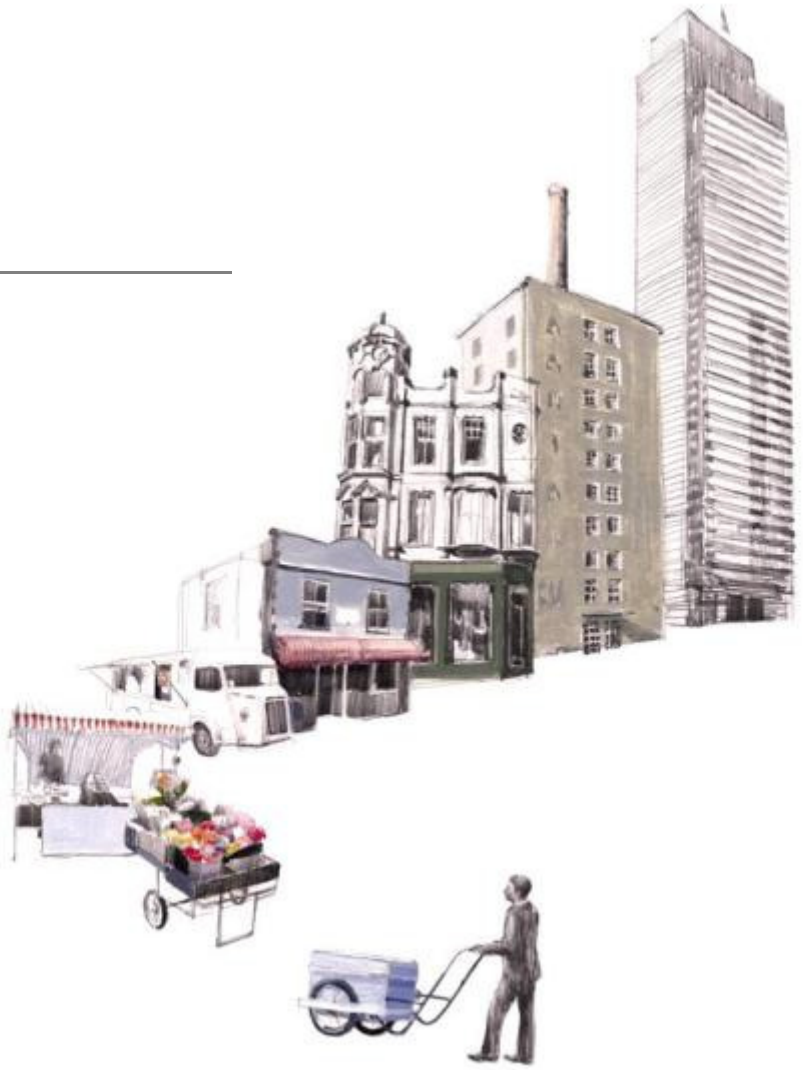
Vision 2020:
Implications for MSMEs

2011



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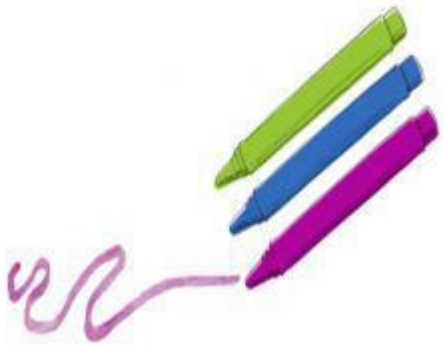
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Foreword

We are pleased to share the FICCI- Grant Thornton Report on "Vision 2020- Implications for MSMEs" to be released at the annual FICCI MSMEs Summit 2011.

This publication highlights the strategic importance of the MSME sector in current economic scenario, brings out the imminent challenges for the MSME operating in India, and the way forward to help MSME sector achieve its full potential in order to be a growth engine for Indian economy by end of the decade.

After extensive deliberations, FICCI's MSME expert committee identified following key constraints to the growth of MSMEs in India: non-availability of adequate and timely credit at cost effective rates, technological obsolescence, access to markets, need for skilled human resources and infrastructural bottlenecks. Task forces on each of these subjects were constituted under the chairmanship of subject experts to delve into these issues.

Preliminary reports of these groups have helped create this first draft of the vision document. This document not only brings out policy concerns, attempt has also been made to highlight some of the best practices that could be emulated by MSMEs to improvise their business processes.

Deliberations at the MSME Summit will help us further refine and sharpen our views before presenting this to the Government and Industry stakeholders.

FICCI would like to thank Mr. Sanjay Bhatia, Chairman, FICCI MSMEs Committee and Mr. R C M Reddy, Co - Chairman, FICCI MSMEs Committee for their constant support and guidance.

A very special thanks to Conveners of Taskforces - Mr. Piyush Patodia, Convener, Taskforce on Marketing, Mr. Manfred Haebig, Convener, Taskforce on Facilitation, Mr. Deepak Pahwa, Convener, Taskforce on Technology & Environment, FICCI MSMEs Committee and all the Taskforce members who extended their voluntary support in helping FICCI in executing this important initiative.

We anxiously look forward to views and suggestions of all of you on this draft vision document to help us in finalizing this important document.

FICCI Team

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Preface

In recent years, the Indian economy has shown an excellent growth performance with annual growth rates closing in on 9 per cent per annum.

The economy rebounded strongly over the past fiscal year and is among the leaders in exiting the global recession. Prompt and strong fiscal stimulus and monetary easing, an improving global economic environment, a return of risk appetite, and large capital inflows were instrumental in the bounce back.

Monetary tightening and withdrawal of fiscal stimulus are under way. It is pertinent to address infrastructure bottlenecks and reform the agriculture sector to sustain long-term growth.

The sheer magnitude of the Micro, Small and Medium Enterprises (MSMEs) sector comes to the fore with Rs 20 lakh crore of goods and services they produce—contributing as much as 40% to Gross Domestic Product (GDP) of India.

Together, they make the engine of incessant growth, providing livelihood to millions of people and creating value for the entire global community.

In order to keep the momentum of growth and holistic development, it is imperative that the MSME sector is empowered to meet challenges that can threaten their survival and growth.

As a knowledge partner for FICCI's MSMEs Summit 2011, Grant Thornton is delighted to release this report, which discusses various significant aspects concerned with this sector and I hope that you will find this insightful.

Vinamra Shastri
Partner
Practice Leader, Business Advisory Services
Grant Thornton India



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Vision 2020: the context

Economic performance

India is the fourth largest economy in the world (in PPP terms) and the second largest in developing Asia. By 2012, it is expected to overtake Japan to become the third-largest economy. India accounts for 22 per cent of GDP, 33.8 per cent of population and 32.5 per cent of potential workforce in developing Asia. In the next 10 years the country will add 120 million to the region's workforce, accounting for 53 per cent of the incremental addition. Its growth story is evident from the increased investment in infrastructure, abundant job opportunities in big and small cities, healthy balance sheets of companies and the heightened growth of consumerism.

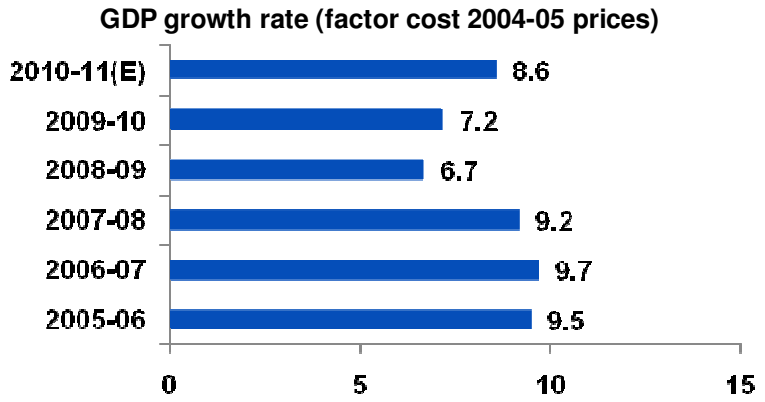
At present, Indian economy is on the fulcrum of an ever rising growth curve. With positive indicators such as a stable annual growth, rising foreign exchange reserves of close to US$ 150 billion, a booming capital market with the popular Sensex (sensitive index of The Stock Exchange, Mumbai) topping the 11,000 point mark, increasing flow of foreign direct investment (FDI), and more than 20 per cent surge in exports are reinforcing India's growth story.

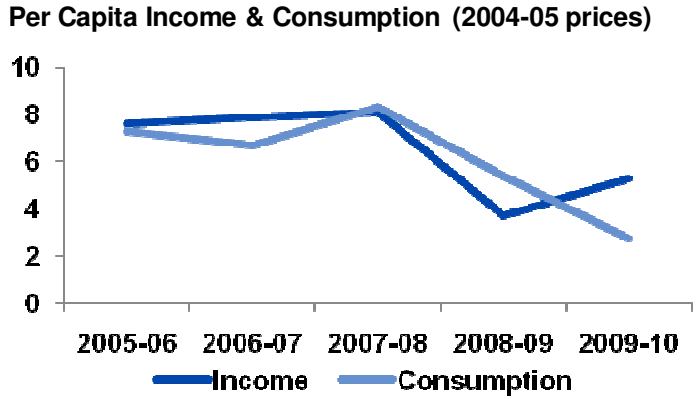
India has grown in stature over the past ten years. Its GDP growth accelerated steadily after India liberalised its economy in 1991, taking a decisive step towards open policies and relinquishing inward looking policies. The average annual GDP growth went up to 7.3 per cent in the 2000s from 5.7 per cent in the 1990s. The near 9 per cent average annual growth over 2003-04 to 2007-08 was unprecedented. Growth-enhancing reforms, a structural upward shift in savings and investment rates, and increase in spending capacity have together powered India's growth.

[1]Source: India Economic Survey, 2009-10

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Although its GDP growth rate dropped due to the global financial crisis to 6.7 per cent in 2008-09, India's economy emerged quite rapidly from the crisis. The economic recovery was aided by the inherent strength of India's domestic demand that was complemented by the Reserve Bank of India's monetary management and the central government's fiscal stimulus measures. With its GDP likely to grow at 8.6 per cent in 2010- 11, India will be among the fastest growing economies. [1]





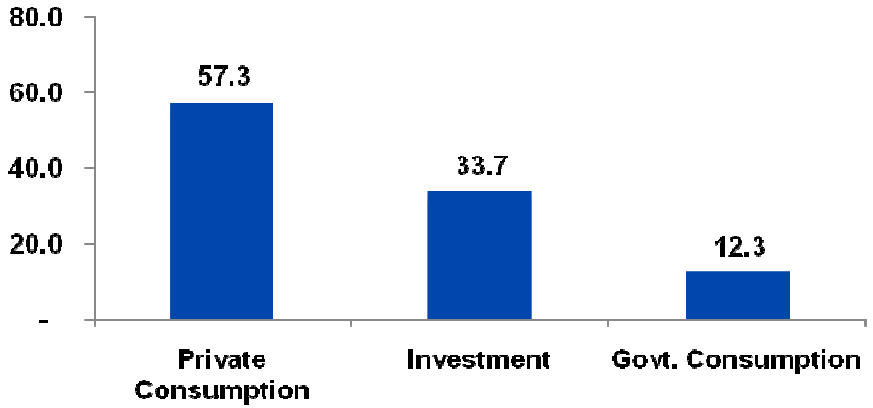
Source: Economic Survey, 2009-10

Economic performance

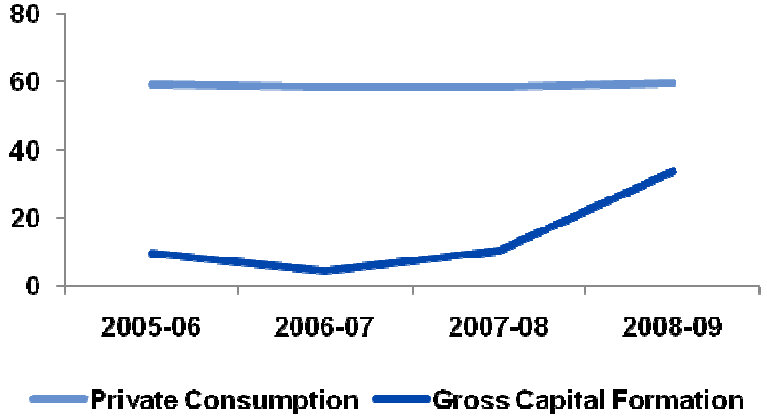
This impressive performance has been driven by strong growth in the services sector from the supply-side and household consumption from the demand-side. Services grew at an accelerated rate owing to increased government spending and revival of trade, hotels, transport, communication and related sub-sectors. Industrial growth, as measured by change in index of industrial production, was driven by robust private consumption demand and resurgence in investment demand. Industrial growth, however, has now become volatile and is slowing in recent months, from an average 16 per cent growth in 2009-10 to 9 per cent in 2010-11. Good monsoons during the year have benefited the agriculture sector. With a support from a low base, this sector is likely to grow at about 5 per cent, greater than its long-term average growth of 2.8 per cent over the last two decades.

Private consumption continues to be the largest drivers of demand in the Indian economy. During 2005-06 to 2007-08, real private consumption growth stood at 9 per cent. During the global financial crisis, , when consumer confidence diminished and lenders became risk averse, private consumption growth fell to an average of 5.5 per cent in 2008-09 and 2009-10. By the second quarter of 2010-11, private consumption growth recovered to 9 per cent. At present, private consumption accounts for nearly 60 per cent of overall demand in the economy. In addition, real government consumption also grew at an average of 13 per cent in 2008-09 and 2009-10, from an average of 5.6 per cent over 2004-05 to 2007-08.. [2]

Private consumption is the largest demand driver, but investment rises rapidly, 2009-10 (%)



Share of private consumption in GDP is dominant



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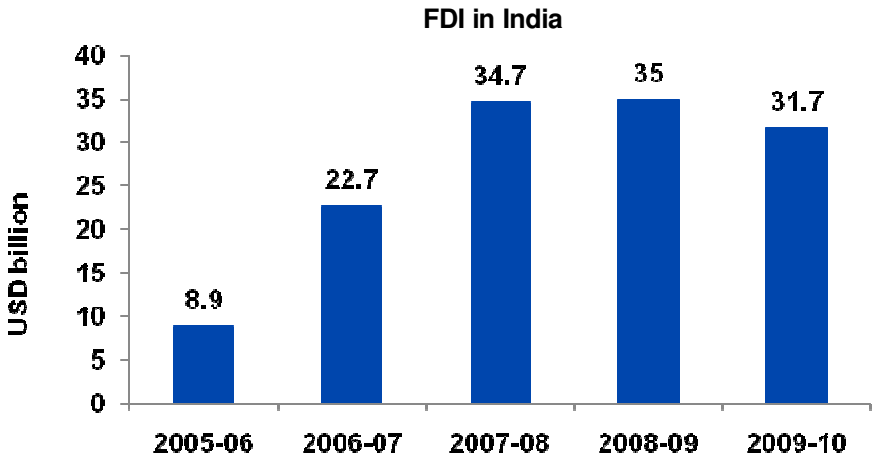
Economic performance

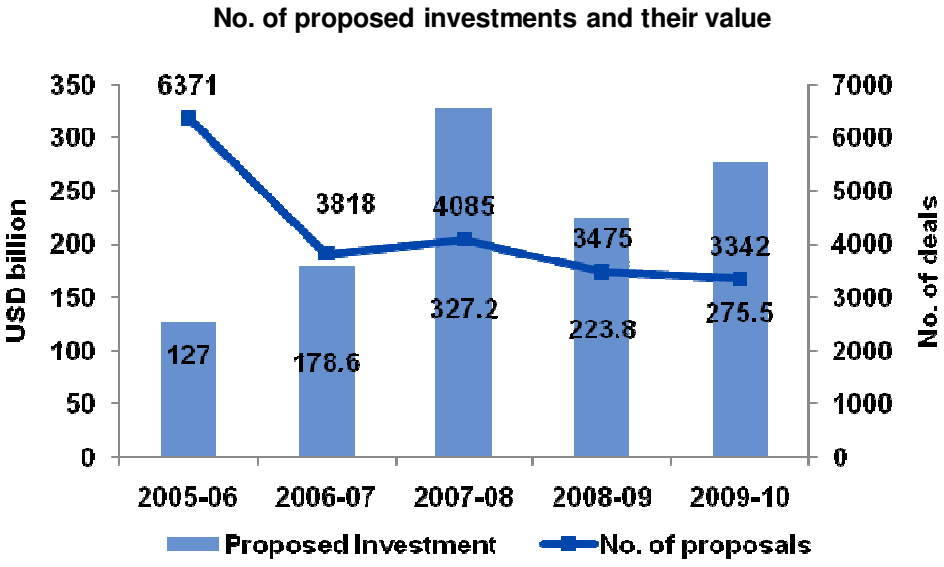
FDI inflows in India have grown rapidly, doubling over three years. Between 2006 and 2008, FDI inflows in India doubled from US$ 20 billion to US$ 40 billion. Unlike foreign institutional investment (FII) inflows which have been volatile, rising sharply from US$ 24 billion in 2006 to nearly US$ 51 billion in 2007 before falling to US$ 18 billion in 2008 and again rising to nearly US$ 48 billion in 2009, FDI inflows were fairly resilient. [3]

For a developing country like India, FDI is considered as the most preferred route among the sources of foreign capital. FDI acts as a catalyst to economic growth by increasing the investment rate, and also improves the total factor productivity by allowing technology transfer, enhancing efficiency of human capital, increasing competition and contributing to exports growth.

According to the United Nations Conference on Trade and Development (UNCTAD), India is among the five most favoured investment destinations for FDI globally. This clearly highlights India's significant potential for attracting FDI and increasing India's external trade capabilities.

Total exports of goods and services rose from US$ 60.9 billion in 2000-01 to US$ 272.5 billion by 2009-10. India's share of global exports, therefore, increased from 0.8 per cent in 2003 to 1.2 per cent in 2009, as per World Trade Organization's estimates. Growing at a compounded annual rate of 25.5 per cent, services exports crossed US$ 100 billion in 2008-09, rising from a modest US$ 16.3 billion in 2000-01. Exports of manufactured goods tripled to US$ 115.3 billion in 2009-10 from US$ 34.3 billion in 2000-01





[2] Source: India Economic Survey, 2009-10
[3] Source: RBI Bulletin, October 2010; Department of Industrial Policy and Promotion, Govt. of India

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Economic performance

Export participation raised productivity of these industries further due to technology transfer and continuous innovation thereby boosting employment rate. India's IT/ ITeS sector is a prime example. The export-oriented IT/ ITeS sector is one of the largest employment generators in India's organised sector. Employment in this sector increased from 180 thousand in 2002-03 to nearly 830 thousand in 2009-10.

India's exports to GDP ratio increased to 21 per cent in 2009-10 from 13 per cent in 2000-2001. India's rising exports provided a stimulus to domestic production whereas its growing imports supported domestic production by supplying necessary raw materials, technology, and consumer and capital goods.

The growth imperative

The long-term policy imperative of the country is to achieve inclusive growth. The current developmental problem facing India is exacerbated by the changing demographic profile of the country. The number of unemployed will range from 19 to 37 million people by 2012, of which the proportion of the educated youth will be the largest. Therefore, the need for strong, accelerated economic growth is now more acute than ever.

India's economic growth has been led by the services sector in the last decade, particularly owing to the growth in information technology (IT) and business process outsourcing (BPO) industries. The manufacturing sector's importance has grown in the recent years with the advancement in its output. The sector offers huge potential for employment creation. Moreover, the importance of Micro, Small and Medium Enterprises (MSMEs) in the growth process is considered to be a key engine of economic growth in India.

The MSME sector accounts for about 45 per cent of manufacturing output, 95 per cent of the industrial units and 40 per cent of exports. Besides, the sector provides employment to almost 60 million people, mostly in the rural areas of the country, making it the largest source of employment after the agriculture sector. Development of this sector, thus, holds key to inclusive growth and plays a critical role in India's future.

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Opportunity 2020

Driven by a nominal annual growth rate of 13 per cent, GDP is set to quadruple over the next ten years to reach Rs.205 trillion (US$ 4.5 trillion) by 2020. [4]

The gross domestic savings are expected to grow by 3.8 times from Rs.19 trillion in 2009 to Rs.72 trillion by the end of the next decade. The increased savings are expected to l lead to a huge surge in domestic consumption expenditure which is set to triple from Rs.30 trillion in 2009 to Rs.113 trillion in 2020.

