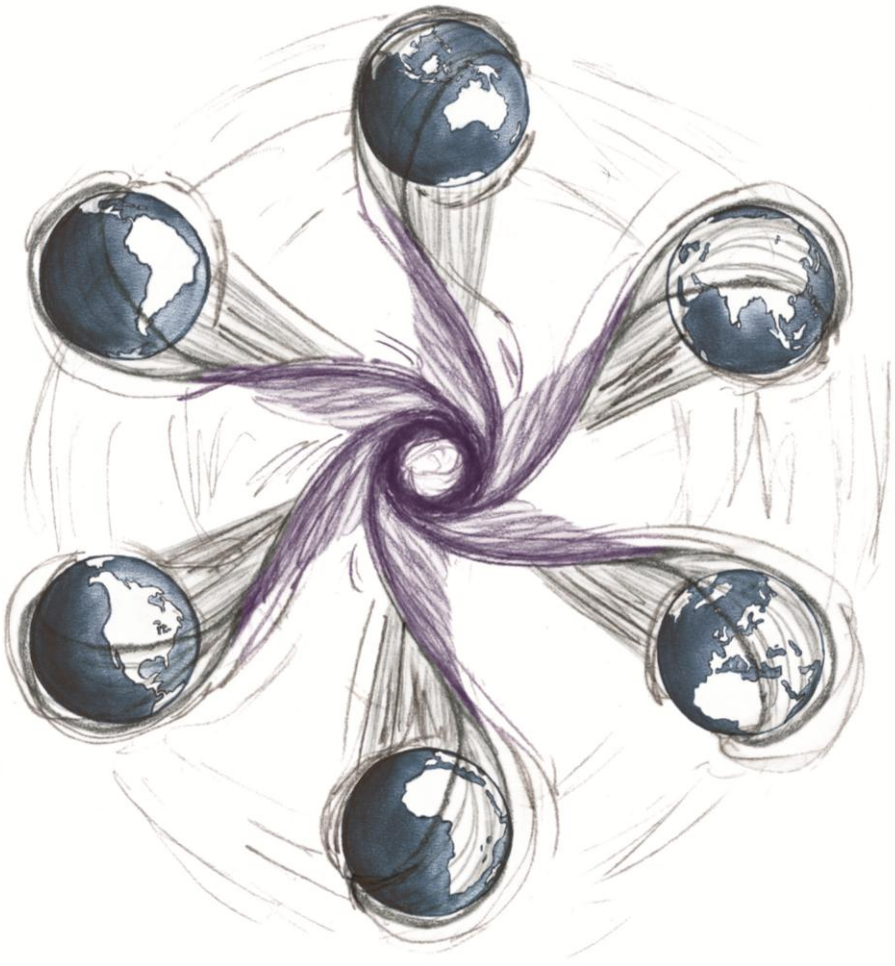
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FICCI

Integrating MSMEs with the Global Value Chain

2013



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Foreword



Micro, Small and Medium Enterprises (MSMEs) play a significant role in the global economy and particularly in our country where MSMEs constitute nearly 94% of the industrial enterprises in the economy. The sector contributes 36% of the total value of exports of the country and employs over 80 million people. The contribution of the MSME sector to the output of the country is 40% and to the GDP is over 8%. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.

In the face of emerging challenges and the need to strengthen global outreach it has become imperative for the MSME sector to demonstrate greater competitiveness and position themselves strategically along the value chain. Accordingly, FICCI MSME Summit 2013 is positioned to address the theme of **"Integrating MSMEs with the global value chain"**. In order to highlight the imperatives of becoming a part of the global value chain as well as the opportunities to align MSMEs' operations and processes with the value chain, "FICCI-Grant Thornton Report India" highlights specific models and approaches that MSMEs could explore to plug into new market opportunities. The report also provides an insight into innovative marketing tools, along with ways in which traditional strategies could be sharpened as companies strive to become globally competitive.

Today it is not individual enterprises that compete against each other, but global value chains that are mostly competing at a global level. This makes it imperative for Indian MSMEs to evolve not only more innovative offerings, but also offer greater value to their partners so that most competitive and mutually beneficial outcomes become possible. For instance, to achieve the objective of becoming a preferred supplier in the global value chain, MSMEs would have to enhance adherence to international standards and norms. It is here that the FICCI MSME Summit 2013 and our knowledge paper has emerged as a unique resource to catalyse practices and networks that facilitate MSMEs integration with global norms and processes.

The Federation of Indian Chambers of Commerce and Industry (FICCI) and Grant Thornton India LLP hope that this publication will trigger new ideation and accelerate MSMEs to explore new age tools and practices for a larger global outreach.

