9.35 In the short run, revival of investment in industry and key infrastructure sectors is the key challenge. Industrial sector has been hit hard by the deceleration in investment for the second successive year. As per the latest first revised estimates of GDP, gross capital formation in the manufacturing sector in 2011-12 (at 2004-05 prices) had declined by 18.8 per cent as compared to 2010-11. Lower foreign direct investment inflows in key industry and infrastructure sectors during April-October 2012 at $ 6.19 billion as against the inflow of $18.66 billion during the same period of the previous year have further constrained investment in these sectors. Investment intentions indicated in the industrial entrepreneur memorandum (IEMs) filed, which are lead indicators of likely investment flows to industry, also declined in 2011 and 2012. Notwithstanding a marginal pickup in the gross bank credit deployment into industrial sector in recent months, year on year increase in gross bank credit deployment as on end December 2012 has been 13.8 per cent as compared to 19.8 per cent a year ago.

9.36 Apart from weak investment climate, industrial sector performance remained subdued due to infrastructure bottlenecks. Industrial growth rate moderated due to sharp decline in output of natural gas; subdued performance of the coal sector and its resultant impact on thermal power generation; and slow pace of project implementation in rail, road, and ports sectors. In the medium term it is therefore crucial to accelerate the output of core sectors and speed up implementation of crucial big ticket projects.

9.37 As discussed in detail in the earlier sections, the key underpinning cause of the recent industrial slowdown has been the manufacturing sector. India's manufacturing value-added (MVA) as share of GDP, has remained sticky at around 15 per cent. As per the latest competitive industrial performance index (CIP) compiled by UNIDO for the year 2009, India was placed 42nd out of the 118 countries. India's low CIP ranking hints at the underlying weaknesses and vulnerabilities despite being one of the top ten manufacturing nations. India's manufacturing sector therefore needs to acquire dynamism and technological sophistication to become one of the leading manufacturers. From the long term point of view, low level of R&D and inadequate availability of skilled manpower would adversely affect India's competitiveness and the manufacturing growth.

9.38 India has not improved significantly in terms of the ease of doing business and ranks very low in comparison to other industrial peers. The MSME sector in particular faces multiple approval and operational restrictions. The process of setting up and exiting business is time consuming and complicated requiring expensive third party assistance. Since states have the major role in administering MSME sector, the prevailing ecosystem therefore varies from state to state. Exit rules as per the Companies Act, 1956 are complex and costly and do not permit reaping the benefits from reallocation of resources.

9.39 Sourcing of finance at competitive cost is another major constraint for both the organized and the unorganized MSME enterprises. Financing other than internal accruals is costly and prohibitive. The Prime Minister's Task Force on MSMEs had recommended a 20 per cent year-on-year growth in credit to micro and small enterprises to ensure enhanced credit flow. It had also recommended allocation of 60 per cent of the micro and small enterprises advances to the micro enterprises to be achieved in a phased manner. The resource flow, however, needs to improve. Research and technology upgradation activities also need to be scaled up. Presently only a small number of incubators operates in the country which is very low relative to other countries. New incubators will need to be set up on a Public-Private Partnership basis. To attract more investment and talent, incubators need to be allowed to distribute profits back to investors. With some of these changes indutrial growth could become steadier.