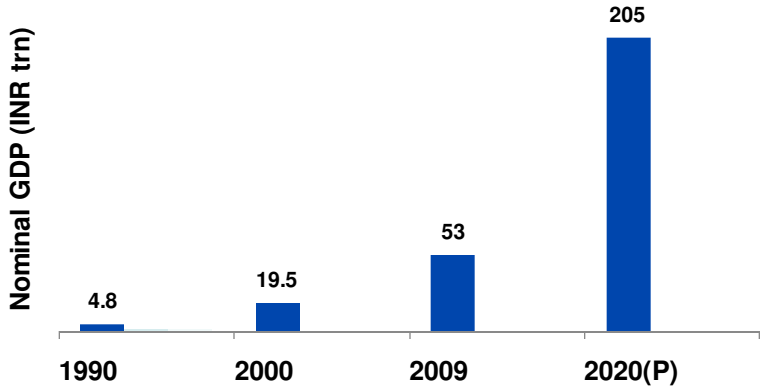
The change in the economic pattern of the country by 2020 is expected to reduce inequality among the various population classes of India. The population in the deprived category is likely to be reduced from 133 million households to 100 million households during this period. This reduction would tantamount to growth in consumption. Consumption by middle and higher-middle class population is likely to increase from 47 per cent in 2010 to 60 per cent in 2020.. A substantial growth in consuming class population could serve as a self-igniting phenomenon for the Indian economy. [5]

The working age (20-59 years) population is also likely to increase by 20 per cent, which will ensure higher per capita income. Population in the above 60 years age bracket is likely to increase by a whopping 45 per cent. This age group could herald an increasing need for medical and healthcare facilities apart from strong financial products like retirement and pension funds. [6]

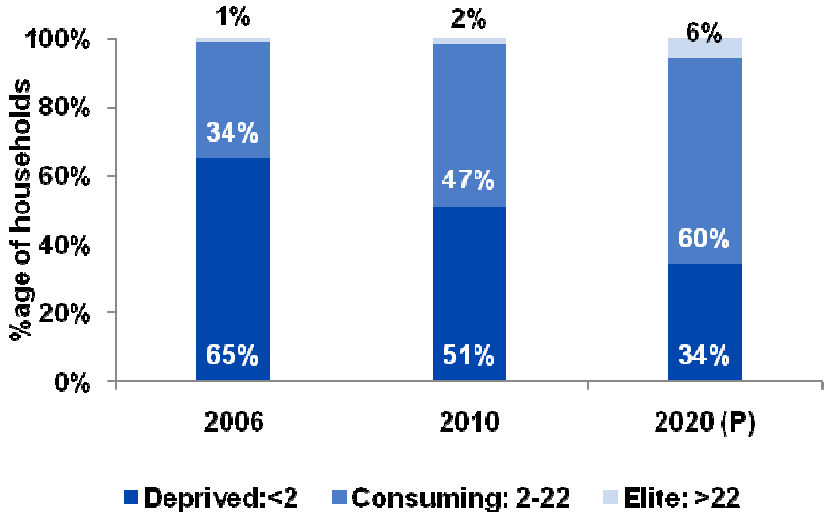
Elite Category (>INR 1000K): Grows from 4.4 mn households to 1.81 mn
Consuming Classes (INR 90-1000K): Grows from 120 mn households to 180 mn
Deprived Segment (<INR 90K): Grows from 133 mn households to 100 mn
(INR income level as in year 2000)

[4] Source: India 2020: Seeing Beyond, Executive Summary, Edelweiss Report
[5] Source: India 2020: Seeing Beyond, Executive Summary, Edelweiss Report
[6] Source: U.S. Census Bureau, United Nations

Projected real GDP growth rate of 9%

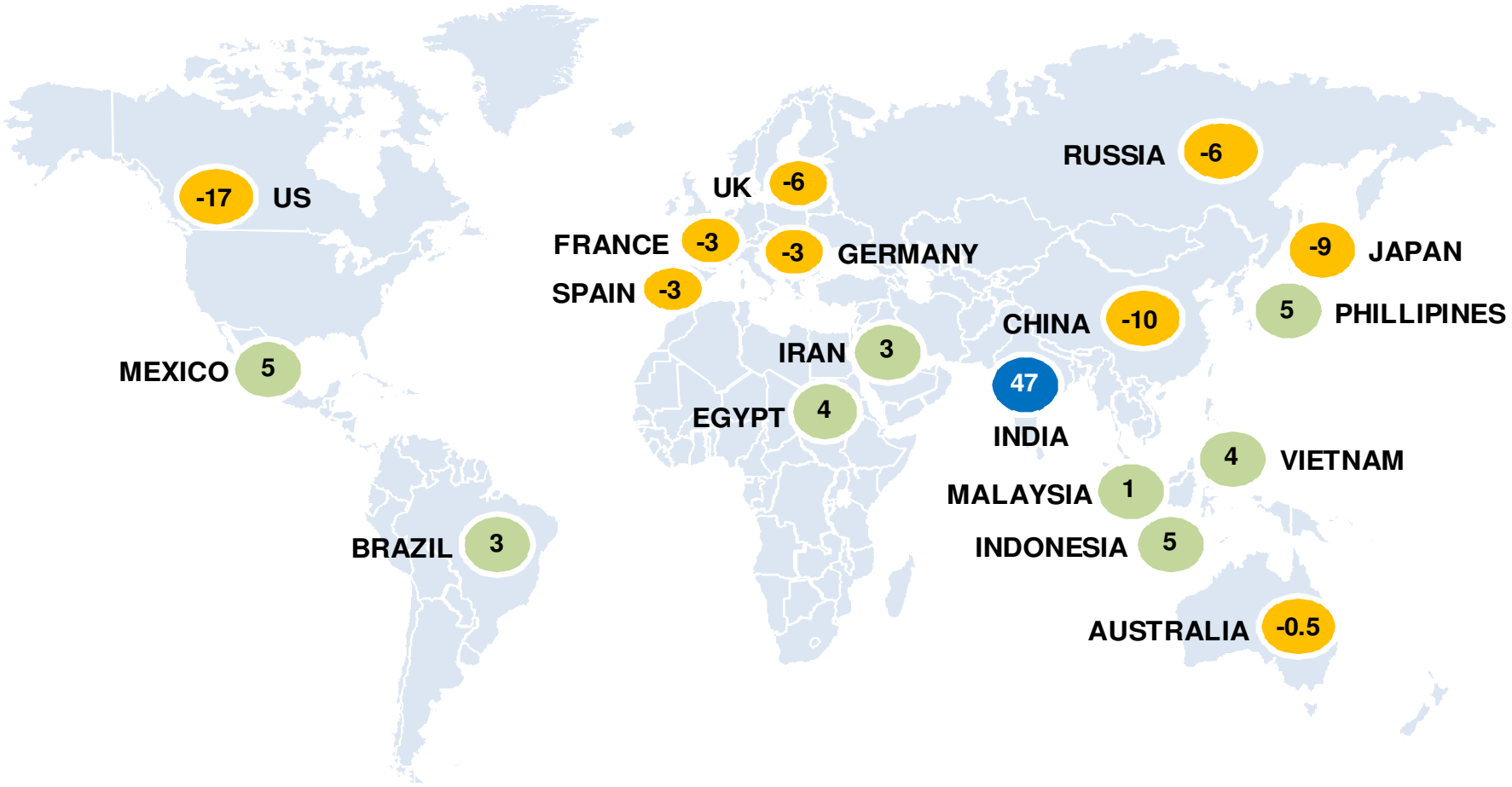


Annual Income Distribution Brackets



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Potential surplus population in working age group – 2020 (mn)



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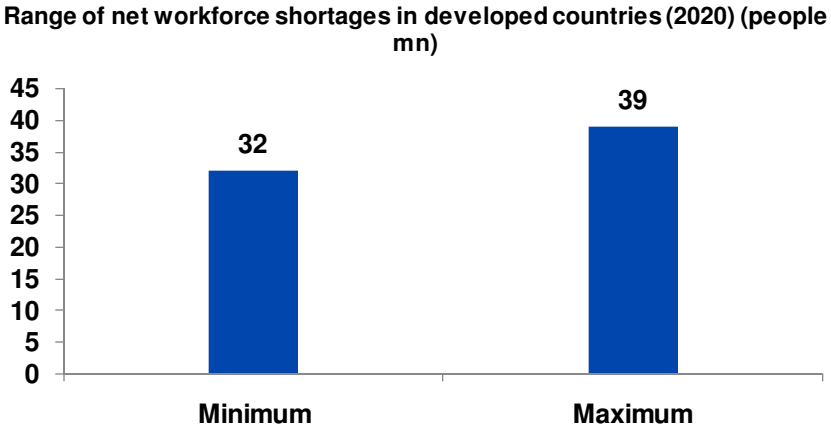
Potential surplus population in working age group – 2020 (mn)

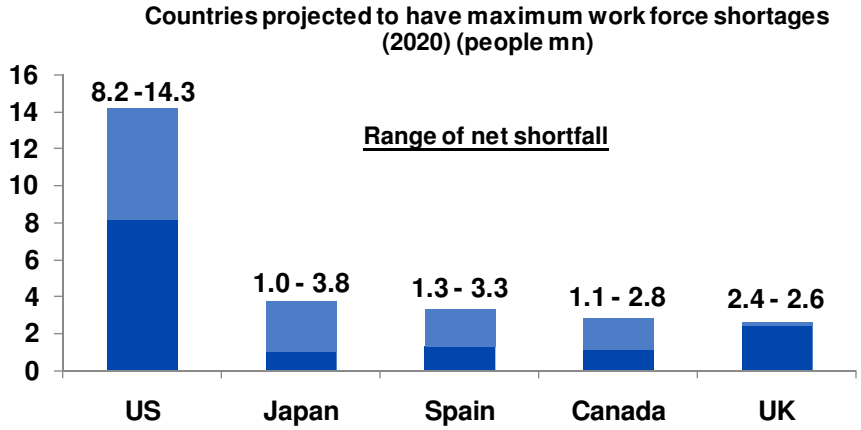
With rising income, the demand for urban premium housing is set to grow from Rs.116 billion in 2009 to Rs.757 billion in 2020. The real estate industry is expected to receive the biggest boost as against any other industry over the next decade. The demand for urban premium housing is set to rise by 6.5 times within the next 10 years. Infrastructure investment will also witness an upsurge worth Rs. 62 trillion by 2020. The targeted private sector share in infrastructure investment is likely to go up by 40 per cent by 2020 from targeted 30 per cent in 2008.

The growing influence of these opportunities on India's increasingly dynamic and vibrant economic base lends credence to the view that the country can achieve and sustain higher than historical rates of economic growth in the coming decade. The compounded effect of achieving the targeted annual GDP growth rate of 8.5 to 9 per cent over the next 20 years would result in quadrupling of real per capita income and almost eliminating the percentage of Indians living below the poverty line. According to the World Development Report, this will raise India's rank in terms of GDP among 207 countries to 4 in 2020 from the present 11. Further, in terms of per capita GDP measured in PPP, India's rank will rise by a minimum of 53 ranks from the present 153 to 100.



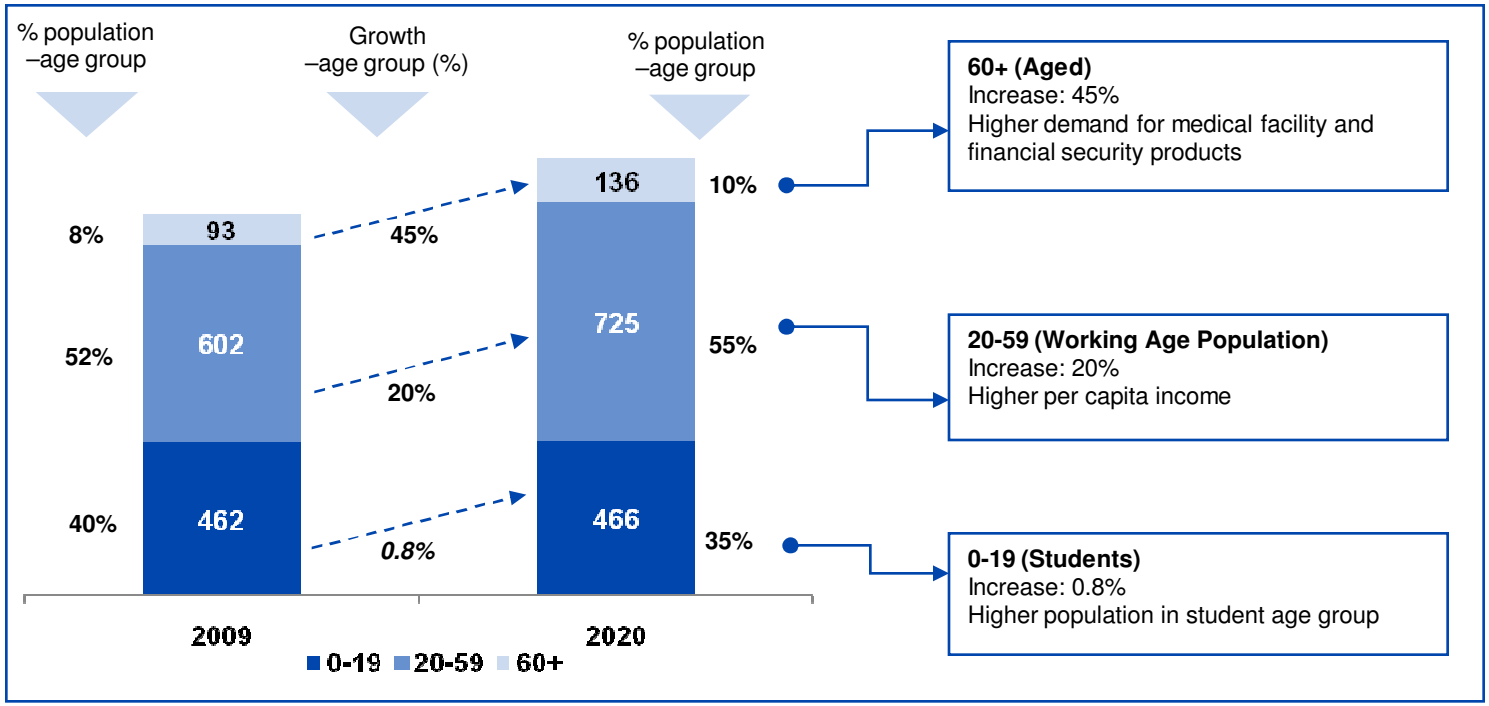
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Potential surplus population in working age group – 2020 (mn)

Significant increase in population in working age bracket



Source: U.S. Census Bureau, United Nations

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Current state of the MSME sector in India

MSMEs: the real engines of growth

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economic growth of the country owing to their contribution to production, exports and employment. The sector contributes 8 per cent to the country's GDP, 45 per cent to the manufactured output and 40 per cent to the country's exports. It provides employment to 60 million people through 28.5 million enterprises.

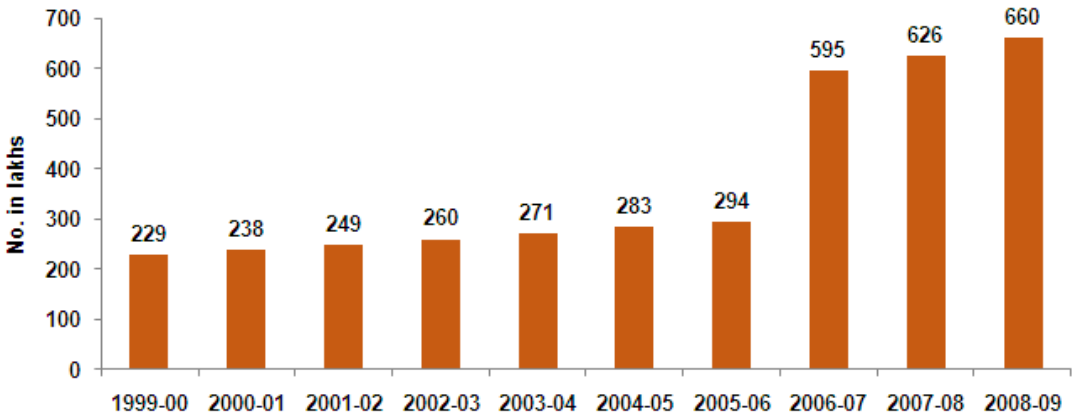
Significantly, the MSME sector has maintained a higher growth rate vis-à-vis the overall industrial sector during the past decade. According to a survey, exports from these enterprises have been on the rise, despite increased cost of raw materials, sluggish global demand and stiff international competition. Today, the sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products. It has emerged as a major supplier of mass consumption goods as well as a producer of electronic and electrical equipment and drugs and pharmaceuticals. An impetus to the sector is likely to have a multiplier impact on economic growth. [1]

According to the MSMED Act, MSME's are defined on the basis of their investment in plant and machinery and equipment for enterprise rendering services.

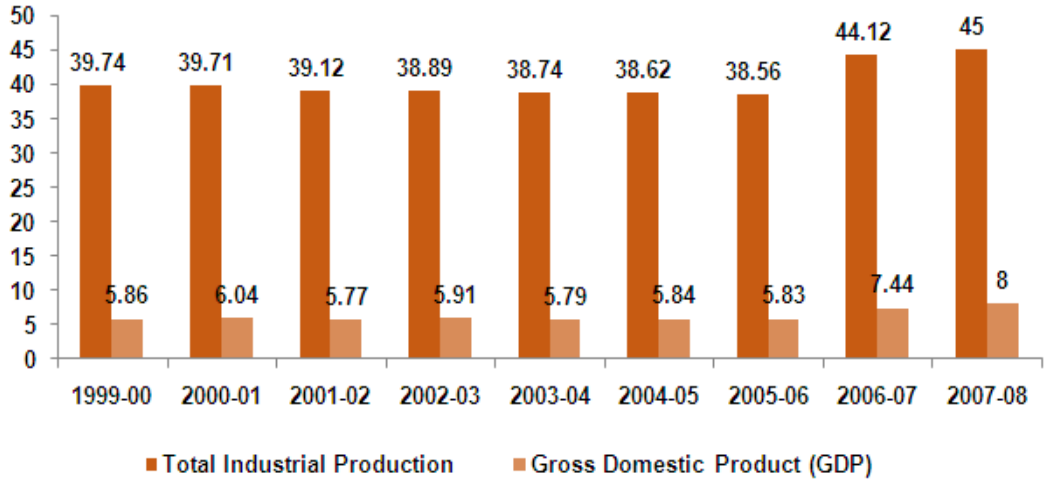
Classification	Manufacturing Enterprise	Service Enterprise
Micro	Rs 2.5 million/Rs 25 lakh (US$ 50,000)	Rs 1 million / Rs 10 lakh (US$ 20,000)
Small	Rs 50 million/Rs 5 crore (US$ 1 million)	Rs 20 million/Rs 2 crore (US$ 0.4 million)
Medium	Rs 100 million/Rs 10 crore (US$ 2 million)	Rs 50 million/Rs 5 crore (US$ 1 million)

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Employment in MSME sector



Contribution of MSME (%) at 1999-2000 prices

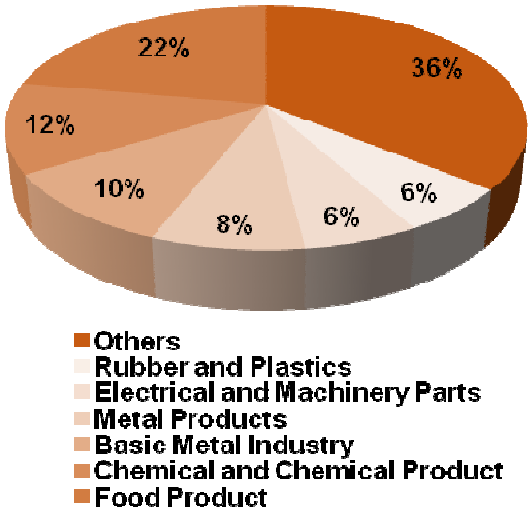


[1] Source: Annual Report, 2009-2010, Ministry of Micro, Small and Medium Enterprise