Dr. A Didar Singh
Secretary General
FICCI

Foreword

The correlation between our economy and the MSME performance has never been more aligned. This would continue and grow even closer in the next few years. Given this impact of the MSME on our economy, it is imperative that we support our MSMEs in every possible way.

One such key element is the integration of MSMEs with the Global Value Chain. Keeping this in mind, Grant Thornton India LLP and FICCI have partnered to develop this report **"Integrating MSMEs with the Global Value Chain"** on the occasion of the FICCI's annual conference on MSMEs being held in New Delhi.

I am sure that the challenges and strategies highlighted in the report shall be useful to all stakeholders in charting out the future course of development for the MSME sector thereby benefitting our nation.



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

1 Globalisation and MSMEs

Globalisation and MSMEs

MSMEs are businesses that have a small or medium number of employees, usually less than 250. Worldwide, MSMEs have been accepted as the engine of economic growth promoting equitable growth and development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises.

Definition of an MSME

India

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the MSMEs are classified in two segments:

(a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.



Manufacturing Enterprises – Investment in Plant & Machinery		
Description	**INR**	**USD($)**
Micro Enterprises	upto INR 25 lakhs	upto $46,000
Small Enterprises	above INR 25 lakhs & up to INR 5 crores	above $46,000 & up to $0.9 million
Medium Enterprises	above INR 5 crores & up to INR 10 crores	above $0.9 million & up to $1.8 million

Service Enterprises – Investment in Equipment		
Description	**INR**	**USD($)**
Micro Enterprises	up to INR 10 lakhs	up to $18,000
Small Enterprises	above INR 10 lakhs & up to INR 2 crores	above $18,000 & up to $0.4 million
Medium Enterprises	above INR 2 crores & up to INR 5 crores	above $0.4 million & up to$0.9 million

Source: Ministry of MSME

Globalisation and MSMEs

Definition of MSME

Global

Globally it is difficult to find a common definition for MSMEs. According to a report published by International Finance Corporation (a World Bank Group) based on a survey conducted in 132 countries on registered MSMEs the most common way MSMEs are defined is: Micro Enterprises: 1-9 employees, Small Enterprises: 10-49 employees, and Medium Enterprises: 50-249 employees.

Out of the 132 countries included in the study, 46 countries followed the above definition for the MSME sector. Out of the other definitions a few of the common ones were based on the number of employees differentiated by industry, annual turnover, and investment. The figure below gives a perspective of the wide range of definitions of MSMEs across the world.

Current scenario

The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and accounting for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.

With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons in over 26.1 million enterprises.

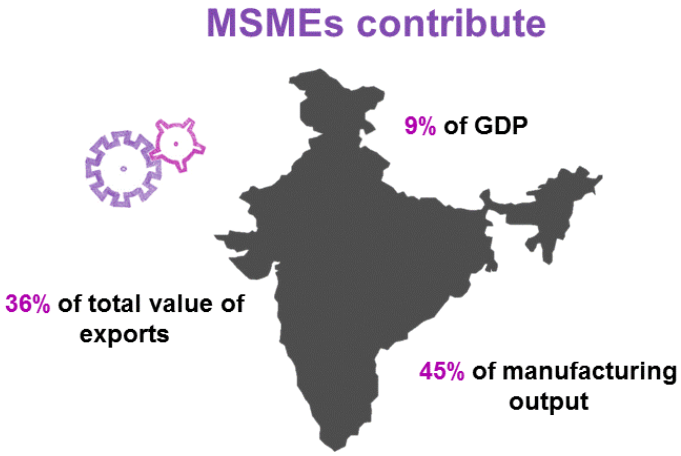


Source: IFC

Globalisation and MSMEs

MSME scenario in India

The MSME sector is the backbone of the economy in high-income countries, but is less developed in low-income countries. The Organisation for Economic Co-operation and Development (OECD) reports that more than 95% of enterprises in the OECD area are MSMEs. These enterprises account for almost 60% of private sector employment. Also in low-income countries, the MSME sector makes a critical contribution to GDP and employment.





4.4 crore enterprises

employ +10 crore people



Fund allocation in the 11th five-year plan

INR 11,000 crore

Fund allocation in the 12th five-year plan

INR 24,000 crore

- There are more than 440 lakh MSME units in India with gross output of more than Rs 1.8 lakh crore
- The sector has verified double digit growth in the last four years
- The contribution of the MSME sector to the complete output of the country is over 40% and the contribution to the GDP is 8% -10%
- Presently, MSME units in India that yield more than 6,000 products
- 90% of the industrial units in India belong to the MSME sector

Globalisation and MSMEs

As per the results of 4th All India Census of MSME, the MSME sector adds significantly to the number of enterprises, employment and output of the country. Based on the data sets of 3rd and 4th All India Census of SSI/MSME, improved with data sets, growth rate observed during 4th (1998) and 5th (2005) Economic Census, the performance of SSI/MSME sector is summarised in the table below.

