-compete clauses are unenforceable beyond the term of the contract. While terminating employment contracts, investors should be careful to comply with relevant laws such as Industrial Disputes Act, Shops and Establishments Act.
- ❖ **Inadequate Infrastructure:** India's weak infrastructure manifested by its poor energy supply, unpaved roads, ineffective airports and ports pose a major challenge to foreign investors. Infrastructure inefficiencies like inadequate power generation adds a significant cost factor for manufacturing companies in the country.
- ❖ **Corruption:** Corruption is a big hurdle when doing business in India. As per the Transparency International's Corruption Perception Index, in 2005, India ranked 92nd out of 159 countries in a study measuring perceptions about corruption. Foreign investors should avoid violating local and foreign anti-corruption laws. Political and regulatory risks can also pose a major challenge.

### Future Plans and Vision

Uttar Pradesh has the potential to attract investment of about **Rs 72,000 crore by 2020** in the field of electronics system design and manufacturing, as per Vision 2020 document unveiled by Indian Cellular Association today.

"As per the Vision 2020, it is envisaged that investments to the tune of USD 12 billion (about Rs 72,000 crore) could be realised in the state of UP in the ESDM sector by 2020 with the goal of scaling up total value of electronics hardware manufacturing to **USD 20 billion (Rs 1.2 lakh cr),**"

### Conclusion

With the blend of natural resources and opportunities for growth, success and expanding the businesses, Uttar Pradesh has a lot to offer as a state where investment is the need of the hour.

In spite of various challenges and tough laws, bureaucracy, red tapping with the help of various schemes launched by the Government of the state and the central govt., new opportunities lie unfolded and a number of stones unturned. What is needed is the belief and trust for the entrepreneurs and business houses to invest in the state which no longer will be a disappointment, which will enhance their fortune, their status and restore their confidence of investing in this country.

## About ASSOCHAM

### THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

#### Evolution of Value Creator

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,00,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country. Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally. ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

#### VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

#### MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

#### MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,00,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference. Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

#### INSIGHT INTO 'NEW BUSINESS MODELS'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporate, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin; Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi and has over 4 Lakh Direct / Indirect members.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

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# RESURGENT INDIA LIMITED

## EQUITY I DEBT I ADVISORY

Resurgent India is a full service investment bank providing customized solutions in the areas of debt, equity and merchant banking. We offer independent advice on capital raising, mergers and acquisition, business and financial restructuring, valuation, business planning and achieving operational excellence to our clients.

Our strength lies in our outstanding team, sector expertise, superior execution capabilities and a strong professional network. We have served clients across key industry sectors including Infrastructure & Energy, Consumer Products & Services, Real Estate, Metals & Industrial Products, Healthcare & Pharmaceuticals, Telecom, Media and Technology.

In the short period since our inception, we have grown to a 100 people team with a pan-India presence through our offices in New Delhi, Kolkata, Mumbai, and Bangalore. Resurgent is part of the Golden Group, which includes GINESYS (an emerging software solutions company specializing in the retail industry) and Saraf & Chandra (a full service accounting firm, specializing in taxation, auditing, management consultancy and outsourcing).

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