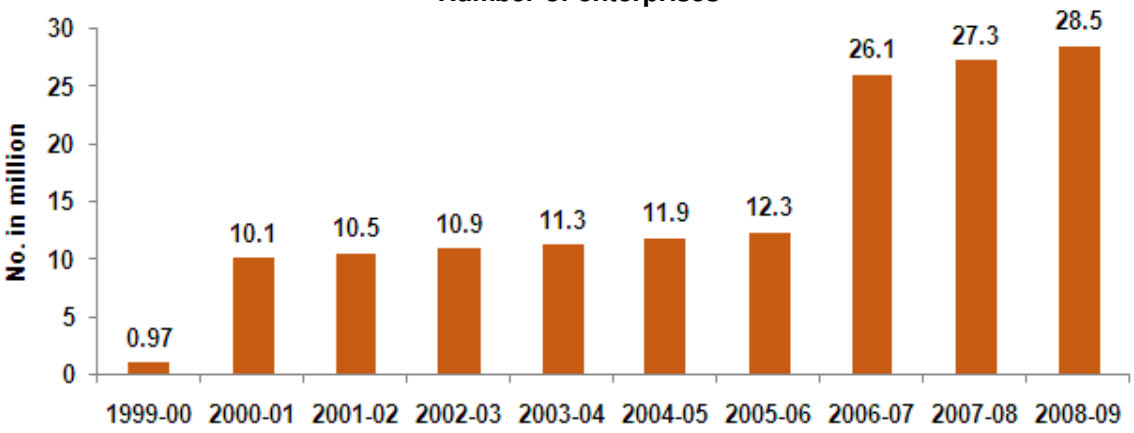
MSMEs: the real engines of growth

According to the estimates of the 4th (All-India) Census of MSMEs, out of the total number of MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94 per cent) are in the unregistered segment. [2]

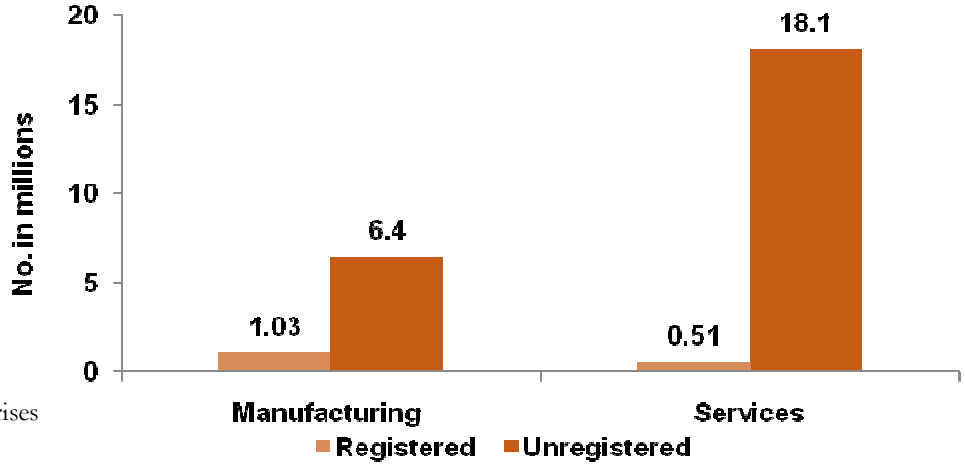
Number of products produced across sectors



Number of enterprises



Break up of registered and unregistered enterprises



[2]Source: Annual Report, 2009-2010, Ministry of Micro, Small and Medium Enterprises

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MSMEs: the real engines of growth

MSMEs constitute over 90 per cent of total enterprises in most of the economies and are credited with generating high rates of employment and account for a major share of industrial production and exports. In India too, MSMEs play a pivotal role in the overall industrial economy of the country. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

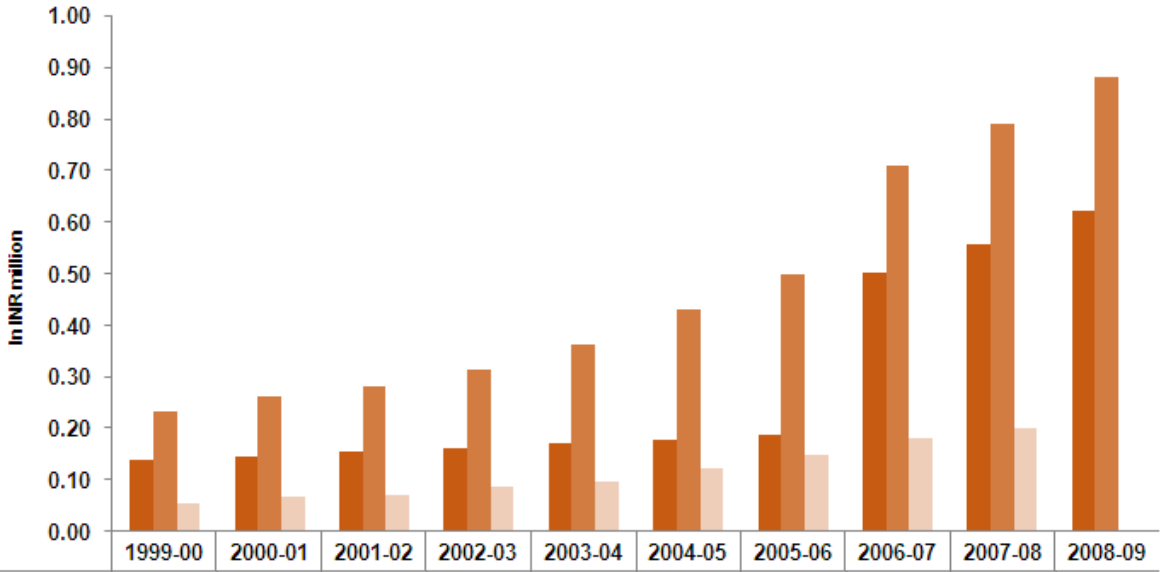
Apart from providing the support to the large industries, MSMEs have played an important role in the development of States in terms of the employment generation. More than 55 per cent of these enterprises are located in six major States of the country, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka.

The MSME sector has slowly come into the limelight, with increased focus from the government and other government institutions, corporate bodies and banks. Policy based changes; investments into the sector; globalisation and India's robust economic growth have opened up several latent business opportunities for this sector.

A recent study by Grant Thornton International Business Report (IBR), 2011 reveals that businesses in India are considerably optimistic about their economic prospects for 2011.

Optimism amongst Indian business owners (84 per cent) remains well ahead of the global average of 24 per cent and double the Asia Pacific average of 33 per cent. Confidence levels over economic performance are higher for India this year with 93 per cent of Indian business owners optimistic about the country's economy for 2011.

Investment, Production and Exports in MSME sector



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Investment	0.14	0.15	0.15	0.16	0.17	0.18	0.19	0.50	0.56	0.62
Production (at current prices)	0.23	0.26	0.28	0.31	0.36	0.43	0.50	0.71	0.79	0.88
Exports	0.05	0.07	0.07	0.09	0.10	0.12	0.15	0.18	0.20	NA

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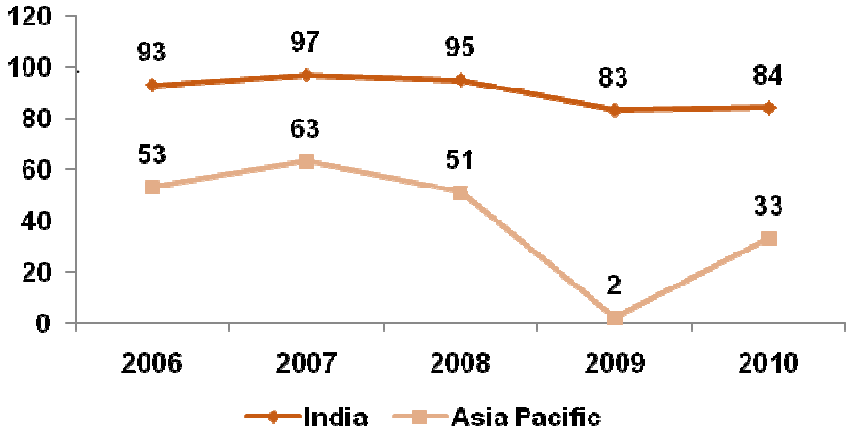
MSMEs: the real engines of growth

India also enjoys favourable demographics. The working-age population is likely to witness a significant growth this year leading to an increase in employment optimism levels to 77 per cent in 2011 as compared to 47 per cent in 2010. [3]

The survey also reveals that 93 per cent of Indian business owners expected increased in revenues in 2010 and about 25 per cent are positive about exports as compared to the global average of 22 per cent.

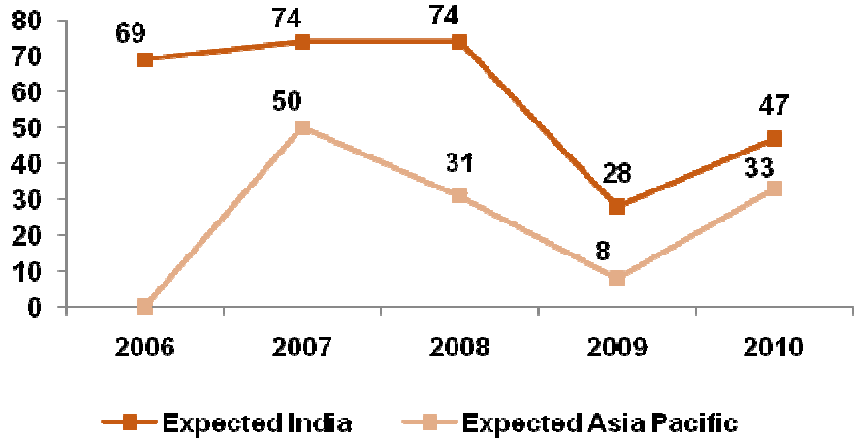
With all these developments, there is a huge potential for MSMEs to enter the international markets and create an upsurge in the employment opportunities for India. It also provides an opportunity for the sector to go international and market its 'Made in India' brand in order to explore more opportunities and enhance possibilities globally.

Outlook for the economy: 2006-2011 (in %)



Percentage balance of businesses indicating optimism against those indicating pessimism

Employment history: 2006-2010 (in %)



Percentage balance of businesses indicating an increase against those indicating a decrease

[3] Source: Grant Thornton IBR 2011

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Recent initiatives by the government

Considering the importance of the MSME sector in the overall growth of the economy, a Task Force under the Chairmanship of the Principal Secretary to the Prime Minister was constituted in August 2009. The role of the task force is to provide a roadmap for the development and promotion of MSMEs in the country and recommend an agenda for immediate action to provide relief and incentives to the MSMEs, accompanied by institutional changes and detailing of programme to be achieved in a time bound manner. In addition, it suggests setting up of appropriate legal and regulatory structures to create a conducive environment for entrepreneurship and growth of MSMEs in the country. The Task Force has laid emphasis on timely implementation of the recommendations and has set up a system for its continuous monitoring in the Prime Minister's Office. A Council on MSMEs under the chairmanship of Hon'ble Prime Minister has also been constituted to lay down the broad policy guidelines and review development of the MSME sector.

Initiatives from within the sector to lobby favorable policies and increasing credit flow are credible. The sector has also realised the need for technological and modernisation initiatives. However, with economic liberalisation and changes in the trade policy, MSMEs have now started facing increased competition from foreign companies. As global competitiveness becomes intensive, MSMEs are transitioning to a new business environment with emergence of global supply chains. MSMEs 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 liberalised 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 an insulated zone in a controlled economy; the competitive pressures of a free market economy are catching up in India. The domestic market has been flooded with many low cost, reasonable quality, bulk produced products giving tough competition to MSMEs. With the opening up of the economy, MSMEs need to catch up with global standards in order to remain competitive and profitable.

To gain the competitive edge, enhance efficiency and manage communication, this sector is set to focus on ICT enablement. Small scale industries face limited needs for ICT given their organisation and structure, however, the medium scale industries have started restructuring themselves to accommodate these changes. Possibility of international trade has forced many to build an online presence. E-commerce and enterprise management solutions are also being considered by many.



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Recent initiatives by the government

The Government of India has developed key strategies to promote and support the MSME sector to promote competitiveness. This has resulted in a dramatic positive change in the sector. Key characteristics of Indian MSMEs 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 defense production, technology-oriented industries, and competitiveness in domestic and export markets help them tap opportunities in various sectors. Some of the key announcements for MSMEs in the Union Budget, 2010-11 are:

- allocation for MSMEs to be increased from Rs 1,794 crore to Rs 2,400 crore for the year 2011
- corpus for Micro Finance Development and Equity Fund to be doubled to Rs 400 crore for 2011
- extension of existing interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises
- limit of turnover for the purpose of presumptive taxation of small businesses enhanced to Rs 60 lakh

The increase in the extension of existing interest subvention of 2 per cent to the small and medium enterprises is a positive development. Setting up of High Level Council on MSME to monitor the implementation of the recommendations of Prime Minister's High Level Task Force and increase in the allocation for MSMEs augurs well for the overall development of this sector.

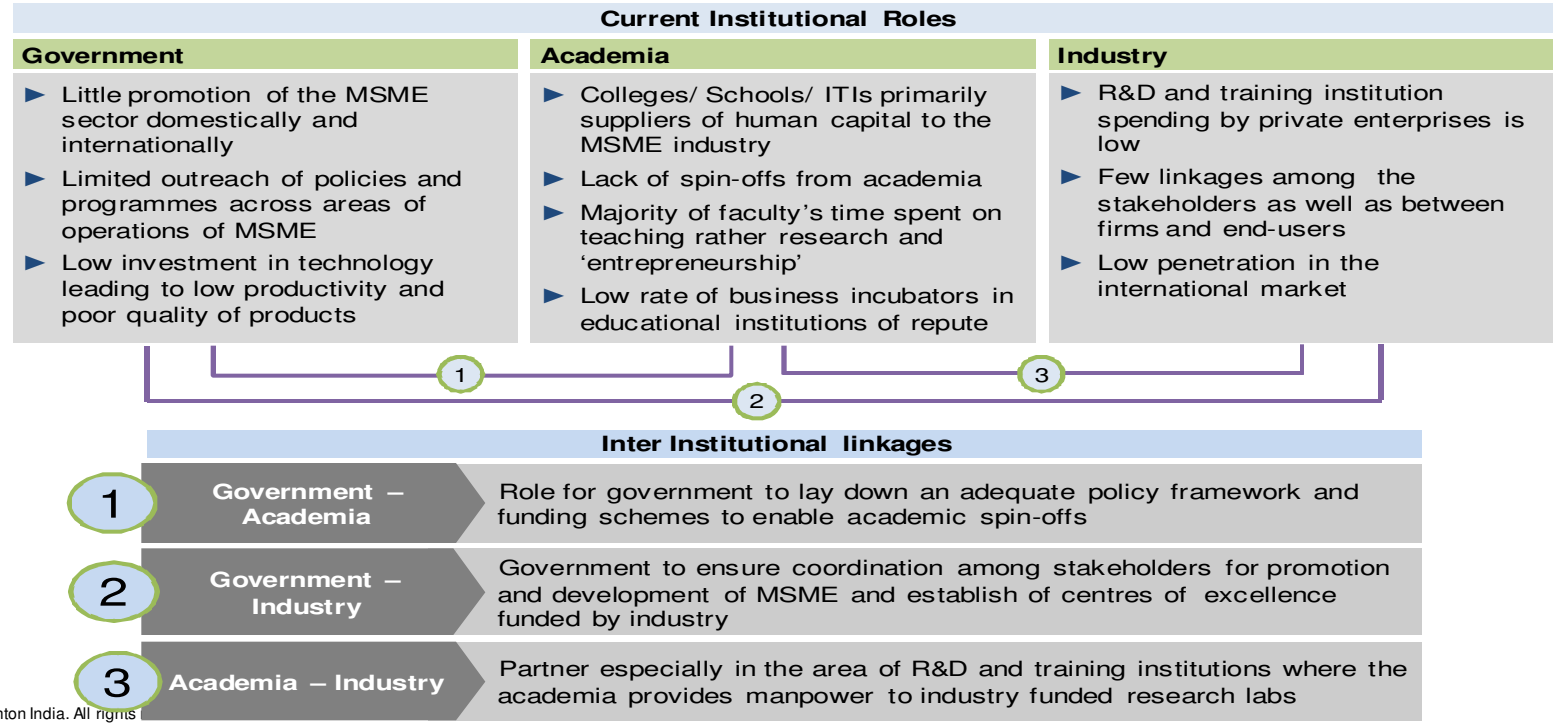
"MSMEs need to be completely aware of the various initiatives by the Government and correctly utilise these to their benefits. One of the key constraining factors becomes awareness and therefore lack of knowledge to utilise these effectively. Further, the Government schemes must be monitored and effectively modified to suit the needs to the MSME industry"

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Key constraints faced by Indian MSME sector

Despite the sector's strategic importance in overall industrialisation strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector confronts several challenges. Technological obsolescence and financing problems have been associated with the sector since long. Also, constraints such as high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facilities, including power, water, roads, etc., and regulatory issues related to taxation (state-central), labour laws, environmental issues etc. are also linked with its growth process.

There is a need to develop potential strategies in order to improve linkages and coordination between the Government, Industry and Academia. There is also a need to develop an alternate delivery channels through capacity building of the MSME Associations and the public-private partnerships in the institutional structure as also the schemes. Given the nature of the enterprises, there is a need to facilitate start-ups and evolve a time-bound exit mechanism.



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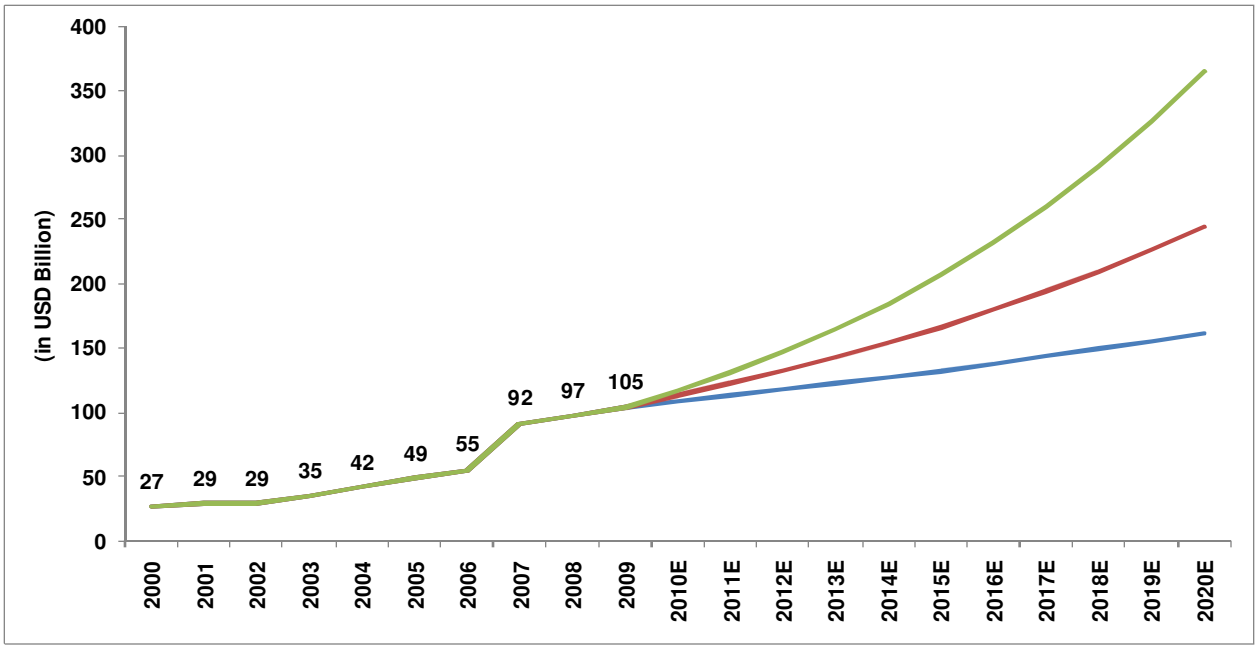
Key constraints faced by Indian MSME sector

At present, the sector is taking limited steps in formulating growth strategies and moving along with pace of GDP. In addition, the sector also adopts a reactive strategy approach where the sector reacts according the current economic situation of the country. The productivity and growth becomes limited for the moment and growth falls back again. Therefore, the sector needs to adopt a proactive strategy approach where the government should prepare a medium to long term strategy to sustain themselves in the changing economic scenario and progress beyond the current GDP growth.