The MSME sector has weathered and overcome firm competition in the domestic and international arena. However, despite its substantial contribution to the Indian economy, the sector suffers from an overabundance of problems such as high cost of credit, technological obsolescence, inadequate infrastructure, scarcity of skills, among others which puts the MSME sector at a disadvantage.

Taking acquaintance of the need to provide a push to MSMEs, the Union Budget (2013-2014) has made the following provisions:

1. Preference Benefits (non-tax) to continue for 3 years for enterprises growing for 3 years
2. Refinance SIDBI (Small Industries Development Bank of India) fund enhanced from INR 5,000 crore to INR 10,000 crore
3. A fund allocation of INR 500 crore for SIDBI to set-up the Factoring fund.
4. INR 2,200 crore fund allocation for setting up 15 additional Centres for R&D for MSMEs.
5. Expenditure on Incubator to qualify as CSR (Corporate Social Responsibility) activity to be notified by the Ministry of Corporate Affairs.
6. MSME Exchange listing for start-ups is facilitated.
7. Sector specific duty reductions for Leather & Gems & Jewelry.

The above provisions would help MSMEs to develop their access to bank credit as also permit them to tap alternative sources of finance such as factoring, equity markets etc.

S.	Year	Total Working Enterprise (In lakh)	Employment (In lakh)	Gross Output (In crore)
1	2006-07	361.76	805.23	1351383.45
2	2007-08	377.37	842.23	1435179.26
3	2008-09	393.70	881.14	1524234.83
4	2009-10	410.82	922.19	1619355.53
5	2010-11	428.77	965.69	1721553.42
6	2011-12	447.73	1012.59	1834332.05

Source: MSME Annual Report 2012-2013

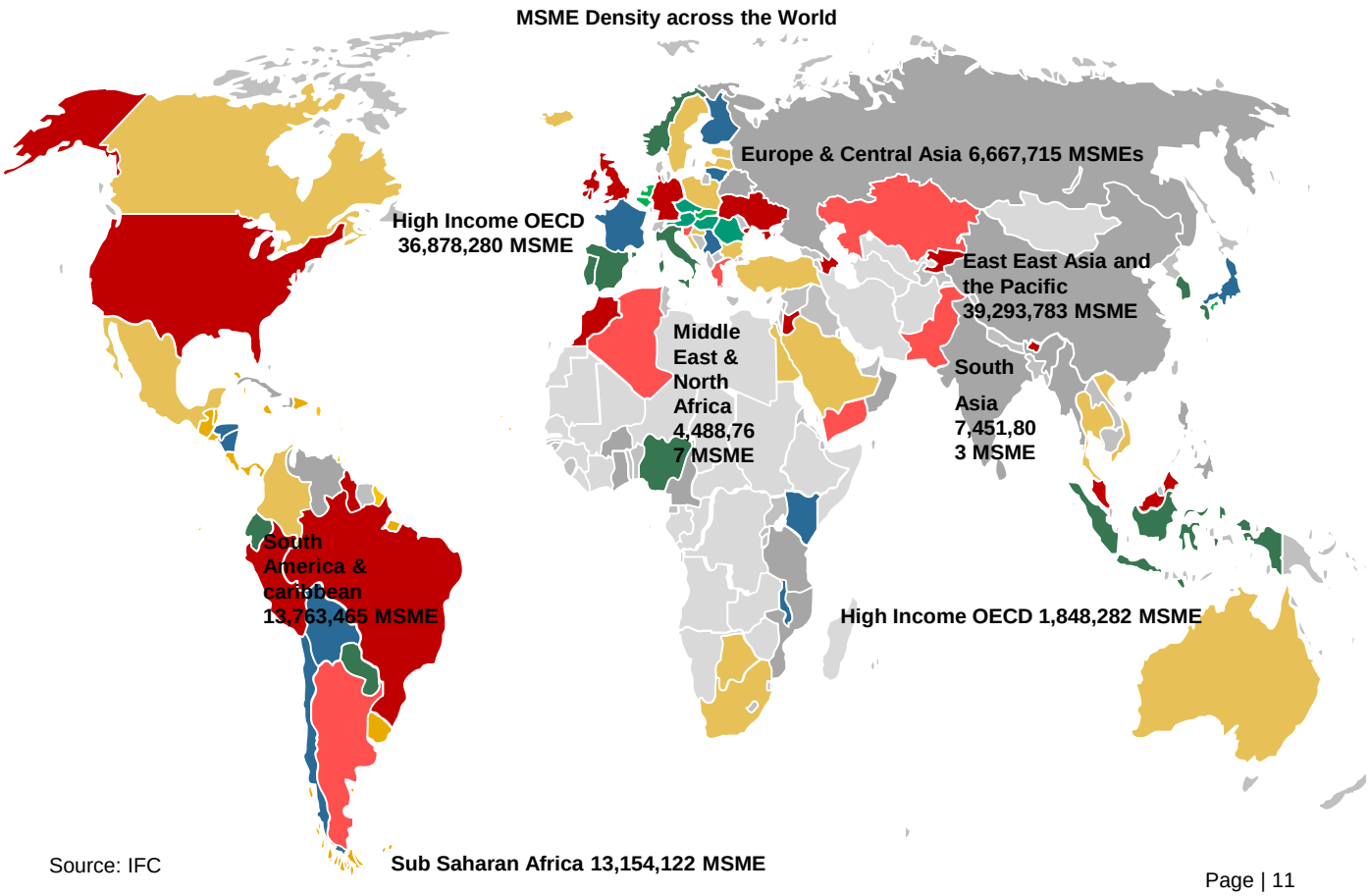
Globalisation and MSMEs

Global MSME scenario

MSMEs play a significant role in the global economy as well, with maximum Revenue and Employment generation growth coming from them, particularly in emerging economies.

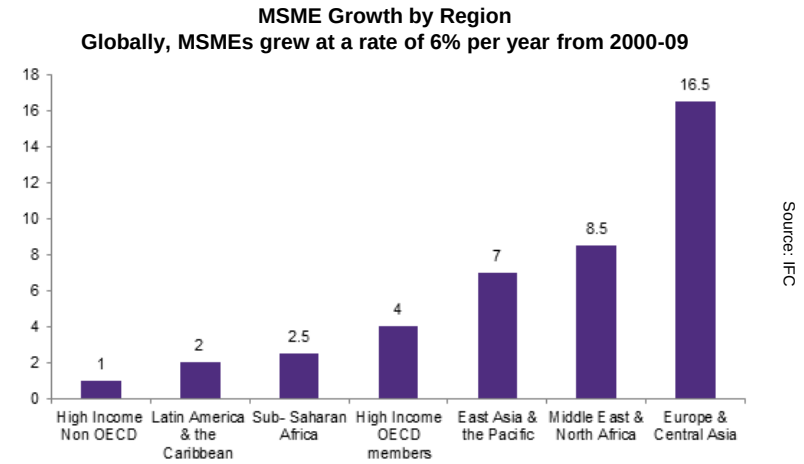
According to a report by International Finance Corporation (IFC) that conducted a study of 132 countries, there is an estimated number of 125 million MSMEs with an estimated 85 million in emerging economies. A depiction of MSME density across the world has been provided below. On an average there tend to be about 31 MSMEs per 1000 people across the world, with 5 countries having maximum density, Brunei Darussalam (122), Indonesia (100), Paraguay (95), the Czech Republic (85), and Ecuador (84). The regional density of MSMEs is in line with income level distribution, with Sub-Saharan African and OECD countries being on the opposite ends of the spectrum; however Latin America and the Caribbean have a higher density than OECD countries.

Globally MSMEs had grown by 6% from the year 2000-2009, with Europe and Central Asia experiencing a growth of 15%.



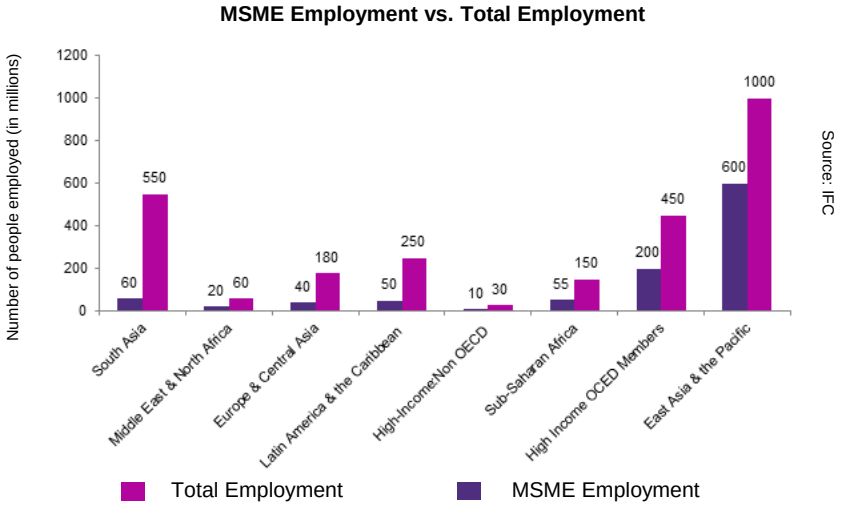
Source: IFC

Globalisation and MSMEs



Employment generation is another key aspect of MSMEs globally, which is in line with the Indian scenario. MSMEs are the largest employment generators globally, with MSMEs in higher income economies employing a higher percentage of the workforce in a country. In half of the high income economies, formal MSMEs employed at least 45% of the workforce, compared to only 27% in lower-income economies, this further highlights the importance of MSMEs to economic development and job creation.