A proactive strategy is necessary and should address the 6 key constraints faced by the sector and these are discussed in following sections as below:

- **access to finance**
- **access to markets**
- **technology and environment**
- **infrastructural bottlenecks**
- **access to people**
- **regulatory constraints and facilitation**

MSME Output Forecast Scenarios



Proactive Strategy: MSME sector shall grow significantly above the overall GDP growth in the country

Limited Proactive Strategy: MSME sector shall grow at the overall GDP growth in the country

Reactive Strategy: MSME sector shall grow at significantly lower rates than the overall GDP growth in the country

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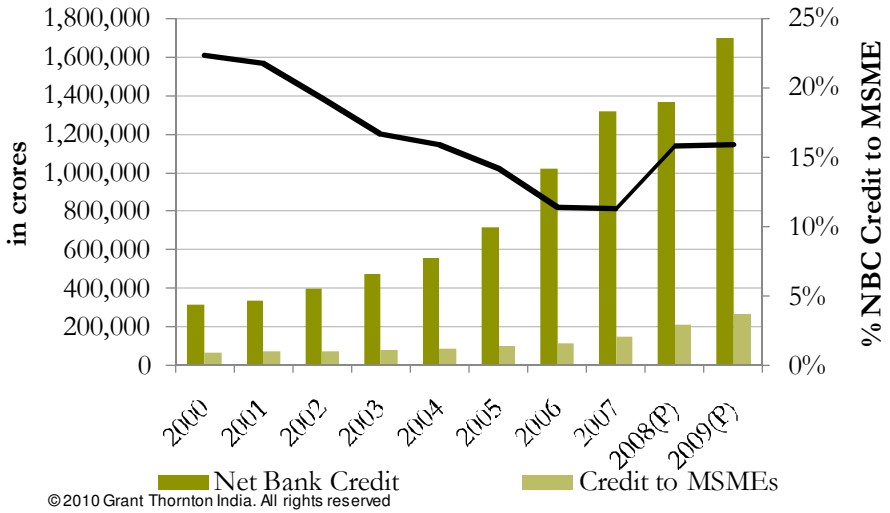
Key challenges

- **Access to finance**
- Access to markets
- Access to infrastructure
- Access to people
- Access to technology & environmental constraints
- Issues regarding regulatory facilitation

3.1 Access to finance

The present domestic market conditions do not provide enough opportunities for the MSME sector for raising low cost funds. To improve the flow of credit there is a need to provide low cost finance to the MSME sector, which has limited working capital and is dependent exclusively on finance from public sector banks. The cost of credit in the Indian MSME sector is higher than its international peers. A transparent credit rating system, simplification/reduction in documentation for accessing finance, providing interest rate subvention to the MSME sector must be taken into consideration in order to maintain the growth of the MSME sector.

The most important issue hindering the growth, however, is the timely and adequate availability of finance to MSMEs. According to the Prime Minister's Task Force on MSME report, although bank credit to the sector has significantly increased from Rs. 70,787 crore (need conversion in US$) in March 2000 to Rs. 2,69,153 crore (need conversion) in March 2009, access to credit needs to further increase given the size of the MSME sector.



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The share of credit to the MSME sector in Net Bank Credit (NBC) has declined from 22.3 per cent to 15.9 per cent during the same period. The trend has been summarised in the graph below:

The Government is taking proactive steps to ensure better access to credit. Bank lending to the sector will grow at a rate of 20 per cent on a year-on-year (y-o-y) basis, along with 10 per cent annual growth in number of micro enterprise accounts, with 60 per cent of the share of MSME credit directed towards micro enterprises. These and other such measures will ensure that credit flow to the sector, especially micro and small enterprises, is adequate.

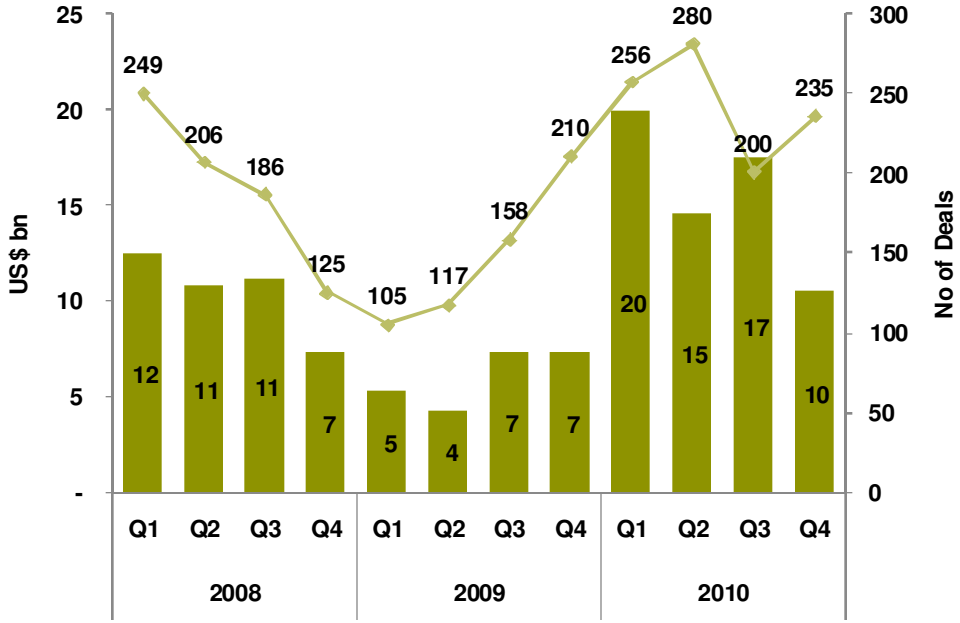
Despite such measures banks are reluctant to lend to MSMEs due to their higher risk profile owing to zero collateral or their limited years of operations.
In a recent study published by the Indian School of Business (ISB), it was found that large Indian firms (the firms above the MSME threshold by the official definition) obtained about 47 per cent of their total funding from internal sources, 19 per cent from banks and financial institutions (FIs), and 5 per cent from capital markets. The remaining 29 per cent came from alternative sources. In case of MSMEs, only 15 per cent of funding came from internal sources, 25 per cent from banks and FIs, and 10 per cent from capital markets. Around 50 per cent of the funding has been sourced through alternative funding sources including friends and family, trade credit etc. Alternative sources are typically far more expensive and are dependent on prevailing market conditions and are rarely a guaranteed source. This clearly implies that MSMEs face very high interest cost due to the lack of availability of adequate credit.

This can be countered well through a methodical induction of equity capital. Over the last decade, there have been private equity investments, of all types and across a myriad of industries. We are just entering an era where increasing number of family business owners will be looking to partially or fully divest their ownership in firms they or a family member founded.

3.1 Access to finance

PE promotes entrepreneurship and brings domain expertise from their portfolio companies, previous industry experience and their network. In addition to internal expertise, they can bring in external knowledge of best demonstrated practices across industries. PE improves corporate governance by driving independence of boards and help increase transparency and reporting standards. It could also provide access to new customers through board access, portfolio firms or networks.

The graph below clearly shows that accessing PE funding has become the preferred mode for budding entrepreneurs to raise capital at an attractive cost. According to Grant Thornton's Deal Tracker (Annual Edition 2010), the first quarter of 2010 had seen the maximum value and volume of deals since Q1 2006 clocking US$ 20 billion in total M&A and PE deal values – this clearly indicates the trend of strong corporate growth which is translating to more investments.



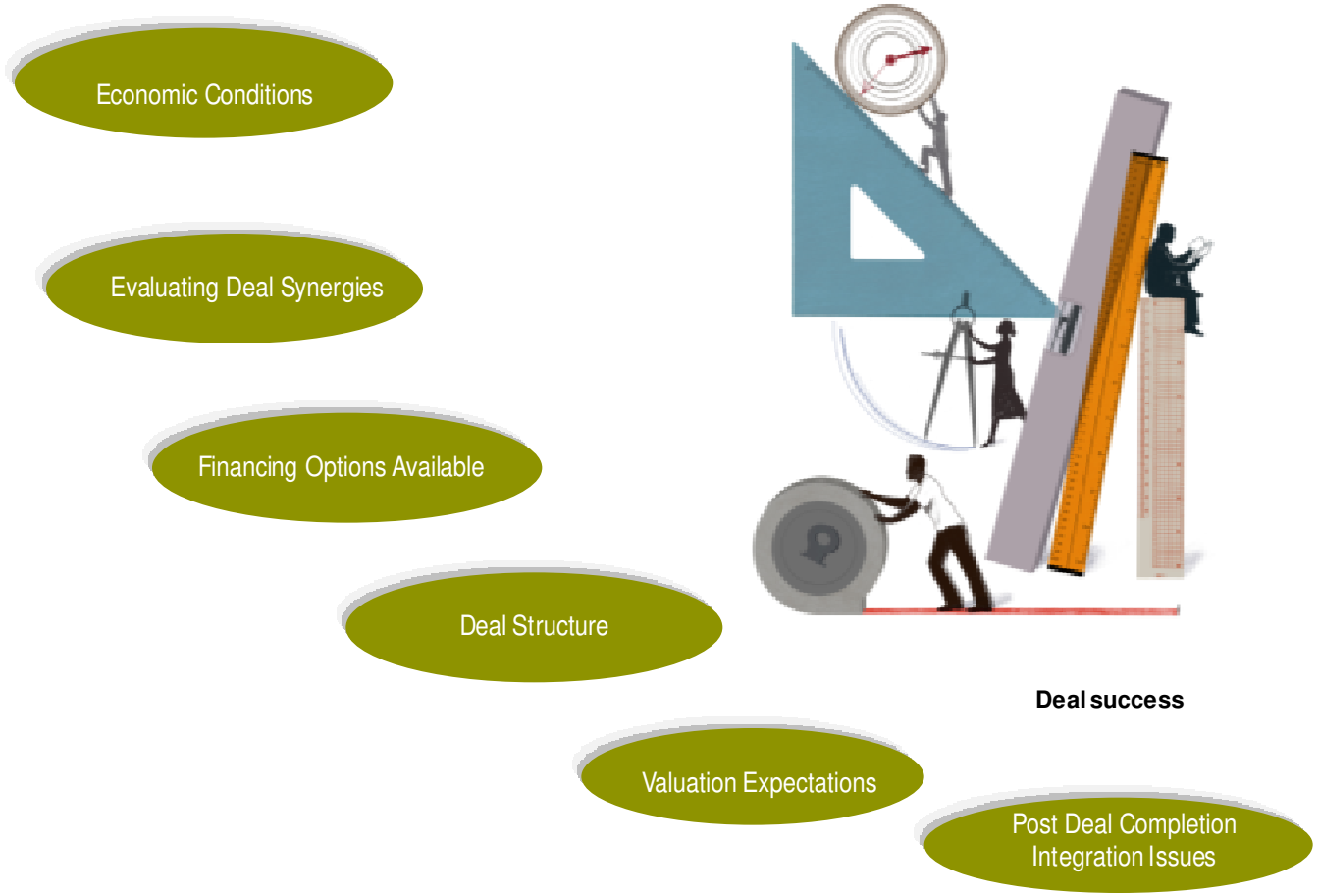


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3.1 Factors to consider for raising capital

How to attract PEs?

A company must position strongly through Differentiation, Value Proposition, Flexibility, Scalability, M anagement Expertise and Performance Forecasts to leverage capital funding. A sustainable business model is a key to success. It is a must to have a crisp business plan which clearly defines a company's purpose while demonstrating its value proposition.



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3.1 Creation of a growth oriented exchange for MSMEs

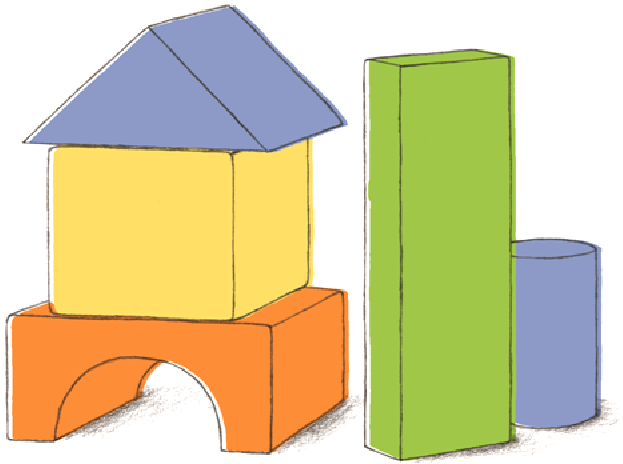
An additional route for medium enterprises can be listing in exchanges focused on the MSME industry. There are several such exchanges operating as parts of the larger stock exchanges – one such example is the Alternative Investment Market (AIM) which is part of the London Stock Exchange (LSE). AIM is the most successful growth market in the world and was formed to help smaller and growing companies in raising capital for expansion. Since its launch in 1995, over 3,000 companies from across the globe have chosen to join AIM.

Grant Thornton has conducted a detailed study on the economic impact of AIM on the UK economy. In 2009, AIM made a substantial contribution to the UK economy of around GBP 21 billion and supported around 570,000 full-time equivalent (FTE) jobs through direct, supply chain and multiplier effects.

India should create a specific MSME funding exchange on the lines similar to AIM and other markets. This not only will help bring the investor community closer to the entrepreneurial community, but also address the immediate need for finance.

To conclude, it can be suggested that apart from government measures as part of the task force, adequate and timely finance needs to be available for the MSME sector. Some key recommendations to assist the growth of MSMEs are:

- encourage private equity investments – this not only unlocks value for the company but also allows the company to better structure themselves for growing rapidly;
- creation of a MSME exchange – this shall be a big boon for the Indian economy resulting in both direct and indirect benefits;
- pro-active measures by the Associations – this is extremely crucial since the associations can play a pivotal role in facilitating finance through relevant forums; and
- cluster finance – these types of mechanisms would result in reduction of transaction costs and access to timely finance and information



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3.1 Issues and concerns: FICCI's survey

Methodology

The survey covered 67 respondents across diverse geographies including Maharashtra, Karnataka, West Bengal, Uttar Pradesh, New Delhi, Andhra Pradesh, Tamil Nadu, Gujarat, and Rajasthan. Over 97% of our respondents were from micro and small enterprises, i.e. 28% from micro and 69% from small to be precise, and only one respondent categorised as 'large' as under the definition of MSMEs. Further, more than 97% of participants were registered enterprises, with 76% of those surveyed involved in manufacturing, 15.3 % in trading, and the remainder in the service sector. In terms of legal structure of respondents, 44.44% were structured as private limited companies, 23.5% as partnerships, and 28.6% as proprietorships.

Findings

As expected, banks remain a dominant source of finance for MSMEs with over 70% of respondents accessing finance from banks. However, banks also bring their own set of problems. More than 40% of those surveyed complained that chief problems include banks placing too much emphasis on collaterals and the large amount of paper work involved. Further, 18% felt that project appraisal system is un-standardised and 35% felt that procedures for sanctions are cumbersome, and even once approved there is a delay in disbursement of funds (28%). Other hardships faced by MSMEs include a high rate of interest, a lack of personalised service and often a lack of justification for denial of finance.

Apart from banks however, internal sources of funds remained the most popular source of alternate finance for 37% of respondents, closely followed by 'family and friends' for 15% of those surveyed. In terms of institutional sources, 17.6% accessed NBFCs for finance and 13.7% looked at private placements for meeting their funding requirements. Private equity, however, was a viable alternative for only 10% of those surveyed. Interestingly, there were 3 companies in our survey who had no other alternate source of finance apart from their respective banks.

There is considerable debate on why companies do not look beyond bank financing. For example, a closer look at the reasons for private equity not being a funding option for businesses are quite remarkable. Over 65% of our respondents, in fact, admitted that there was actually a lack of understanding on their part on the benefits of private equity! Another 21% were afraid that private equity would lead to a dilution of control, and the remainder felt that they felt no real need to access private equity at this point in time.

Another indicator of the lack of information in the market was our question on the extent to which respondents felt that the government's Credit Guarantee Scheme had helped their unit access collateral free credit from Banks. Only 18% of those surveyed felt that the scheme had been of some help to them while around 40% of those surveyed were not even aware of the scheme!

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is an initiative by the Government of India (GOI) and Small Industries Development Bank of India (SIDBI) where the main objective is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. These results are, in fact, in line with the results of an earlier survey conducted by FICCI on MSMEs in Maharashtra where it was found that 41% of our respondents found it very 'difficult' to access information on the scheme, and the overall experience for over 32% with respect to this scheme was in fact 'negative'.

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Key challenges

- Access to finance
- **Access to markets**
- Access to infrastructure
- Access to people
- Access to technology & environmental constraints
- Issues regarding regulatory facilitation

3.2 Access to markets

Enhancing market access for MSMEs

Need for marketing wide network

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance its contribution towards output, employment generation and exports.

MSMEs contribution should be seen not only in terms of output, employment, income, investment or exports but also in terms of qualitative indicators such as the synergies they promote with large industries, their contribution towards balanced regional growth, participation in nurturing entrepreneurial spirit, innovation and in providing a nation-wide pool of skilled and trained manpower. Even today, most small businesses in India are set up by first generation entrepreneurs. They often have a product or service idea and some fervor to work hard. However, the limited market access namely capital access, brand promotion solutions, marketing support, logistics and sales support, and information and communication technology (ICT) support stalls the fervor to take the enterprise to next level.

A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs. According to the study, less than 6 per cent of Indian MSMEs with access to personal computers advertise online and a majority of these enterprises use traditional media. Many Indian MSMEs are also unaware of the effectiveness, measurability and predictability of using online advertising to reach the target audience.

The study highlighted that a huge opportunity exists for SMBs to reach their desired financial goals by optimising their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market, they still rely on traditional media like telephone directories and newspapers to reach their customer base.

Therefore, there arises a need for the sector to build capacities to develop ICT and other tools in order to cater the growing marketing needs.

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3.2 Access to markets

An understanding of the market, competitors, technology, marketing tools and business environment are determinants of success of the MSME sector.

Some of the evolved marketing strategies like niche marketing, database marketing, cluster specific marketing, guerilla marketing and relationship marketing are vital for flourishing the business without any significant hit to the bottomline. These marketing strategies, if implemented, can give the MSMEs a platform to go beyond the generic marketing applications, create greater acceptance, strengthen the brand, devise a focused approach and compete globally. Brands like Nirma, Moov, Hi-Design and Fevicol started off as MSMEs in the recent past and have successfully reaped the benefits of strategic marketing to enter, compete and gain market share from the likes of Unilever, GSK and P&G. In 1959, a small time glue manufacturer thought of marketing his products to the masses and taking his business to the next level.

With successful product strategies, marketing efforts and operational efficiencies, the brand has today created a strong foothold in the market. The company's most successful brand Fevicol and its sub-brands such as Feviwik, Fevibond, Fevigum, Fevistick and Fevicryl have consistently commanded over 70 per cent of the total market share. The company has also been able to stay ahead of its competitors in both the organised and unorganised segments. MSMEs can also use proven traditional STP marketing strategies viz. segmentation, positioning and targeting for B2C and B2B ecosystems.

Technology tools like SMS, digital newsletter and electronic direct mail can be used efficiently to target segmented population. Broadly classified as push marketing, these media tools are cost efficient and easily accessible. To add to this, websites, yellow pages, directory listings help pull the prospective buyer with rational efforts.

Trade fairs form another important platform for MSMEs to venture into new territories and develop businesses. The sector is required to look beyond India and innovate to market their products internationally. MSMEs possess enormous potential required to expand to international market. To acquire a competitive edge, MSMEs must tap opportunities in the international arena in the fields of technology and research and development and engage themselves in international trade. .International trade fairs are an important source of market intelligence, technological advancements and innovations. Every year, industry specific trade fairs are held in the US, Canada, UK, Singapore and Dubai to create a meeting ground for sellers and buyers.

Therefore, it is imperative for MSMEs to ensure that their business offerings are in sync with the cultural, political, economic and environmental dynamics. This can be achieved by creating an in-depth study of product feasibility and viability along with competition mapping and facilitates MSMEs to re-engineer their products and services accordingly. Therefore the company adopted a cohesive global strategy which enabled successful completion of numerous diversification projects into Africa, Europe and South East Asia.

Case Study: Globalisation strategy of a leading manufacturer of alcohol in India

One of the leading domestic alcohol manufacturers of India wanted to foray its investments to new markets in 2009. Although the company had a strong and successful presence in the Indian market, it was facing challenges in expanding its base into international markets. The company had previously attempted to export its products but found it difficult to comprehensively analyse the growth drivers in multiple geographies. Further, they were facing roadblocks in identifying suitable local alliances that could provide a soft landing and help in establishing a distribution channel.

The company therefore adopted a market opportunity assessment strategy by analysing its core strengths and competitive advantages across the sector. After assessment of their internal strengths, they conducted a detailed evaluation of the target markets, identifying the best selling products and then matching those with the various markets in different countries. Once a high potential target country was identified, they prepared a list of suitable local partners, who would be ideal for creating strategic alliances with them. The Company met with the individual partners across various countries and signed alliance agreements to commence exports. Over the last 18 months, the Company has expanded its business into 14 countries of Africa, Europe and South East Asia. The company is now present in more than 30 countries.