Globally MSMEs employ one-third of the working population. East Asia and the Pacific have the highest ratio of MSME employment to total employment with percentage in China being as high as 80%, therefore, highlighting the importance of MSMEs to the global economy and their importance in terms of the role they play in the GVC. The figure below highlights the facts from a global perspective.



Globalisation and MSMEs

Key takeaways

MSMEs are key drivers of innovation, economic growth and new employment generation, which makes them a key demographic constituent to measure economic health of countries globally. And with the globalisation of industries happening at a fast pace it will be critical for the growth of MSMEs to look into aspects of accessing the market potential offered by the global integration.

Also, even though India has a high density of MSMEs, who have been consistently contributing to the growth of the Indian economy, there needs to be extra impetus towards enabling Indian MSMEs to effectively integrate with global companies and contribute further towards Indian economic growth.

Policies and procedures defined in India and countries across the world are a key step in enabling ease of such integration and would need continuous monitoring and innovation to be able to provide constant support as the global economy evolves.



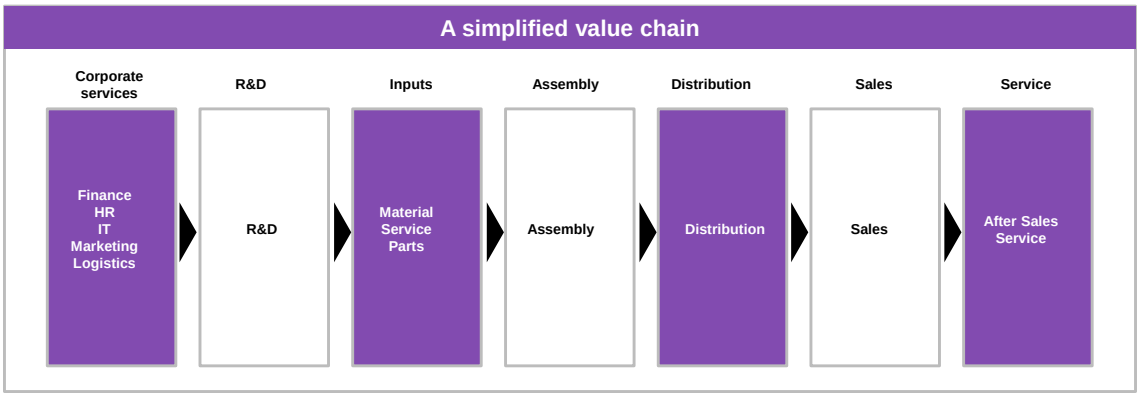
2 Value chain and global value chain (GVC)

An overview

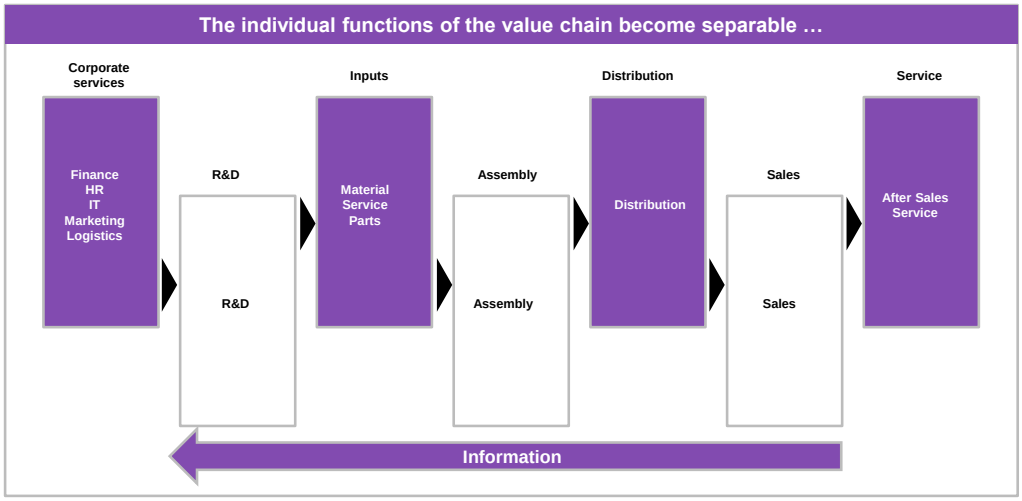
A value chain refers to the full range of value-added activities which are required to bring a product from its conception, through design, sourcing raw materials and intermediate inputs, production, marketing, distribution and support to final consumer. It presents a *'systemic perspective'* that incorporates all key activities related to the production, exchange, distribution, and after sales support for a given product or service.