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3.2 Government initiatives

The Ministry has taken several initiatives to facilitate MSMEs to enhance their market access both within and outside the country. Various organisations under the Ministry of MSME organise exhibitions/ fairs and buyer-seller meets across the country, providing MSMEs with an opportunity to display their products and capabilities.

The Marketing Assistance and Technology Up-gradation Scheme for Micro Small and Medium Enterprises, a program of MSME Ministry, envisages that some clusters of MSMEs, which have quality production and export potential, shall be identified and encouraged and assisted through the scheme to achieve competitiveness in the national and international markets. The program aims at improving the marketing competitiveness of the sector. The activities planned under the scheme include technology upgradation in packaging, skills upgradation/ development for modern marketing techniques, competition studies of threatened products, identification of new markets through state and district levels, local exhibitions, trade fairs, corporate governance practices, marketing hubs and reimbursement to ISO certification.

Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is extended to individuals for participation in overseas fairs/ exhibitions/ study tours. The Ministry of MSME has also formulated two schemes under the National Manufacturing Competitiveness Program (NMCP) to smoothen the marketing of MSME products. The activities supported under these components include assistance for adoption of bar code, technology upgradation in packaging and skill upgradation/ development for modern marketing techniques.

Further, the National Small Industries Corporation (NSIC) has launched a B2B web portal and established a Marketing Intelligence Cell for providing domestic and global market information to the MSMEs. Various industry associations play a pivotal role by undertaking sector specific market studies and also by initiating/ contesting anti-dumping cases.

The Ministry has also formulated a public procurement policy for MSMEs, which will provide them support in marketing their products and developing long-term relationships in production/ service value chains with the public sector.



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3.2 Innovative marketing approach and ICT exposure

In the MSME space, digital marketing plays a highly significant role by performing the lead function of acquisition, business development and communication. Internet plays an important role in reaching out to the prospective customers irrespective of the remoteness and boundaries, and showcasing the products and services in the virtual world.

Internationally, web marketing tools are being extensively used by MSMEs to reach out and generate leads. These include social networks, website syndication tools, gadgets and RSS feeds. B2B sites have also emerged as viable platform for promoting and doing business in a much evolved and effective way. They facilitate in establishing new business relationships and retaining the existing ones, in what we today know as an e-marketplace. They serve as a medium for the wholesalers, distributors, suppliers, manufacturers and retailers to conduct business in the e-arenas. Low investment online marketing tools include sponsored links as they establish an instant connect with laser-targeted prospects, though in-depth research and suitable adwords are required to identify industry trends and to keep the campaign effective.

Case Study: 73 per cent of MSMEs in India have their own websites

According to a survey jointly conducted by Internet and Mobile Association of India (IAMAI) and eStatsIndia, 73 per cent of MSMEs in India have their own websites, while 99 per cent of MSMEs use online B2B (business to business) marketplaces to generate business.

The survey found that in the domestic market last year, the surveyed companies generated 4,842 orders and business worth Rs 50.9 crore through B2B e-marketplaces, while in the international market the companies recorded business worth Rs 15.9 crore generated from 1,428 orders through e-marketplaces.

It was also found that maximum marketing spends of the surveyed companies are made on Internet. According to the survey report, 45 per cent of the total annual marketing budget of the MSME companies in India is spent online. Print media accounts for 32 per cent of the total annual marketing budget of the surveyed companies.

Case Study: Effective Utilisation of Integrated Marketing Communication (IMC) tool by Indian Domestic Mobile Handset Company

A prime example of the effective distribution and right advertising along with a superior product positioned at the right price is the marketing strategy adopted by one of the fastest growing mobile brands in India. With a 360 degree advertising and marketing strategy sketched out, the company has an optimistic outlook for the telecom consumer space. Currently present in more than 40,000 stores across the country, the company's overall market share has increased from 0.59 per cent in 2008 to 6.24 per cent in 2010, witnessing an increase of 125.38 per cent in handset sales from 2009 to 2010.

The company's marketing strategy focuses on the unique functionalities of products and market innovation. For marketing its products, the company has developed a three-pronged strategy:

- trying to sell more products in current markets, through the adoption of a big-bang advertising strategy to drive the brand message through. The company is also focusing to grow its market to the untapped potential of rural India while strengthening its presence in urban India through latest product offerings.
- the company is riding on two enduring Indian obsessions–sports and films–to build its brand. After its association with the popular Twenty20 cricket Indian Premier League (IPL), the firm has become the title sponsor of almost all tournaments and series of which India is a part. Moreover, to push its association with films, the firm has signed Bollywood celebrities as their brand ambassadors and also sponsoring major film award functions.
- the brand is now expanding itself into international markets where the company has already set up shops in Nepal, Sri Lanka and Bangladesh, and is looking forward to launch operations in the Middle-East. The company had received funding through the PE route in early 2010.

The company has indeed developed a short-term competitive advantage exhibiting a rare example of brilliant innovation combined with common sense, making it the third-largest domestic handset company in India.

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3.2 Innovative marketing approach and ICT exposure

The new wave of advertising and marketing is contextual and intertwines with the personal and professional lives of the target audience. Targeted advertising through social networking and blogging sites have provided the right platform for a number of companies to reach out to its prospective customer base more cost effectively. One can create a community page pertaining to the company, products and services and regularly update it with fresh content to engage the clients and visitors continuously. Further virtual reality platforms such as Secondlife and the Indian version, Gojiyo.com, are examples of how traditional products and services are test marketed to gauge reactions over these platforms. Mobile marketing is another useful mode for SMEs to connect with their intended audience in an effective manner.

Case Study: Router launch through Social Media saves company US$ 1,00,000

As early as 2008, networking giant company was well along in its social media evolution. For its Aggregated Services Router (ASR) launch, the company aimed to execute entirely online leveraging social media, and in doing so, engage network engineers in a more interactive, fun way. The company met its audience where they were – in online venues and the gaming world. With this single project, the company shaved six figures off its launch expenses and set a new precedent for future product launches. It was classified as one of the top five launches in company history.

- **Second Life –** The Company built a stage with big-screen monitors, chairs for the audience and palm trees for its flagship launch event – entirely in a Second Life environment. It then piped in videos of executives presenting the ASR. To generate pre-launch buzz, the team held a concert in Second Life featuring eight bands over seven hours. The new ASR was presented in a live Second Life event.
- **Video conferencing** – The company's next-generation video conferencing technology brought customers together at local offices around the globe. Executives back in San Jose could see the audience's facial expressions and vice versa.
- **Mobile** – A video datasheet engaged engineers on their mobile devices.
- **Facebook** – Network engineers created a company's group/ community and connected to the Internet users. The company also assembled videos, collateral and images in a widget format and embedded it into "social media" news releases and launch pages. Bloggers and others could spread the information easily with the embedded code.
- **Online forum** – The Company seeded its Networking Professionals Technology Community Forum with launch-related discussion topics and gave customers an "Ask the Expert" function. The whole campaign spanned a period of three months with the launch in the middle. During pre-launch, launch and post-launch, the company kept the audience engaged by encouraging discussions with its audience.

As compared to traditional launches of the past, the ASR launch witnessed more than 9,000 people (90 times more than past launches) from 128 countries attending virtual launch events. Without travel, the launch saved an estimated 42,000 gallons of gas. Plus, top executives spent only about an hour recording the video presentation. Print ads were largely replaced with media coverage, including nearly three times as many press articles as a comparable traditional launch, more than 1,000 blog posts and 40 million online impressions. The whole launch cost one-sixth of a similar launch that used traditional outreach methods.

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3.2 Innovative marketing approach and ICT exposure

So, today, as Indian MSMEs move up the global value chain, the importance of market access can hardly be overstated. In conclusion,

- access to markets can be achieved by building and coordinating the efforts of various institutions at state, regional and cluster levels and also by involving MSME Associations in the country to undertake various marketing functions
- new and innovative means of marketing should be utilised effectively to reduce overall costs while still having a significant impact
- market access needs to be clearly strategised with new and innovative ways explored to tap the market as well as reach out to different countries to understand the market opportunity
- the government should proactively look at strengthening its schemes like 'Consortia Formation', 'Brand Building', 'E-marketing through specialised MSME portals', 'Assistance in product designing & packaging', 'Assistance in publicity of MSME products' and holding of more domestic and international exhibitions in order to provide increased marketing support to the micro, small and medium enterprises in the country
- the Ministry of MSME could also enlarge its existing schemes relating to product designing, packaging, and setting up of marketing hubs, etc. in order to expand their reach and coverage of larger number of MSME units
- strengthening of National Small Industries Corporation (NSIC) as an apex organisation for coordination of marketing support programmes could be explored to ensure expansion and sustainable growth of MSMEs

- **Blogs:** 22 external, 475,000 views/quarter
- **Twitter:** 108 feeds with 2 million followers
- **Facebook:** 79 groups with 100,000 fans
- **YouTube:** 300+ channels, 2,000+ videos, 4 million views
- **Second Life:** 150,000 visitors, 50+ events
- **Flickr:** 300+ photos, 400,000 views

Traditional Product Launch	Social Media Launch
Fly in more than 100 executives and press members from 100 countries to headquarters in US	9,000 people attended the social media product launch event – 90 times more attendees than in the past
Take a few hours of the CEO's or an executive's time to prepare and present	Saved 42,000 gallons of gas
Distribute well-crafted, but static press releases to key media	Nearly three times as many press articles as with traditional outreach methods
Email customers	More than 1,000 blog posts and 40 million online impressions
Run Print Ad in major business magazines and newspaper	One-sixth the cost of a traditional launch

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Key challenges

- Access to finance
- Access to markets
- **Access to infrastructure**
- Access to people
- Access to technology & environmental constraints
- Issues regarding regulatory facilitation

3.3 Indian MSMEs: Status of infrastructure

Introduction

Industries form the backbone for national development and are one of the important components for the growth of national economy and growth of the MSME sector at a healthy rate is crucial for the overall growth of the industry. However, lack of proper infrastructural facilities can cause serious damages to an enterprise's value chain process, like production, consumption and distribution of the products, Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs.

Hence, there is a need of infrastructural development of the industries in general and MSMEs in particular which should include all types of infrastructural facilities like railways, waterways, roadways and airways, proper channels of telecommunication, adequate supply of power and other supporting facilities like Tool Rooms, Testing Labs, Design Centers, etc.

1. **Need for Proper Infrastructure**
   There is a need for common infrastructure projects for MSMEs. MSMEs, through coming together and sharing the costs of infrastructure, which are otherwise prohibitive for individual MSMEs, could benefited from economies of scale, synergy and collective bargaining by collaborating with each other particularly on aspects of common infrastructure, common facilities, raw material procurement, marketing & transportation of finished goods, testing laboratory, common tooling/machining, Research & Development etc.

(i) Basic Infrastructure

(a) Work Space: There is lack of ample work space for industrial clusters to compete in international markets. In order to get better economies of scale without disturbing prevailing industrial structure the Govt. should introduce programs for integrated work space with objective of establishing new MSME clusters and up-gradation of existing ones. There is a need for setting-up of industrial clusters (or up-gradation of existing one) through various SPVs formed by group of entrepreneurs in PPP mode with facilities such as power plants, CETPs, laboratories, training centers, raw material, banks, common marketing facilities, warehouses, administrative blocks, warping and sizing units and processing units, etc.

b) Power: After introduction of Electricity Act 2003, many MSMES individually not capable to make substantial investments, hence they joined hands and formed SPV to set up captive power plant to meet their power requirements. In addition many industrial clusters also set up Group Captive Power Plant to provide quality power to their member units.

Though Electricity Act 2003 was introduced to encourage setting up of captive power plant to ease the power supply position as well as to make them eligible for resultant incentives, it has been working negatively unless amendment are prepared in the larger interest of power supply position.

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3.3 Indian MSMEs: Status of infrastructure

Case study of Scheme of Integrated Textile Parks (SITP)

In order to get better economies of scale without disturbing prevailing industry structure, the Ministry of Textiles (MoT) introduced Scheme for Integrated Textile Parks (SITP) with objective of establishing induced textile clusters. In Xth Five Year plan, 30 textile parks were allotted to various SPVs formed by group of entrepreneurs. Subsequently, in XIth FY plan, other PMCs were added and 10 more parks were allotted.

In all 40 Integrated Textile Parks are in the making. Majority of these Parks are 50 to 80 acres Parks while smallest Park is just 13 acres at Salt Lake City, Kolkata and the largest Park is 1000 acres SEZ at Visakhapatnam. These Parks have mobilised huge investments into textile sector including FDI and provided potential employment for thousands of people.

Following are the salient features of these Parks:

- Industry associations and group of likeminded individuals have taken lead in establishing Parks
- Various institutional structures such as public and private limited companies, section 25 company and cooperative society has been used for SPV
- IL&FS Clusters has assisted Parks in articulating their requirements of common amenities and common infrastructure, prepared Detailed Project Report (DPR) and recommended the projects for grant funding under the SITP scheme
- Parks have availed loans for creating infrastructure including factory sheds without any collateral or personal guarantees from the members. This access to credit at competitive rates would have been difficult for smaller units in their individual capacities
- Parks have established facilities such as power plants, CETPs, laboratories, training centers, raw material banks, common marketing facilities, warehouses, administrative blocks, warping and sizing units and processing units as common facilities and common infrastructure
- IL&FS Clusters has helped Parks in designing SITP brand by developing logos for these Parks which at individual level are unique while collectively all the logos are combined by a common theme of tapestry to form a collage
- Like any other common project, collection of contribution from members is issue in textile parks, particularly when it comes to repayment of loan. This is because loan is in the name of SPV and individual members have not taken any liability. Banks have started converting common loans to individual liabilities so that businesses of those who are repaying their share of loan are not affected
- One member within the Park offering higher wages than others was disturbing commerce of some of not so profitable members. To avoid conflict, in some Parks, members have agreed upon a fixed salary to be offered to a new entrant for first six months and also not to poach each others workers

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3.3 Indian MSMEs: Status of infrastructure

Challenges: The Group Captive Power Plants are facing following challenges:

- Selection of technology, supplier and deciding number of different capacity Engines suitable to its requirements.
- Financing of investment in Power Plant by SPV as it has no past experience in running such plant
- Constant increase in Fuel cost i.e. gas, coal
- Ending up paying heavy O & M charges especially to supplier of plant as it has no technical capability
- Payment of fixed charges for standby arrangement
- Litigations on account of wrong interpretations

(b) Water Supply: Every manufactured product uses water during some part of the production process. Industrial water use includes water used for such purposes as fabricating, processing, washing, diluting, cooling, or transporting a product; incorporating water into a product; or for sanitation needs within the manufacturing facility. Some industries that use large amounts of water produce such commodities as food, paper, chemicals, refined petroleum, or primary metals.

Therefore ample water supply is essential for industrial clusters. Public at large considers water is either available free from natural sources or government should provide it at very low prices. But, In case of some industries (like paint, dyeing, etc.) use of water is a key activity in entire value chain of the industry. Hence, good quality water is backbone of entire value chain for that industry.

Water supply situation in several industrial areas is seriously affected due to contamination of natural resources as well as ground water due to discharge of untreated effluent over decades. Issue of proper water supply also prevails due to very scanty rainfall. Due to this water available some industrial clusters is rendered unusable by the industry.

Now, the common practice is to fetch water by tanker from huge distances. This transportation of water by tanker not only increases the cost of water but also results into unwanted incidents like accidents in the nearby villages.

(c) Waste Management: The general problem of industrial waste is rapidly becoming serious and it is important for industries to reduce their cost of environmental compliance. In this respect, the concept of Common Effluent Treatment Plant (CETP) is an excellent example for MSMEs in collaborating with each other to manage the effluent and water waste.

In prevailing practice, polluting industries having similar effluent characteristics come together to establish a Special Purpose Vehicle (SPV) company to act as an Implementing Agency (IA). Since technically it is preferable to have effluent of similar nature, this concept works best in industrial cluster where similar industries operate in small geographic location.

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3.3 Indian MSMEs: Status of infrastructure

Benefits of CETP

The primary benefit of a CETP is the compliance with environmental norms which helps the MSMEs in operations and marketing

Environmental compliance obligation is externalised and therefore industry can work free of repeated disturbance of enforcement agencies

Since in CETP, scale is larger due to collective treatment, economy of scale could be achieved to reduce cost of treatment per cubic meter of effluent

Common Problems of CETP Projects

1. Recovery of dues from member units is always an issue for majority of CETPs. Innovative practices have been used by few SPVs. Since SPVs do not have powers for penal action against member units, CETP SPVs tie up with State Industrial Development Corporations (IDC) such as MIDC or GIDC for billing. In this, State IDC charges nominal collection fees and include CETP user fees to the bill raised for other charges of IDC. Thus, by making the user charges statutory in nature, adequate deterrent is built in against defaults.

2. Understatement of effluent volume by member units is a common tendency as contribution towards capital as well as O&M cost is based on the volume of effluent. In realty, member units discharge much more effluent than that declared by them thereby disturbing entire treatment system. In order to reduce this risk, good practices CETPs have adopted member contribution on the basis of installed capacity of the machines. Common argument from members is that though the installed capacity is high, actual production and hence effluent volume is not that high. In Surat common practice is to levy charges on the basis of number of Stenter frames. Irrespective of production, members has to pay in proportion to the number of frames. In several clusters such as textile processing, metal electroplating, food processing industry, effluent treatment charges are based on the maximum installed capacity of the plant.

3. Design and operation of CETP for chemicals and drugs industry is very difficult. This is due to variation in effluent characteristics. It happens every season when pharmaceutical units change their product under manufacturing. Sometimes unexpectedly a solvent or a chemical gets mixed with the effluent and disturbs CETP operation. In order to overcome this problem, individual units are asked to carry out pre/ primary treatment of the effluent before it is discharged in common effluent collection system.

ii. Supporting Infrastructure/ Common Facilities: There is a need of facilitating the MSMEs through imparting sophisticated skills for personnel drawn from Industries, Development organisations, Technical Institutions and the Jobseekers. Apart from basic infrastructure MSMEs should be provided with training in Hi-Tech areas like Information Technology, Electronics, VLSI, Management and Behavioral Science.

The training should be focused on attainment of competencies and skills to empower the trainee to perform efficiently & better and improve the employability of job seekers. Experts who act as facilitator have essentially worked in industry and have undergone industrial training not only in India but even overseas, and are well versed with the current trends and technologies.

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3.3 Indian MSMEs: Status of infrastructure

Case study of MSME Tool Room – Aurangabad, (Testing Labs)

IGTR Aurangabad - an ISO 9001:2000, ISO 14001:2004 Tool Room & Training Centre established in the year 1990 is the vibrating symbol of Indo- German co-operation aimed at promoting purposeful technical education for the youth in India. The organisation was actively supported with generous assistance from the GTZ, development agency of Govt. of Germany, the Government of India and the State Government of Maharashtra. The Organisation implements its programme of technical training through its Training Center located at Aurangabad and sub centers at Pune, Mumbai & Nagpur.

Try Outs: All the press tools and moulds manufactured in IGTR are tried out on sophisticate Mechanical Presses and Injection Moulding Machines.

Case study of Indo-German Tool Room- Indore, (Design Centres)

Indo-German Tool Room, Indore is one of the four Tool Rooms setup by Govt. of India with assistance from Govt. of Federal Republic of Germany. While the Umbrella Agreement for technical cooperation was reached in December, 1971, the detailed arrangements for Tool Rooms were agreed and finalised on 08.03.1989. The State Govt. of Madhya Pradesh has actively supported the project by providing land, building and infrastructure assistance. The Management of the Tool Room rests with the governing council constituted by the Govt. of India. Development Commissioner, Micro, small & Medium Enterprises, Govt. of India, is the President of the Society & Chairman of its Governing Council. The Tool Room started functioning in May, 1995. The Tool Room is ISO 9001:2008 certified organisation.

Following are the salient features:

Design and Development: A team of quality and experienced designers provides:-

- Design of Press Tools, Moulds, Jigs & Fixtures and gauges, etc.
- Computer Aided Design (CAD) with latest software for solid and surface modeling and analysis of products.
- Tool related innovations for improved product designs
- Standardisation of tooling components

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3.3 Indian MSMEs: Status of infrastructure

Case study of Central Tool Room (CTR) – Ludhiana(Tool Rooms)

Provision of proper tooling, skilled technicians, and modern technology support call for high investments, therefore, small-scale enterprises, who want to develop their business, have to rely on institutions offering such services. To serve these units, the Government of India established the Central Tool Room (CTR) in Ludhiana in 1980 with technical and financial support from the Government of Germany and the active support of the State Government of Punjab, which provided land and buildings.

CTR had been set up as "Government of India Society" under the Ministry of Industry (now: Ministry of Micro, Small & Medium Enterprise), Government of India. Governing Council constituted by the Ministry manages the affairs of the society. Governing Council members are from the Ministry of SSI, Govt. of India, the State Government of Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir, and U.T. Chandigarh.

Aims & Objectives: The major objectives of the Tool Room are:

- To increase the efficiency of small-scale units in the Northern Region in light engineering and allied fields by providing support in the design and production of tools and jigs & fixtures as well as by rendering technical consultancy services
- To manufacture small and medium-size tools such as press tools, jigs & fixtures, moulds, dies, and special purpose tools
- To provide common service facilities to small-scale industries regarding the manufacture of various types of tools, heat treatment, and related services

CTR, Ludhiana has ultra modern, state-of-art Tool Room machines under single roof. It is an ideal Tool Room & Die Technology. The wide spectrum of sophisticated machines include all latest and advanced machines, which can cater to various requirements of the industries.

It aims at emerging as a top class Design & Product Development Center in country having Rapid Prototyping Machine to cater to the needs of the 21st century.

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3.3 Indian MSMEs: Status of infrastructure

As a consequence of expanding markets modern manufacturing facilities, MSMES are required to manufacture goods with technical expertise. These modern facilities and high quality tools are manufactured on extremely precise and computer controlled machines, which are usually not within the reach of small-scale enterprises. Moreover, these units lack personnel with the respective expertise. Also, provision of proper tooling, skilled technicians, and modern technology support call for high investments, therefore, small-scale enterprises, who want to develop their business, have to rely on institutions offering such services. Hence, government should focus on the vigorous development of the institutions with common infrastructural facilities for MSMEs; depending upon the requirement of the concerned cluster.

Government Initiatives pertaining to the MSME Infrastructure

Based on several reports of the Government of India, *including the Report of Prime Minister's Task Force on Micro, Small and Medium Enterprises (MSMEs), January 2010*, among several common problems for MSMEs in India, Infrastructural constraints requires utmost attention as MSMEs still continues to suffer a lot from infrastructural bottlenecks with increasing competition, globalisation and more recently due to uncertainty caused by global downturn. According to the report, to sustain growth it is essential to have availability of proper infrastructure for MSMEs. As per the Task Force report following are the main issues faced by MSMEs pertaining to infrastructure:

- MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganised manner in pere urban or rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable, leading to very high transaction costs.
- With the growth of the industrial sector, including MSEs (which are an integral part of the value chain), adequate areas for extension of MSEs are simply not available. This has resulted in crowding of MSE operations in existing areas, often in conflict with environmental and urban regulations.

There is an urgent need for renewal and up-gradation of MSMEs infrastructure located in existing industrial estates through cluster development approach. The development process needs to be implemented properly and should be supplemented/ strengthened with ample work space, captive power (within industrial estates), common effluent treatment plants, proper water supply distribution, common tools rooms & design centre facilities, etc.

At the moment, there are two major Central Government programmes addressing similar objectives – namely *Industrial Infrastructure Up-gradation Scheme* (IIUS) scheme of Department of Industrial Policy and Promotion and *Integrated Infrastructure Development* (IID) scheme of Ministry of MSME, now subsumed in the MSE-CDP, with all its existing features.

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3.3 Industrial infrastructure up-gradation scheme

Industrial Infrastructure Upgradation Scheme (IIUS) was launched in 2003 with a view to enhance competitiveness of industry by providing quality infrastructure through public-private partnership in selected functional clusters. The scheme has been suitably modified in 2009 mainly to cut delays in the implementation of the projects and streamline the process under the Scheme, central grant is provided to upgrade the infrastructure of the existing clusters. The infrastructure includes physical infrastructure, R & D infrastructure, Common Facilities centre etc. The central grant is restricted to 75% of the project cost subject to a ceiling of Rs. 60 crore. The remaining 25% is financed by other stakeholders with a minimum industry contribution of 15% of the project cost, which must be in form of cash and not in kind like the cost of land or exiting building.

A list of infrastructure eligible for assistance under IIUS is as below:

- Physical Infrastructure such as transport; road; water; common captive power generating units; power transmission and distribution infrastructure, common fuel / gas supply system, common effluent treatment plant and solid waste management facility.
- Information and Communications Technology (ICT) Infrastructure.
- R&D Infrastructure.
- Quality certification & benchmarking centre, improvement of soft skills in quality control and Total Quality Management technologies, handholding of firms to achieve certificate, and benchmarking vis-à-vis international standards.
- Common Facilities Centre.
- Marketing/information dispersal infrastructure
- Any other physical infrastructure identified by the industry cluster and approved by the Apex Committee.

IIUS Status

During 10th Five Year Plan 26 projects with total cost of Rs. **1693** crore and involving central grant of Rs. **945** crore were sanctioned under the IIUS. In addition, 5 projects with total cost of Rs. **271** crore and central grant of Rs. **185** crore have been sanctioned during 11th Five Year Plan. The total cost of all 31 sanctioned projects is Rs. **1964** crore including central grant of Rs. **1130** crore.

So far Rs. **867** crore has been released to various Special Purpose Vehicles. Out of these 31 projects sanctioned, 5 are for Tamil Nadu, 4 each are for Gujarat and Madhya Pradesh, 3 are for West Bengal and Maharashtra and 2 each for Andhra Pradesh and Karnataka and 1 each in Chhattisgarh, Haryana, Kerala, Orissa, Punjab, Rajasthan, UP and Jharkhand. Five projects have been sanctioned for Auto Components and Textiles clusters each and two projects for Leather clusters and Rubber clusters each.

Ten projects, namely, Auto Cluster, Pune, Machine Tools Cluster, Bangalore, Textile Cluster, Tirupur (TN), Chemical Cluster, Vapi, Chemical Cluster, Ankleshwar, Pump Motor & Foundry Cluster, Coimbatore, Textile Cluster, Ludhiana, Foundry Cluster, Belgaum and Auto Ancillary Cluster, Chennai are complete. **Eight** more projects are likely to be completed by March, 2011.

The sanction given to Textile cluster, Panipat (Haryana) has been withdrawn in April, 2008 due to its implementation not being feasible in accordance with the guidelines of the Scheme. The rest of the projects are at different stages of implementation. Significant progress has already been achieved in these projects.

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3.3 Industrial infrastructure up-gradation scheme

Scheme Outlay

For 10th Plan outlay of the IIUS was Rs. **675 Crore.** For the 11th Plan an amount Rs. **1050 crore** has been allocated for the IIUS. Out of this amount Rs. **275 crore** has been for the projects sanctioned in industrially less developed States, Rs. **325 crore** for completion of ongoing projects sanctioned in 10th Plan and Rs. **450 crore** for projects sanctioned under the recast IIUS. In the BE for the current financial year 2010-11, Rs. 119 crore has been provided under the Scheme.

Integrated Infrastructural Development (IID) Scheme

In pursuance of the Industrial Policy measures for promoting and strengthening small and tiny village enterprises announced on 6th August, 1991, the Integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers districts which are not covered under the Growth Centres scheme. The aim of the IID scheme is to provide developed sites with infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services etc. The scheme covers rural as well as urban areas with a provision of 50% reservation for rural areas and 50% industrial plots to be reserved for tiny sector. The scheme also provides for up-gradation/ strengthening of the infrastructural facilities in the existing old industrial estates. IID scheme has been subsumed in the MSE-CDP, with all its existing features. However, pending finalisation of guidelines, the proposals for IID centres are being dealt under the existing scheme.

Under the scheme, the State / Union Territory Government concerned or a body under it with good track record and sound financial position or a good NGO having a sound financial position is required to select suitable sites, firm up the project proposals and get the project appraised from SIDBI. The High Powered Committee under the scheme in the Ministry of MSME, Govt. of India considers the proposals only after recommendation of SIDBI becomes available.

The estimated cost to set up an IID Centre is Rs. 5.00 crore (excluding cost of land). Central Government provides 40% to a maximum of Rs.2.00 crore as grant and the remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State funds.

Progress

As on December 2010, total 124 IID centres sanctioned under IID scheme. Out of 124 IID centres 95 were new cases and 29 cases are of upgradation. Furthermore, out of 124 IID Centres, 92 centres are completed in which 67 are new cases and 25 cases are of upgradation. Given below the status of the Scheme:

- Out of committed central grant of Rs. 209.46 crore, Grant of Rs. 157.68 crore including Rs. 51.08 crore for North- East Released.
- Units established in 62 centres
- Developed sites allotted in 71 centres
- 10,750 plots stand allotted to small and tiny units
- 3,388 units established
- 26,574 employments generated

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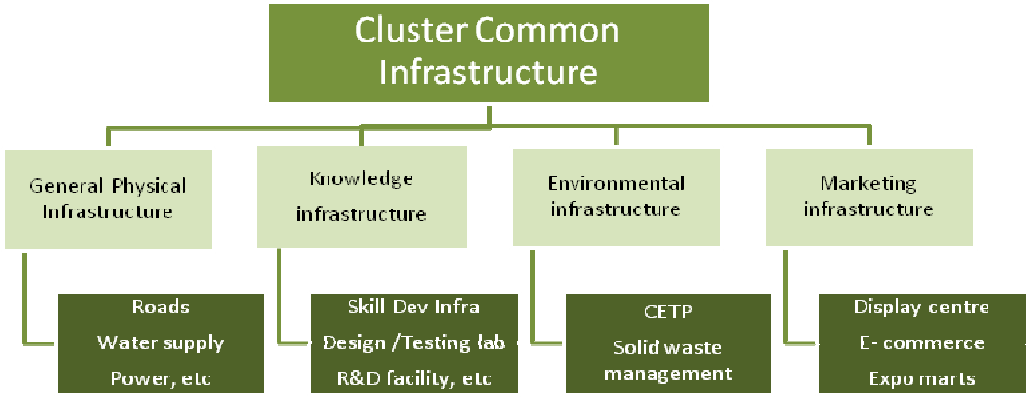
3.3 Industrial infrastructure up-gradation scheme

While there is enough empirical evidence available from across the globe on the impact of geographical clustering of related Micro, Small and Medium Enterprises (MSMEs) in determining competitive advantage, the contribution of infrastructure for sustaining competitiveness of clusters remain one of the neglected areas of enquiry. Few studies in recent years that attempted to capture the impact of infrastructure came up with a range of infrastructure services that severely limit the functioning and growth of MSMEs. Access to dependable supply of electricity emerged the most crucial issue followed by poor transportation facilities which leads to longer lead time, additional costs and restricted access to markets.

Availability of general physical infrastructure like power, water, roads, transportation and communication is an essential factor of production having direct impact on output, cost and productivity. However, the contribution of cluster specific common infrastructure is more significant than the generic infrastructure. Cluster specific common infrastructure could be classified as physical infrastructure including Common Effluent Treatment Plants, Environment Management Infrastructure, Inland Container Depots, Industrial Zones, etc. and knowledge infrastructure like testing laboratories, skill development centres, R & D facilities, technology transfer centres, product and design development common facilities, Marketing Infrastructure, etc.

Availability of 'cluster parks' with state of the art physical infrastructure including power, water, effluent treatment, testing, training, etc designed as per the needs of the cluster units which will establish manufacturing facilities in the park has benefited many clusters in terms of capacity expansion, modernisation and export augmentation.

The Knitwear facility in Ludhiana and Central Institute for Hand Tools cluster in Jalandhar were responsible for introducing computerised knitting and forging technologies in respective clusters. The leather tannery units depend on specialised infrastructure in the form of Effluent treatment and hazardous solid waste disposal facility to meet compliance norms.



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3.3 Industrial infrastructure up-gradation scheme

Taking cognizance of the importance of MSME clusters as also their need for development of infrastructure, various infrastructure development schemes have been introduced by the Government. The schemes are envisaged to be implemented on cluster and PPP approach. Such infrastructure development schemes have been introduced by Ministries of Micro Small and Medium Enterprises(MoMSME), Food Processing Industries(MoFPI), Environment and Forests, Textiles(MoT), Commerce and Industry (MoCI) and others to provide assistance for development of critical infrastructure projects.

1.0 Need for Cluster Infrastructure:

It would be difficult for clusters to sustain their competitiveness in the absence of adequate infrastructure facilities. The dyeing and bleaching industry in Tirupur, tanneries in Kanpur, Knitwear processing industry in Ludhiana, are all facing closure due to inadequate environment management infrastructure. These industries are backbone of the clusters which are national leaders in their respective sectors. The engineering clusters of Punjab, auto component clusters of Haryana and many other are facing similar challenge due to technology obsolescence. The forging technology that was introduced in late 70s is still the most prevalent technology and decades behind modern technologies available to competing countries like China, Taiwan, etc. The sports goods cluster in Jalandhar produces about 15 million soccer balls each year with about 30,000 workers, in comparison, a leading manufacturer of soccer balls in China produces 18 million balls with about 6000 workers. The difference is due to adoption of technology which has automated stitching to some extent. Similarly MSMEs in the auto component sector need about 3 months for product development which can be achieved in less than 3 days with access to technologies like Rapid Prototyping. Availability of knowledge infrastructure can address these technology related gaps. In the leather sector, which is highly labour intensive, total capacity of institutional infrastructure for training is less than 5000 persons per annum while the demand is for more than 50,000 additional skilled workers for the shop floor operations alone.

1.1 Physical Infrastructure:

Historically, MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas having come up in an unorganized manner. The state of infrastructure, including power, water, roads, etc. in both industrial estates and such urban areas is poor and unreliable, leading to very high transaction costs. With the growth of the industrial sector, including MSEs (which are an integral part of the value chain), adequate areas for extension of MSEs are simply not available. This has resulted in crowding of MSE operations in existing areas, often in conflict with environmental and urban regulations. The new industrial estates developed by State Infrastructure Development Corporations are typically designed without knowing the nature of units which would come up in those estates and infrastructure is often not in line with what those units would require. Therefore, the problem is twofold, upgradation and maintenance of existing industrial infrastructure and development of new industrial areas with active participation of user industry.

For upgradation/ creation of infrastructure facilities in the new / existing industrial areas of MSMEs, the Ministry of MSME has Integrated Infrastructural Development scheme (now integrated into Micro and Small Enterprise Cluster Development Programme) wherein GoI provides grant upto 60% of the project cost of RS 10 crores and the state government is expected to mobilize the balance 40%. The eligible components are facilities like power distribution, water, telecommunication, drainage and pollution control faculties. As on December 2010, total of 124 projects have been sanctioned including 95 new and 29 upgradation projects. Out of these 124 projects, 92 have been completed (67 new and 25 upgradtion projects) and 36 are ongoing (28 new and 4 for upgradation). Out of the total committed central grant of Rs. 209.46 crore, Rs. 157.68 crore have been released. Impact is already quite significant as it has resulted in commissioning of almost 4000 new units creating employment for 26,500 workers.

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3.3 Industrial infrastructure up-gradation scheme

There are other Ministries which are providing grant assistance for establishing cluster specific physical infrastructure in the form of cluster parks or industrial estates developed around a common sector. The Ministry of Textiles has Scheme of Integrated Textile Parks, Ministry of Food Processing Industries has Mega Food Parks Scheme and Department of Industrial Policy and Promotion supports Leather Parks. Most of these schemes and policy initiatives have certain common features which have evolved based on past experiences of the government to support industrial infrastructure development. In the past, such industrial infrastructure development did not have user industry participation in funding or design and ownership as also operations were with the government agency. The result was below adequate performance of the facilities created. There are many examples where industrial estates created were not occupied or common facilities did not find users, etc.

These schemes are focusing more on clusters and seeking greater ownership and participation of the cluster units. Some of the salient features of these schemes are public-private partnership approach to establish infrastructure facility; limited funding as grant by the government; contribution by the user private sector towards capital cost; implementation operations and management by a Special Purpose Vehicle (SPV) promoted by group of cluster enterprises; and meeting of operations expenses through revenue from user charges.

On the electricity front, the Electricity Act 2003 allowed license free environment for generation of electricity encouraging the industry to set up captive power plants to bridge the huge gap in demand and supply of power. The Act has removed the requirement of a license for establishing a generating station.

A Captive Generating Plant is defined as a power plant set up by any person to generate electricity primarily for his own use and includes a power plant set up by any co-operative society or association of persons for generating electricity primarily for use of members of such co-operative society or association. After introduction of E A 2003, many MSMES individually not capable to make substantial investments, joined hands and formed SPV to set up captive power plant to meet their power requirements. In addition, many industrial clusters also set up Group Captive Power Plant to provide quality power to their member units.

1.2 Environment Protection Infrastructure

Pollution related problem is the down side of industrial and technological progress. There is a growing negative impact of industrialisation on the environment due to increasing pollution levels. Untreated or improperly treated waste becomes pollution, increasing not only private costs but also social costs. Environmental degradation often tends to become irreversible and imposes damaging costs on the economy. Industrialisation is on the increase, which of course is necessary but, so is the environmental pollution due to emissions and waste generated from these industries. There is growing concern and awareness about the downside of industrialisation. The industrial pollution due to its nature has the potential to cause irreversible loss to the environment and hence is being closely monitored. The tolerance levels are becoming stringent by the day and as a result many industries especially, MSMEs which do not have means to control or treat waste are on the brink of closure.

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3.3 Industrial infrastructure up-gradation scheme

The Ministry of Environment and Forests has undertaken a Centrally Sponsored Scheme for enabling the Small Scale Industries (SSI) in clusters to set-up Common Effluent Treatment Plants in the country for installation of pollution control equipment for treatment of effluents Common. Under the scheme, Central assistance up to 25% of the total cost of the CETP would be provided as a grant to the Common Effluent Treatment Plant(s) on the condition that a matching grant is sanctioned and released by the State Government. The CETP Company should meet the remaining cost by equity contribution by the industries and loans from financial institutions.

Assistance for establishing environment protection infrastructure is also available from the Department of Industrial Policy and Promotion to the leather sector and SITP and Mega Food Park scheme also have similar provisions.

1.3 Knowledge Infrastructure – Common Facilities

As discussed above, the role of knowledge infrastructure is most central for sustaining competitiveness of MSME clusters. Country is full of examples where clusters have dramatically benefited from availability of knowledge infrastructure or have perished for want of these facilities. The Sports Good Foundation of India (operating in Jalandhar, Punjab) established a common facility for mechanisation of soccer ball stitching under UNIDO assisted cluster development programme. The facility perfected the technology for machine stitching and later served as a skill development and technology transfer facility for the member firms. As a result, the cluster got a product competitive to China and almost 40% of soccerball exports from the cluster are of machine stitched balls. At the same time the Aligarh lock cluster and Moradabad handicrafts clusters have plummeted significantly due to want of technology infusion.

Another classic example is the Hand Tools cluster of Jalandhar which benefited immensely from the establishment of Central Institute of Hand Tools Institute (CIHT). CIHT was established in 1983 with assistance from UNDP, Government of India and Government of Punjab and was instrumental in transferring drop forging technology in Punjab. The institute got it from its first set of technocrats who had worked with a large scale manufacturer having imported forging hammers through its German collaboration. However, that was in the 80s, now the cluster needs another infusion of technology. To remain globally competitive it needs to adopt cold forging and pres forging technologies. These technologies are not available at the institute. The MSME cluster firms have come together and formed a SPV to import these technologies with partial assistance from GoI. The project is under implementation.

Most of the MSME clusters need knowledge infrastructure in one form or the other. Government is awake to the importance of knowledge infrastructure for MSMEs. There are two major centrally sponsored schemes – Micro and Small Enterprise Cluster Development Programme (MSE-CDP) of Ministry of MSME and Industrial Infrastructure Upgradation Scheme of DIPP. Under MSE-CDP, the assistance for establishing common facilities is upto 70% (90% in NE and Hill states) for a project cost of Rs 15 crores. Under IIUS, the assistance is upto 75% (90% for NE and Hill states) with maximum grant limited to Rs 60 crores. More than 40 clusters are being assisted under IIUS having total sanctioned cost of more than 2500 crores. The MSE-CDP is assisting about 60 clusters with sanctioned cost of about Rs 160 crores.

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3.3 Industrial infrastructure up-gradation scheme

2.0 National Scenario Best Practice

2.1 Case Study on Best Practice - Physical Infrastructure

SITP: The Scheme for Integrated Textile Parks (SITP) of Ministry of Textiles is a flag bearer when it comes to infrastructure development for clusters. In view of the tremendous potential of textile sector, the scheme was conceptualized in 2005 during the10th five year plan to provide the industry with world-class infrastructure facilities for setting up their textile units.