A value chain can span enterprises in a local economy, a national economy, a sub-regional or regional grouping of economies such as the GMS or ASEAN, and the global economy.

Below is an overview of the various facets of a value chain.



With advancements in technology it has become increasingly easier to segregate the facets involved in a value chain, this has led dispersal of such activities across to different companies with each company focusing on its core strengths to contribute to the quality of the end products.



An overview

Global value chains (GVC)

Value chains become 'global', when their component activities are geographically dispersed across borders to multiple country locations. In general, the proportion of products conceived, manufactured, and consumed entirely within the geographic boundaries of a single country is shrinking.

The driving forces of the globalisation of value chains are several, including increased competition, technological progress, especially information and communications technologies (ICTs) development, improved transport facilities, and availability of a large base of low-cost suppliers in areas of the world that experience rapid growth, in particular China and India. In response to these forces and the combined effect of market liberalisation and de-regulation, firms have radically changed their business strategies. Global trade in goods and services, which today amounts to more than INR 108 trillion, with Raw material extracted in one country may be exported first to a second country for processing, and then exported again to a manufacturing plant in a third country, which may then export it to a fourth for final consumption.

Such cross border production chains, which may comprise only two countries, a region or a global network, are commonly referred to as GVCs.

Types of GVCs

There are three general types of value chains and associated production networks, with the first two—producer-driven and buyer-driven chains as most prevalent.

• A **producer-driven chain** or network is one where the lead firm, often a large multinational manufacturer, plays a central role in exercising relatively close control in coordinating a geographically distributed network of subsidiaries, affiliates, and suppliers. This type of chain/network tends to be characteristic of capital and technology-intensive industries such as automobiles, telecommunications, IT, and semiconductors. As a consequence, to be a supplier to this type of chain/network requires a certain level of technical capabilities and sophistication, and associated investments. As an example, Sony, sourcing worldwide, imposes very high standards on suppliers, requiring strong technological capabilities, flexibility in response, strong customer service orientation, and the capacity to work with its IT-based e-procurement system.

• A **buyer-driven chain** or network is one where large retailers, marketers and brand manufacturers play the pivotal role in working with and sourcing from decentralised networks of independent suppliers, defining product and process specifications and standards. It tends to be characteristic of labour-intensive, consumer goods industries such as apparel, footwear, agro-industry, and consumer electronics.

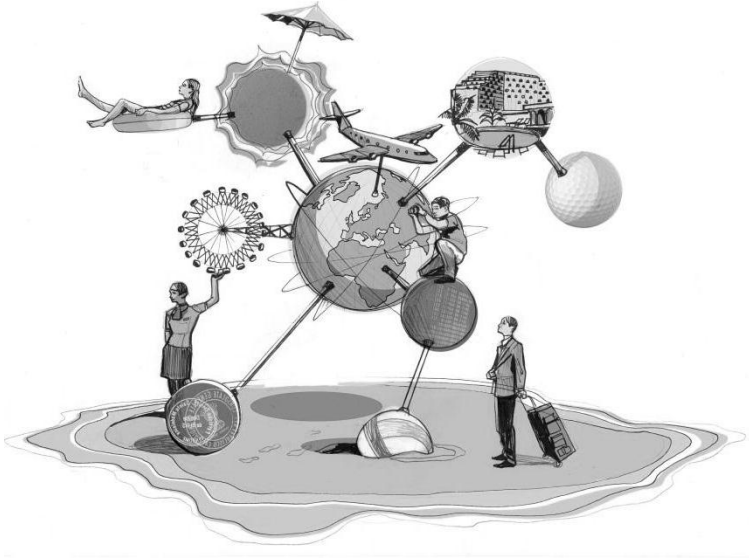
An overview

The participation requirements are relatively low, offering many opportunities for developing country producers, including MSMEs, capable of meeting the buyer's requirements and may provide opportunities for upgrading over time. As an example, IKEA, the Swedish home furnishing retailer has a worldwide sourcing strategy involving more than 2000 suppliers, governed by their own technical specifications.

A **hybrid chain or network**—less prevalent—is more 'horizontal' in nature, involving multiple power centers in different parts of the value chain, and generally no overall dominant 'lead firm' with the power to determine the ultimate shape of the final product. For example, although Intel, Microsoft, and Dell are "lead firms" in their own production networks within the PC global value chain, a specific PC marketed by Dell reflects more a 'balancing of forces', shaped by Microsoft's software strategy, Intel's strategy in semiconductors, and Dell's customer-based 'branded' assembly and marketing strategy.

GVC is one of the most important factors shaping international trade today. The global economy is increasingly structured around GVCs that account for a rising share of international trade, global GDP and employment. The evolution of GVCs in sectors as diverse as commodities, apparel, electronics, tourism and business service outsourcing has significant implications in terms of global trade, production and employment and how developing country firms, producers and workers are integrated in the global economy.

GVCs link firms, workers and consumers around the world and often provide a stepping stone for firms and workers in developing countries to integrate into the global economy.



How MSMEs fit into GVC

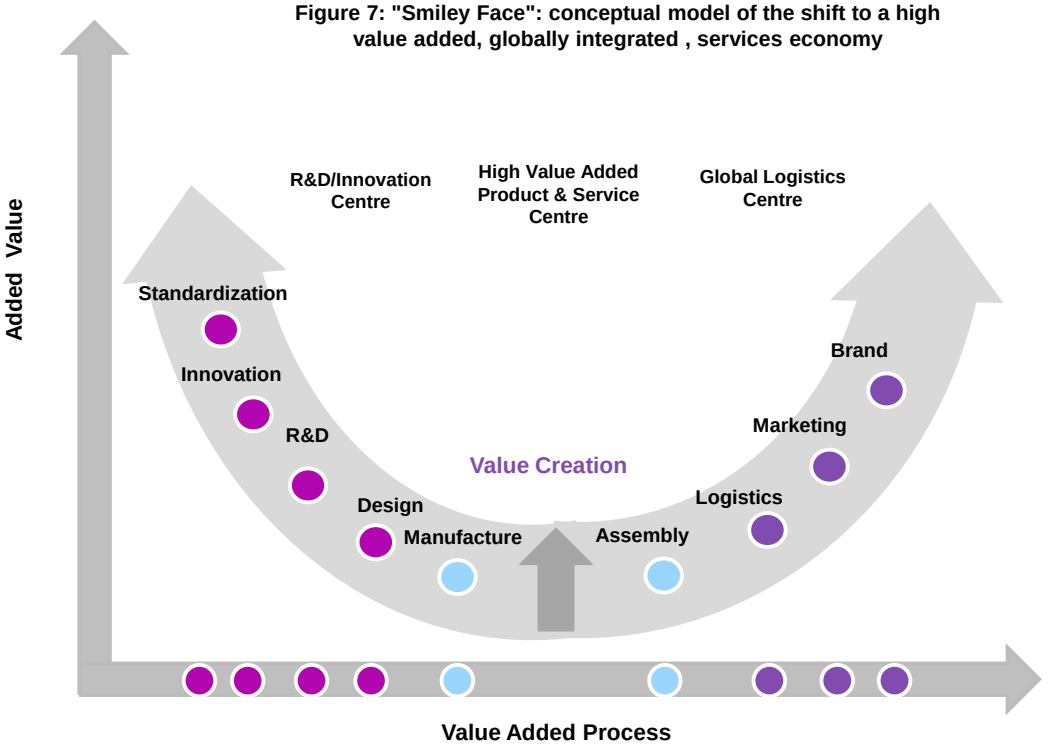
Global value chains are reshaping the global economy and presents new challenges and opportunities for all countries, not just least developing and least-developed countries.

The main segments in the chain vary according to the industry, but typically these include: research and design, inputs, production, distribution and marketing, and sales, and in some cases the recycling of products after use.. The input-output structure is typically represented as a set of value chain boxes connected by arrows that show the flows of tangible and intangible goods and services, which are critical to mapping the value added at different stages in the chain

Below is a representation of a pure service value chain of goods producing company, where, the most value intensive activities are usually found in the beginning and the end of the chain where intellectual property is created, and this is also where services dominate over manufacturing.

GVCs link firms, workers and consumers around the world and often provide a stepping stone for firms and workers in developing countries to integrate into the global economy.

Figure 7: "Smiley Face": conceptual model of the shift to a high value added, globally integrated , services economy



Source: World Economic Forum (2012)

How MSMEs fit into GVC

The model is constructed with a goods producing company in mind. The different stages in a services value chain probably mirror those in a goods value chain quite well, but the value added in the different stages would most likely be different in a services value chain.

In today's global economy, countries participate in industries by leveraging their competitive advantages in assets. Usually developing countries offer low labour costs and raw materials, while rich nations with highly educated talent focus on research and development and product design. As a result, firms and workers in widely separated locations affect one another more than they have in the past.

In a globalised economy, MSMEs need to be able to oppose an increasing competition from developed and emerging economies and to plug into the new market opportunities these countries will provide.

There is a direct link between internationalisation and MSME performance. International activities reinforce growth, enhance competitiveness and support the long term sustainability of companies. Yet European MSMEs still depend largely on their domestic markets despite the opportunities brought by the enlarged single market and by globalisation at large.