There has been overwhelming response to the scheme. Taking into consideration the response to the scheme and the opportunities for the growth of textile industry in the quota free regime, the Government of India have decided to continue the SITP in the 11thFive Year Plan.

So far, 40 projects have been sanctioned (30 during the 10th and 10 more during the 11th plan period) with total project cost of Rs 4150 crores. These parks would host total of 2331 units bringing fresh investments of about Rs20,000 crores and creating employment for almost 7.5 lakh persons. The turnover of these parks is estimated at 33,500 crores per annum.



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3.3 Industrial infrastructure up-gradation scheme

2.2 Case Study – Environment Infrastructure

Pandesara Industrial Green Environment Water Welfare Co Operative Society Ltd (PAGREW) Surat was formed in 1995 by industrial units located in GIDC Pandesara to address environmental and water welfare related problems. The PAGREW and Surat Municipal Corporation (SMC) joined hands in 2005 to address the issue of waste water generated by industrial units and executed MOU for up gradation of waste water system. The project has following unique model for setting up and operating the CETP project:

Project Implementation Model:

- The responsibility of the various components of project was shared by PAGREW and SMC for effective implementation.
- SMC allotted required land area for setting up of CETP project
- Project components were funded by PAGREW, SMC, Ministry of Textiles and Government of Gujarat and Ministry of Environment and Forests
- SMC and PAGREW shall be responsible for O & M part of their component.
- O & M Contractor shall be responsible to operate plant in compliance to Operational manual, safety manual and training manual.

The project was commissioned successfully which is a major achievement considering involvement of multiple stakeholders.

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2.3 Case Study – Knowledge Infrastructure

Industrial Infrastructure Upgradation Scheme was launched in 2003 with an objective to enhance competitiveness of the industry by providing quality infrastructure through PPP approach in selected functional clusters/ locations. The Scheme is intended to benefit existing industrial clusters with significant presence of small scale industry which, have potential to grow. Enterprises operating out of these industrial clusters in a collective manner could avail the benefits under the Scheme. The projects components eligible under the scheme are upgradation of physical infrastructure and establishment of common facility centers for infusion of technology / R & D / Marketing, etc. would be common in nature and would benefit the whole cluster in general.

3.0 Recommendations for Infrastructure Development

In the present global environment, the MSMEs have to be competitive to survive and thrive. To ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure is in tune with the global trends and it compensates for small scale through provision of common facilities. MSMEs located in clusters provide an effective mechanism and environment to address such competitiveness constraints wherein benefits can reach to large number of MSMEs. Clusters are an effective medium to augment both physical infrastructure as well as knowledge infrastructure for infusion of technology, development of skilled workforce, etc.

The Prime Minister's task force on MSMEs has made well founded recommendations based on stakeholder consultations for augmentation of infrastructure for MSMEs which are reproduced below:

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3.3 Industrial infrastructure up-gradation scheme

1. Local bodies may be encouraged to set aside substantial part of the collections derived from industrial estates, to upgrade infrastructure such as roads, drainage, sewage, power distribution, water supply distribution, etc. for the existing industrial estates. Alternatively, industrial estates could be notified as separate local bodies as envisaged in the Constitution and entrusted with municipal functions that shall include levy of taxes, responsibility to maintain the infrastructure within the Industrial Estate, etc.

2. A national programme for renewal of industrial infrastructure may be undertaken[on the lines of Jawaharlal Nehru National Urban Renewal Mission (JNNURM)] to upgrade infrastructure for existing industrial estates, such as roads, drainage, sewage, power distribution (within industrial areas), water supply distribution, etc.

3. Expand the scope of the existing Integrated Infrastructural Development (IID) scheme of Ministry of MSME to cover the private sector

4. Flatted Factory Complexes may be set up, particularly in and around large cities for MSEs on PPP mode. On similar lines, dormitories for industrial workers in industrial estates may be set up

5. Setting up of common facility services in the industrial estates/clusters on PPP mode be encouraged by providing adequate assistance under various on-going schemes of the Ministry. The two schemes that assist such infrastructure development are IIUS and MSE-CDP, additional funding support should be made available to these scheme to assume the character of a National Mission

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6. Level of assistance available for CETPs from MoEF and State Governments should be enhanced and the scope also should be expanded to include conveyance channels, SLF, tertiary treatment, laboratories, etc

7. Funding for common captive power generation in Industrial Estates would be encouraged through subsidies given to the SPV managing such facilities; Also, in case of power plant set up by registered co-operative society, the conditions like capacity commitment and equity participations should be allowed to be satisfied collectively by the members of the co-operative society

8. The State Governments should formulate policy for incentivising private sector for setting up of new Industrial Estates

9. Following best practices should be made a standard for schemes for MSME/ industrial infrastructure development :

    a. Ownership and operations rest with the project SPV
    b. Concept of Professional Project Management Agency(PMA) to assist the concerned ministry during scheme implementation especially for extending handholding support to implementing SPVs from concept to commissioning stages of the project
    c. Two stage approval process – in principle and final
    d. Central grant is released directly to the project SPV on meeting scheme guidelines
    e. Provision of administrative expenses to cover for consultants to be appointed as PMA as well as project managers by respective SPVs
    f. Broad base representation of stakeholders on the SPV board

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Key challenges

- Access to finance
- Access to markets
- Access to infrastructure
- **Access to people**
- Access to technology & environmental constraints
- Issues regarding regulatory facilitation

3.4 Access to people

The Indian economy is now the second fastest growing economy of the world. In such a visible growth environment, tremendous efforts are being made by SMEs (Small and Medium Enterprises) to make their presence felt and to convert their growth plans into reality. In essence, last few years have seen the exponential growth of SMEs. While big players enjoy economies of scale to control prices, SMEs enjoy agility in bringing the product faster to the market.

However, we still find many SMEs struggling to achieve expected growth and grappling with inherent challenges of culture and scale. The promoters and entrepreneurs are exploring ways to minimise this inertia and increasingly realising that HR and its different facets play an important role to address the growth issues that SMEs face.

Human Resource is one of the most essential growth indicators for organisations today. Large firms who are targeting high growth rates scour the market for talent and MSMEs can never outplay large companies in terms of salary. The other challenge faced by MSMEs is to preserve the horizontal structure that was prevalent when they were young. As the organisation grows, the cohesiveness present at the start slowly starts to fade away.

People Challenges in MSMEs

MSMEs will need to ensure that they undertake effective HR planning and ensure that the plan supports a growth aspiration, be geared to increasing the firm's flexibility and responsiveness and help the company develop its change management capabilities. However, there are certain challenges faced by MSMEs in achieving the above mentioned HR plan objectives.

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Talent Attraction

The biggest constraint for MSMEs in talent attraction is the lack of ability to pay competitive compensation packages and nonadequate employer branding. The SMEs often lose out to MNCs in attracting best talent ,which typically invest substantially in their recruitment and retention strategies.

Another key concern for MSMEs is to find talent with leadership qualities. As per Grant Thornton 'India Market Attrition and Retention Study', organisations are finding it difficult to find talent with leadership qualities across all sectors.

Talent Retention

Often MSMEs lose talent as they are unable to communicate the goal/ vision of the organisation and fail to present a clear career path to employees. This leaves employees directionless and disengaged. Sound induction and orientation processes and constant dissemination of the organisations' short term and long term goals is the solution to this problem. Lack of job rotation is another key reason for attrition in MSMEs. Employees begin to find their roles mundane after a period of time and are devoured of job rotation options within the company which leads them to exiting from the enterprise.

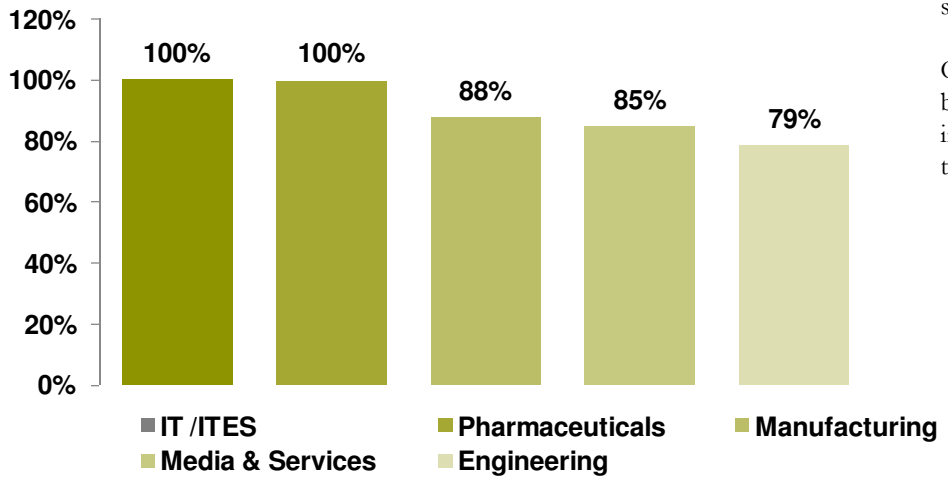
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3.4 Access to people

Competency and Skill Development

MSMEs generally lack the understanding and ability to determine the competencies that are required by an employee to fulfill his role and gain competencies and skills. These skill gaps exist at various levels. For example: As per National Skill Development Corporation, a production supervisor at a car manufacturing plant has sound knowledge of production techniques but has inadequate communication skills resulting in lack of ability to solve conflict among employees which generally leads to loss of lead time. According to Grant Thornton 'India Market Retention and Attrition Study', 85 per cent of the organisations stated that they face shortage of talent with the desired levels of skills required to fulfill certain roles and responsibilities. The sector wise breakdown of organisations' feeling the existence of skill gaps is depicted below:

Feeling of Skill Gaps across Industries – Grant Thornton 'India Market Attrition and Retention Study'



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Possible Solutions and Interventions

Talent Attraction

MSMEs need to be able to distinguish themselves, create their niche brand and use it to attract talent.

Organisations need to highlight to the potential hires that MSMEs are growing organisations and provide platform to the new incumbents to grow with the organisation. It is imperative for MSMEs to make potential employees aware of the fact that the exposure and the level of responsibility in a small firm is much larger than that in a big firm.

Recruitment channels such as referral, internal transfers and graduate recruitment need to be implemented. It is important that MSMEs keep the recruitment process transparent and clearly communicate the key criteria for hiring a person and the key success factors for his or her role.

Organisations in this cadre need to focus on more flexible and innovative benefits/rewards that cater to individual needs. MSMEs need to adopt long-term incentive schemes to ensure that employees have a vested interest/ share in achieving the long-term vision/ goal of the organisation

3.4 Access to people

Talent Retention

In order for the MSMEs to retain talent they will need to become more performance based. This can be achieved by ensuring that the culture of the organisation is meritorious where employees are guaranteed more responsibility strictly on the basis of performance.

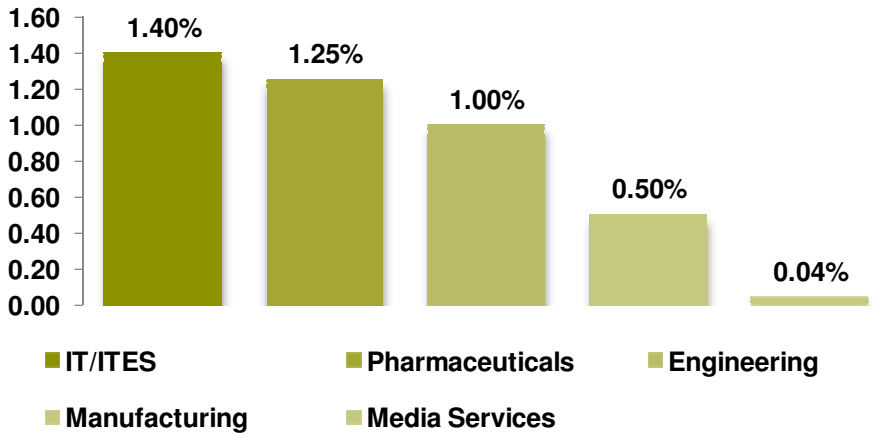
Strong performance management systems need to be put in place to ensure the same. MSMEs' leadership bodies will need to ensure that they are able to judge the potential of an employee and can harness that potential towards the fulfillment of organisation goals.

Most times in MSME organisations, there exists a gap between the performance and potential of employees. Organisations should give the employees additional responsibilities to test their potential and recognise their potential.. Organisations today recognise the need for recruiting high potential employees but fail to communicate it. Grant Thornton ' India Market Retention and Attraction Study' concluded that 88 per cent of engineering, media, pharmaceuticals, manufacturing and ITES organisations are actively identifying high potential employees but only 69 per cent of these organisations communicate to the employees that they are high potential. MSMEs need to define and communicate the corporate goal, vision and direction clearly. HR should undertake personal goal setting as a part of the appraisal process and work towards 'alignment of personal goals to the goals of the organisation'.

Personalised attention has to be given to employee needs of benefit, reward etc. Apart from performance appraisal, employers could use instant recognition for the successful completion of a small task as a method for encouraging employees. Employees could be sent to attend training sessions by outside trainers, knowledge sharing and networking conferences etc., to provide them an opportunity to learn more than what their jobs demand.

MSME organisations will need to invest in training and development that leads to skill development and job enhancement. Grant Thornton's 'India Market Attrition and Retention Study' indicated that the training budget as a percentage of total income in organisations is relatively low. A meagre 1 per cent has been allocated across engineering, manufacturing, media and services, pharmaceuticals and IT/ITES.

Training Budget a percentage of total revenues – Grant Thornton 'India Market Attrition and Retention Study'



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3.4 Access to people

The percentage of income spent on training will need to increase across the board, including MSMEs, as the better an organisation manages its people and trains them, the better it will perform.

Competency and Skill Development

HR at MSMEs will need to put in processes to identify training needs, gather training feedback and measure training effectiveness and evaluation.

It is important that the organisation clearly communicates their targets and aspirations for the year to help HR determine what competencies or skill gaps exist at various levels in the organisation and what training needs to be conducted internally or by externals to plug those skill gaps.

A key component of successful HR planning is successful succession planning. Since the scales of operations at an MSME is small and there are select number of people performing extremely critical roles, it is important to ensure that the organisation keeps performing those roles irrespective of the person being in the organisation. Successful succession planning can be achieved through a process that first identifies key positions, identifies successors for these positions, analysis the gap between the successor and the role holder's competency and henceforth the organisation follows by taking certain initiatives like job shadowing, training, special assignments and continuous evaluation of the successor to ensure that he or she comes up the curve.

Conclusion

The future will see the growth of MSMEs and SMEs as a result of the growing economy. If these small fledging businesses need to survive alongside the big giants they will need to retain their key people and ensure that they are shown a clear vision, goal and career prospect in order to keep contributing to the organisation for a long time. MSMEs will continue to prefer to hire senior management candidates from large established companies. There is a cultural problem that starts developing in the organisations. In this light, change and diversity management are important aspects that will need to form a part of the culture of many of these MSMEs who want to grow and want to hire the best minds in the business to do so.
It is becoming clear to business leaders/ entrepreneurs that an effective HR strategy is critical for its long-term survival. MSMEs will need to ensure that they align the HR role in a manner that it directly contributes to the organisation's bottom line in their area of business. If MSMEs want to ensure that the issues of talent attraction, talent retention and competency and skill development never arise in the life cycle of the organisation, they will need to undertake effective HR planning and institutionalise effective systems and processes.

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Key challenges

- Access to finance
- Access to markets
- Access to infrastructure
- Access to people
- **Access to technology & environmental constraints**
- Issues regarding regulatory facilitation

3.5 Access to technology & environmental constraints

Technology

Background

Technology plays a vital role in an economy, particularly in its development phase. In this era of globalisation, the MSME sector needs to compete not just at the local or the national level but also at the global level. Access to modern technology is acting as a serious threat to the growth of the sector.

The technology transfer issues pertaining to MSMEs in developing nations are very different from those being faced in the developed countries like the US and UK. The absence of an enabling ecosystem which is much required for facilitating an active interaction in the technology transfer process is a major inhibitor for the sector. Other issues such as 'limited interaction' between technology providers and technology seekers, minimal knowledge about upcoming technologies, and the cultural and the regional differences in the developing nations adversely affect the productivity of the MSME sector.

The competitiveness of any economy depends on how efficiently all the resources in the process of production are utilised and how efficiently these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. This improvement can come through the use of latest technology.

In the MSME sector, technology is mainly sought in the form of processes and product know-how. Some of the other sources from which technology flows into the MSMEs are:-

- government institutions
- local suppliers of machinery and equipment
- foreign suppliers
- research and development institutions
- industry associations
- parent companies in case of ancillary and subcontracting units
- collaborators

Current state of Technology transfer in the MSME Sector

There has been a visible transformation in the role of technology from being an enabler of productivity and quality to a more strategic role as a key influencer of competitive advantage. MSMEs today are increasingly focusing on adopting appropriate and affordable technologies and taking the path of innovation to build their global competitiveness. Unless the sector equips itself with the latest technologies, processes and machinery, it will not be in a position to meet the stringent quality standards set by the international buyers. With the current level of exposure to the international technologies, Indian MSMEs are expected to find it difficult to explore new markets for service and meet the innovative designs and features desired by the customers in those markets.

Though India has a vast pool of technical talent with a well developed intellectual infrastructure, the country still scores low in the matter of developing and adapting new technologies in the MSME sector. The MSME sector today needs an effective information system to support and deliver information to different users. Such information systems will be used to provide effective interface between users and computer technology and will also provide information for managers on the day-to-day operations of the enterprises

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3.5 Access to technology & environmental constraints

Information is very a vital aspect of decision making at all levels of management in enterprises, especially in competitive business environment where managers utilise information as a resource to plan, organise, administer staff and control activities in ways that achieve the enterprise's objectives. The ability of MSMEs to realise their goals depends on how well the technology is used to deliver information to the key decision makers of the organisation.

Some of the steps taken by the Government

- the Government of India has taken several measures to help small enterprises to become globally competitive. These include schemes/ programmes for technology upgradation, development of clusters of such industries, making collateral free bank credit available up to US$ 1,25,000, creating awareness among these industries regarding export-related issues, etc. The Ministry of Micro, Small & Medium Enterprises in India is also conducting workshops on various aspects of WTO, anti-dumping seminars, IPR, etc. to sensitise entrepreneurs and other stakeholders about the likely impact of liberalisation and globalisation.

- Small Industries Service Institute (SISI) provides technology development services to the MSMEs

- National Small Industries Corporation Ltd (NSIC) was established 1955 by the Government of India to promote, aid and foster the growth of small scale industries in India. It offers a number of technical services to SMEs through its Technical Services Centres, Extension Centres, Software Technology Parks and Technology Transfer Centres

- besides these, Technology Business Incubation (TBI) is one of the most recent service, that NSIC has initiated. TBI enables technical entrepreneurs to conduct their R&D programmes in a professional, friendly and supportive environment, while receiving the guidance and hand holding they need in the initial phase. This facility is being offered in Information Technology, Product Design, Energy and Environment auditing, Bio-Technology Electronics and Communications

- the Ministry of MSME, Government of India, has set up an Intellectual Property Facilitation Cell, which provides a range of IP related services such as prior art search, patent landscape and interface for technology transfer

- A Credit Linked Capital Subsidy Scheme (CLCSS) for technology upgradation of MSMEs provides grant support for technological initiatives of MSMEs

- Small Industry Development Organisation (SIDO), established in 1954, provides a wide spectrum of technical services to the small industries sector. These include common facilities for testing, tool room services, technology up-gradation, modernisation, quality improvement, training for entrepreneurship development, a number of trainings for skill upgradation, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc.

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3.5 Access to technology & environmental constraints

Recommendations

The lack of access to new and better technology has prevented Indian MSMEs from growing at a rate that's equivalent to their potential. The Ministry of MSME may provide the following assistance to MSMEs for technology up-gradation:

- access to foreign technologies:
  - provide opportunities for international partnership for industries and clusters where Indian MSMEs have an inherent competitive edge, the Ministry of MSME should create platforms through institutions like the NSIC and also form private partnerships to allow Indian MSMEs network with MSMEs abroad

- assistance from large firms:
  - involve large enterprises in the development of MSME clusters: a long-term strategic plan should be implemented by the Ministry of MSME to facilitate and build long-term relationships with large enterprises and research supply institutes

- e-governance & e-procurement:
  - e-governance and e-procurement, a must for easier compliance: online mechanisms should be provided to MSMEs to carry out all the necessary transactions for conducting business in the domestic and international markets. The government should also provide online access to rules and regulations, electronic methods for registration and electronic applications for government schemes, certificates, licenses and realisation of incentives.

- low-cost ICT solutions:
  - promote low-cost ICT solutions: the Ministry of MSMEs in India should facilitate MSMEs in procuring complete and low-cost ICT solutions to improve their capacity and productivity. Awareness of these tools should also be increased among MSMEs

- support for R&D:
  - create and promote an innovation and R&D culture: government sector institutions that are at the cutting edge of research and innovation should be opened up for use by MSME innovators who are struggling to get funds and technology.

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3.5 Access to technology & environmental constraints

Environmental Performance of MSMEs & Improvement Strategies

MSMEs form a strong basis of the economy in developed countries and transition economies, but unlike their larger counterparts, they often find it hard to comply with the environment legislations. Also, availability of limited knowledge and high cost of acquiring efficient technologies challenges MSMEs. Segments like food, drink, tobacco, printing, textiles, leather, timber, metal articles, etc., have a significant impact on the environment as they face major concerns regarding clean water, handling/ storage of toxic waste, preservation of forests, air pollution, ozone depletion, recycling of materials and many such issues.

The environmental performance of MSMEs continues to remain weak in many parts of the region and it is believed that the environmental damage caused by MSMEs will grow unless innovative strategies are devised. MSMEs need to realise the benefits of environmental management and how it materialises into greater efficiency, profitability, and competitiveness for the enterprises.

MSMEs currently face a number of barriers which are hindering them from accepting and initiating the use of environment-friendly technical know-how. But on the same hand there are number of strategies that have been planned at the government as well as the industrial levels and are in the pipeline for initiation. The main concern faced by enterprises is the lack of awareness and knowledge, which make them ignorant of the existing technologies and techniques and further increase their reliance on old and outdated technologies for their sustenance. In the recent years, there have been numerous media campaigns and marketing initiatives to stimulate the markets and the target segments in order to educate and promote awareness of the existing products and techniques alongside the environmental hazard aspect. Also, attempts to initiate local support groups and NGOs for the dissemination of information to the enterprises across geographies could play a valuable role in overcoming these barriers

Secondly, acute shortage of funding for MSMEs further deteriorate the situation since acquiring the environment-friendly technologies becomes a financially non-feasible endeavor. Further, the shortage of funds does not promote the enterprise to take part in further research and development activities. The government, alongside commercial banks and lending institutions, has begun programmes that provide financial services and lending programmes to MSMEs, thereby reducing costs and risk exposure faced by these enterprises as well the lending institutions through commercial mechanisms. Also, various R&D programmes conducted and managed by reputed R&D organisations, along with industrial partners dedicated to specific or general needs, would further aid the enterprises. Bringing in consulting services would also help these organisations to acquire knowledge of systematic operating procedures, problem identification and problem solving.

Lack of resources, namely time and human resources, has been seen as a constant hurdle by MSMEs in order to accept and implement environment-friendly techniques and initiatives. In order to overcome this obstacle, industrial clustering and networking is seen as a promising measure. Partnerships and institutional arrangements for waste treatment facility and waste exchange centres are crucial as supporting instruments that contribute to the success of the implementation of policy while providing advantages to MSMEs in terms of cost-sharing and supply chain management. Also, applying partnerships for inter-city technical cooperation and through initiatives by the existing industrial associations would not only mobilise the resources needed for the MSMEs' environmental performance but create opportunities for eco-businesses.

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3.5 Access to technology & environmental constraints

Another barrier faced by enterprises is the resistance to change in terms of perception and ambiguity towards the adoption and implementation of new techniques and environmental initiatives. Thus, a policy has been constituted by the government regarding the implementation of the Environmental Management Systems (EMS) tool by enterprises across. This would lay down the regulatory framework regarding environmental safety practices and techniques wherein government agencies play the leading role in the implementation while private consultants and NGOs, as collaborators, play an active part in working closely with MSMEs to systematically develop the EMS in their firms.

With increased participation by various organisations contributing to the implementation of the various strategies and initiatives discussed above, the MSME segment would soon be able to overcome the hurdles and barriers in the course of making its operations greener and environment friendly.



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Key challenges

- Access to finance
- Access to markets
- Access to infrastructure
- Access to people
- Access to technology & environmental constraints

- **Issues regarding regulatory facilitation**

3.6 Issues regarding regulatory facilitation

FICCI Survey on "MSME Schemes"

FICCI conducted a Survey on 'MSME Schemes' amongst 50 Small & Medium Enterprises (SMEs) spread across different regions and industry verticals.

The purpose of this survey is to collect information on awareness, usage, effectiveness and reasons for limited off-take of the public support schemes and programmes related with promotion and development of MSMEs in India.

In terms of geography, the survey saw participation of companies from major industrial States which includes Maharashtra, Karnataka, West Bengal, Uttar Pradesh, New Delhi, Andhra Pradesh, Tamil Nadu, Gujarat and Rajasthan. Majority (90 per cent) of the respondents belonged to the manufacturing sector and the rest (10 per cent) from the services sector. Many of them are also involved in multiple business activities like trading etc. Out of the total respondents, 88 per cent were observed to be registered and remaining 12 per cent did not have MSME/ SSI registration certificate. The survey revealed that 70 per cent of the enterprises were unaware about the various schemes run by the government for developing and supporting MSMEs. This is a clear indication that there is a mismatch between what government intends to achieve and the results obtained on the ground.

The Survey points out that around 30 per cent of the enterprises availed government schemes. Out of these 30 per cent respondents, 81 per cent availed the scheme during the growth/ expansion stage of their business life cycle whereas a small number of respondents (19 per cent) availed government schemes while setting up their businesses.

Survey results reflected that respondents who availed the schemes found it difficult to access (61 per cent) the information on schemes.

Suggestion to improve public support schemes:

- better publicity (Rank 1)
- simplified application process (Rank 4)
- faster decision making (Rank 3)
- need facilitating agency (Rank 2)

Other Suggestions:

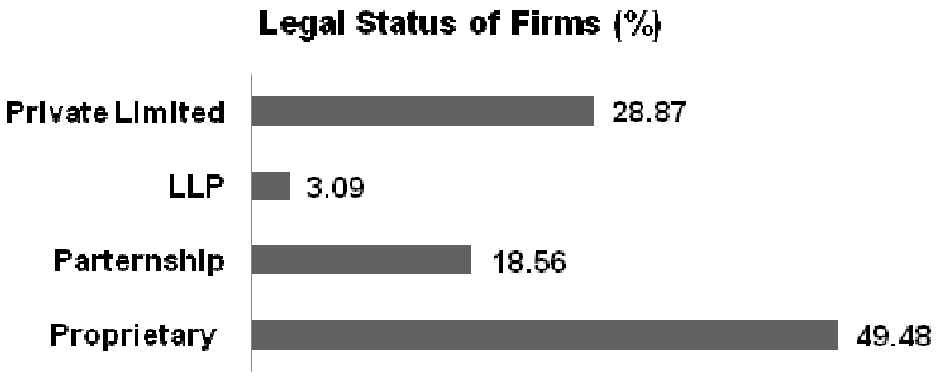
- most of the schemes are related to investment subsidy/ reimbursement of expenses. Some new scheme should be drafted and also linked with performance (in terms of the turnover (domestic as well export), energy conservations, employment, new innovation etc.) so that growing organisations (or unit in expansion mode) can avail more benefitas compared to the existing units. there is a need to establish a facilitating agency in order to implement the government schemes
- MSMEs should be provided with free circulars or newsletters giving details of various schemes undertaken by the government, as well as details of procedure to be followed
- easy Finance should be made available
- schemes for Startups need to be designed
- manufacturers' associations should be consulted while formulating these schemes
- compendium of schemes should be prepared with inclusion of application forms for each scheme
- proper and a direct channel should be established between the Government bodies and entrepreneurs in order to spread awareness on promotional schemes

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FICCI survey on MSME schemes

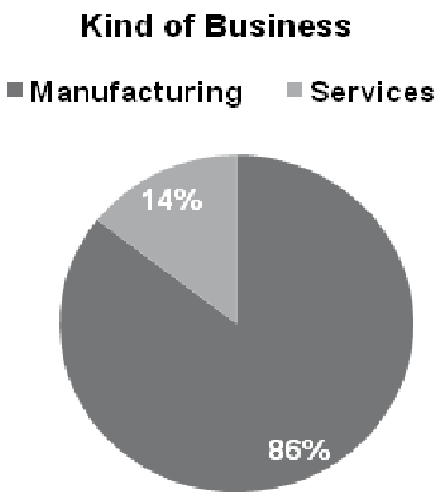
How to make it more effective and impact oriented?

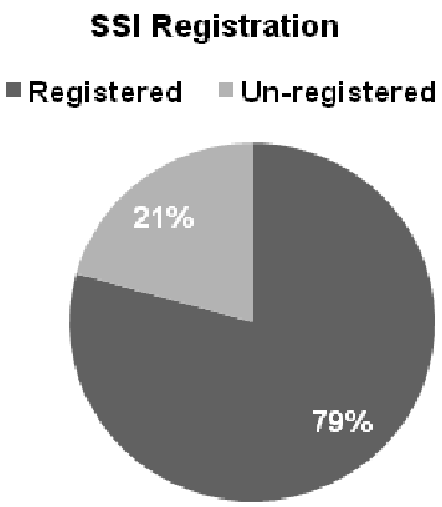
The objective of this paper is to identify the possible reasons for the current status i.e low coverage and limited impact of the public support schemes/ programs and to suggest measures for effective implementation and greater impacts. It is based on knowledge of the task force team members, results of snap survey conducted with MSMEs and analysis of available research on the subject. To gather the MSMEs' opinion, a snap survey was conducted through structured questionnaire to the randomly selected MSMEs in the eleven States and Union Territories viz. Maharashtra, West Bengal, Punjab, Uttar Pradesh, Karnataka, Tamil Nadu, Gujarat, Rajasthan, Haryana, Delhi & NCR, and Kerala.

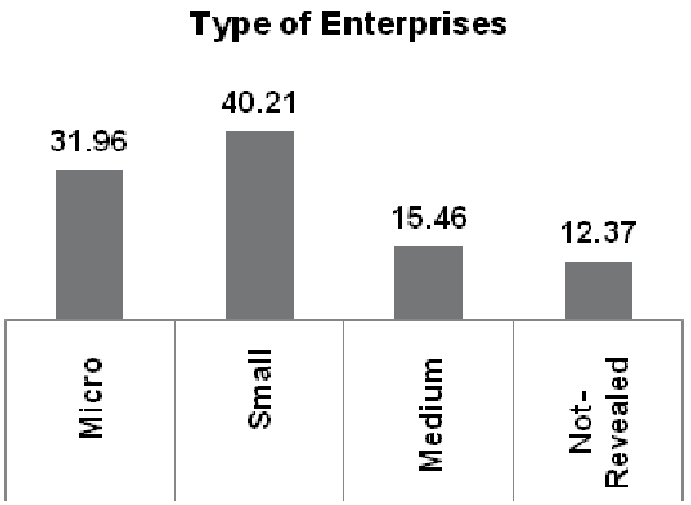


Enterprise Profile of the Survey:

The Survey focused mainly on the manufacturing units, however 14% of the total units were from service sector. Almost 50% of the units fall under proprietary category (almost 50%) and 29% of the firms were 'Private Limited' companies.





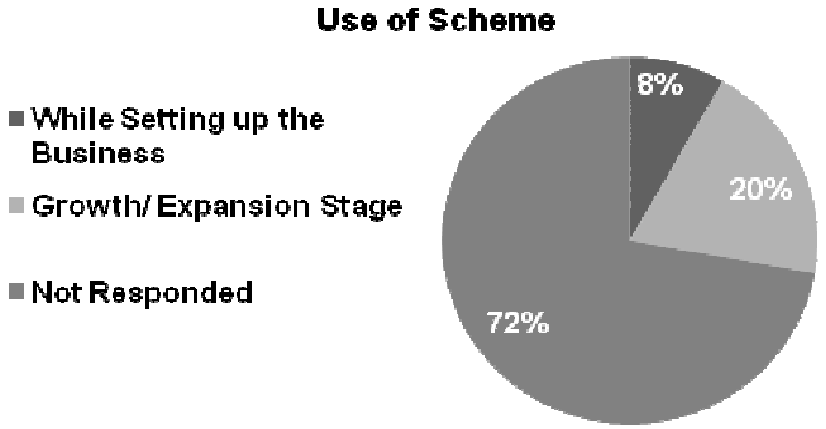


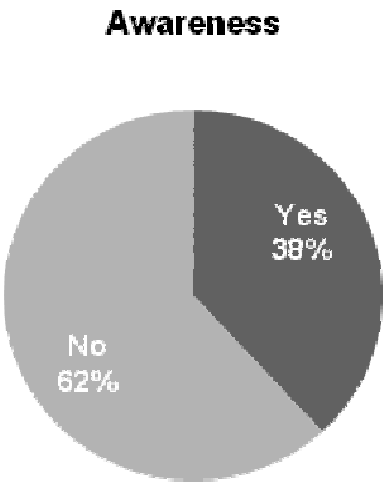
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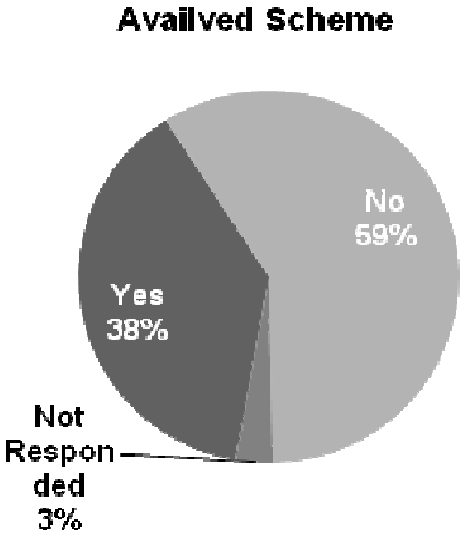
Awareness, Usage and Accessibility:

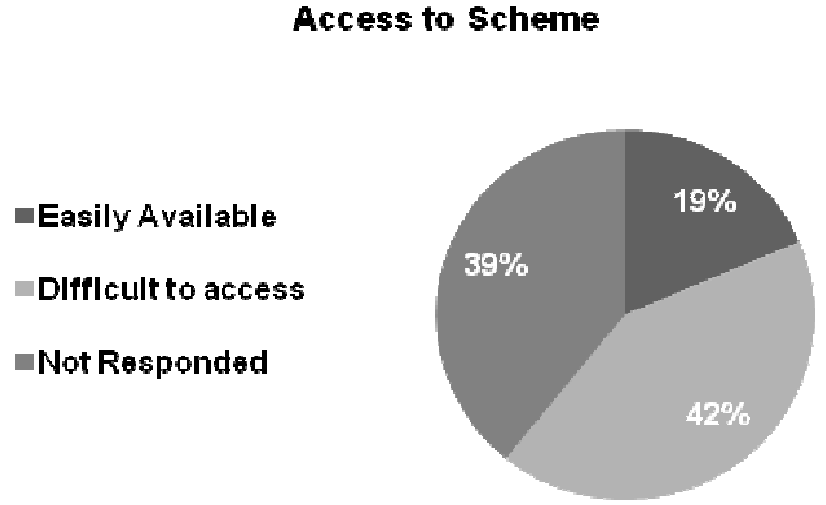
Survey confirmed the general perception that there is limited awareness about the different support programmes amongst the target beneficiaries. More than 60% of the respondents were not aware of the MSME schemes and their benefits. 38 % of the respondents confirmed having used and benefitted from the MSME schemes. Out of this, 20% confirmed that they used the scheme at the time of expansion and Only 8% reported using the scheme at the stage of businesses startup.

Almost 42% respondents felt that the schemes are not easily accessible and 13% confirmed the need of external help to avail the schemes benefits.









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Constraints:

Role of the Government had undergone change post liberalization and increasingly more and more support programmes are being designed for implementation in partnerships with private sector. With the change in business environment and govt's increased focus on implementation through public private mode, industry association representing MSMEs are also expected to play a changed role than just lobbying and advocacy. The key **constraints are:**

There is an absence of a structured need assessment exercise before proposing and designing any of the major schemes. Due to weak stake holder discussions on proposed schemes, the design flaws come to light too late and also discourage potential implementing agencies.

Because of existing trust deficit between public and private side, schemes are designed with too many layers of decision making and guidelines are too rigid and straight jacketed, resulting into cumbersome procedures and unrealistic conditions.

There are many conceptual grey areas with regards to ownership of assets, desirability of concepts like Viability Gap Funding, upfront commitment of land before applying for schemes especially those designed on PPP mode e.g: though the MSE CDP Scheme allows the SPVs to raise funds from financial institutions, it does not allow banks/ financial institutions to have first charge on the assets created through the Government funds and maintains that the first charge should be in favour of the Government. In practical sense, this becomes a major bottleneck when any SPV intends to borrow funds to financially close the project especially in cases where the cost of land and building is not enough to act as security cover for the amount to be raised. This can affect the sustainability and profitability of the projects and in many of cases the projects are a non starter

The majority of MSME associations suffer from clarity of vision with regards to their role vis a vis the needs and demands of their members. Predatory capture of associations to serve a narrow agenda of a few individuals is common. Such a setting, where leadership does not change periodically in a democratic manner, negates the possibility of attracting more dynamic and visionary leaders. Most MSME associations suffer from a classical vicious cycle: weak resources lead to lesser activities which lead to fewer members to further weakness in resources. Most of them fail to generate revenue from sources other than membership.

Suggestion for improvement:

Involvement of Stakeholders:

There's a special need for the involvement of stakeholders at the design stage of the scheme to make the schemes demand driven, especially the schemes that are based on SPV/consortium approach. Process of structured need assessment will help generate 'content' having clarity on objectives, beneficiaries; scope and coverage of schemes; role and function of implementing agency; budget advertising and technical assistance to BMOs; administrative and technical services for DPR preparation; clarity on asset ownership etc.

Awareness creation/ Information dissemination:

One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools like FM radio. Simplified decision making: Decision making layers should not be more than two levels and should allow flexibility on operational issues. The content of the guidelines should lower entry barriers like upfront financial commitments and other non financial parameters like association's track record and credit worthiness should be given greater weightage.

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Strengthening of M&E system:

M&E system should be further strengthened to provide a real time status and these functions should be outsourced to credible third party agencies. For effective e-management, the reporting formats should be standardized.

Implementation Vehicles:

Many of the schemes, especially the ones designed on Public Private Partnership (PPP) framework, envisage creation of Special Purpose Vehicles (SPVs) to act as implementing agencies. Creation of consortium and networks is relatively a long-term process, which may involve minimum level of trust among the stakeholders. There is a need to involve *network experts* to create such networks with the provision for the financing such experts as a part of scheme itself. Association may perform handholding work in the recruitment and training of such experts.

Capacity Building of association:

The study reiterates that majority of MSME dominated BMOs suffer from several weaknesses - inherent or acquired, while discharging their three most important roles namely: ability to service their members; capability to positively influence the external environment affecting MSMEs and capability to plan and execute MSME development initiatives. This makes the issue of association's capacity building an important area to focus upon.



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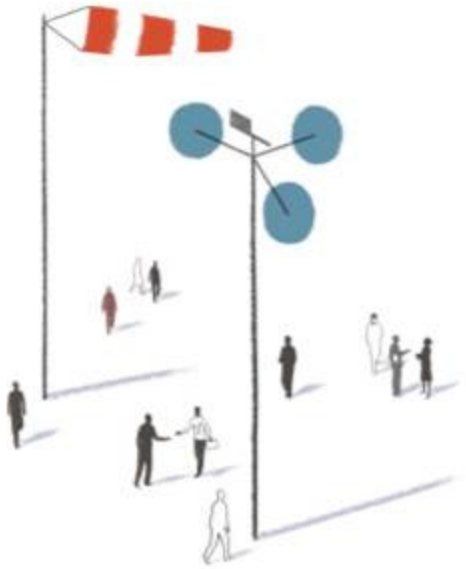
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It has an expanding direct membership of enterprises drawn from large, medium, small and tiny segments of manufacturing, distributive trade and services. FICCI maintains the lead as the proactive business solution provider through research, interactions at the highest political level and global networking.

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FICCI inspired economic nationalism as a political tool to fight against discriminatory economic policies. In the knowledge-driven globalised economy, FICCI stands for quality, competitiveness, transparency, accountability and business-government-civil society partnership to spread ethics-based business practices and to enhance the quality of life of the common people.

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