Outsourcing of manufacturing tasks, including outsourcing abroad, started long before. Indeed, since more and more countries have developed their industrial capabilities, barriers to entry product manufacturing have consequently fallen and the competitive pressures have heightened. Today, the primary economic returns in the chain of production are typically found in areas outside manufacturing, such as design, branding and marketing, and this has influenced the choice to outsource manufacturing tasks.

How MSMEs fit into GVC

Outsourcing and sub-contracting
Firms can source activities to affiliate companies (in-house sourcing), or outsource them to external suppliers. In both these cases, they can refer to firms domestically or abroad (offshoring).

Subcontracting corresponds to production outside the enterprise. It takes place between non-affiliate firms, although often in a relationship of co-operation or partnership. In the case it occurs outside the country of the contractor, this involves foreign subcontracting (offshore outsourcing or subcontracting abroad).

According to the definition in the OECD Handbook of Economic Globalisation Indicators, "subcontracting occurs when one firm, the prime manufacturer or contractor (principal), contracts with another firm, the subcontracting or supplier, for a given production cycle, one or more aspects of product design, processing or manufacture, or construction or maintenance work. The supplier must adhere strictly to the contractor's technical or commercial specifications for the products or services in question".

Also, the same firm can be a subcontractor for some customers and a prime contractor for other, smaller firms.

Subcontracting abroad does not involve direct investment, while the transfer of production abroad (called "relocation") through affiliates companies implies FDI.

Source : OECD Handbook of Economic Globalisation Indicators, 2005.

In developed economies, for example, MSMEs account for some 50% of GDP, according to World Bank data. Within the EU, the European Commission says that, MSMEs account for two-thirds of employment and create 85% of net new jobs. In emerging economies, formal MSMEs account for 45% of total employment, according to the Global Partnership Financial Inclusion. Across the globe, small businesses are significant drivers of Growth, job creation, competition, and innovation, with the focus on innovation being much greater in the developed economies than developing economies. This leads to an interesting contrast on the contribution of MSMEs from developed and developing economies to the Global Value Chain while considering the amount of value add activities performed from MSMEs of the two types of economies. MSMEs in the developed economies generally tend to focus increasingly on high value add activities like Research and Development, Branding, Innovation; whereas the MSMEs in developing economies focus on low value add activities like Manufacturing.

With services dispersed across different economies and regulations a key factor for analysing the way MSMEs fit into the Global Value Chain is to understand in what ways are Global Value Chains managed. Governance is defined as "authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain". These authorities and relationships are differently structured for various types of GVCs.



GVC: governance structures

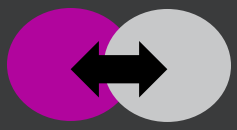
The different governance structures identified in a GVC include the below:

- **Market:** The central governance mechanism in this structure is Price, with there being low levels of cooperation between various players.
- **Modular:** Suppliers in modular chains make products according to the customer's specifications and take full responsibility for the process technology using generic machinery, thereby spreading investment across a wide customer base.
- **Relational:** Relational governance occurs when the buyers and sellers exchange complex information with the lead firms specifying what is needed from the buyer and thereby exerting some level of control over the supplier firms.
- **Captive:** In these chains, small suppliers are often dependent on one or a few buyers that often wield a great deal of power, with the lead firms exhibiting a great deal of monitoring and control.
- **Hierarchy:** The hierarchical chains are primarily characterised by vertical integration and managerial control, this usually occurs when products cannot be codified and require high degrees of complexities in manufacturing.

There are multiple initiatives happening across the world, that aim at helping MSMEs globally to identify opportunities in the GVC and enable them to understand how those MSMEs can attempt to fit into the Value Chain. In an example of such an initiative, an exceptionally successful one had been taken by Defense Manufacturing Association of the UK. It organised a number of short capsules in London wherein experts from India were invited to explain countless aspects of the Indian procurement system. As MSMEs lacked resources to send their company employees to India to learn intricacies of the procurement mechanism, such capsules proved highly popular with them. As MSMEs lack resources to be able to compete on their own in foreign markets, they need hand-holding to thrive and deliver.

The establishment of sustainable linkages between MSMEs and Multi-national Enterprises (MNEs) is one of the most efficient ways to integrate domestic suppliers into GVCs. Not all developing countries, however, have been successful in promoting such linkages, and in embedding foreign firms into the local economy in the long term. The linkage-building is dependent on the broader economic, social and cultural environment of a country, however it substantiates that the creation of MSME-MNE linkages is neither easy nor automatic.

Case study: Tourism sector global value chain



A good way to understand the integration of MSMEs into the GVC is to understand from an industry perspective, how MSMEs have been able to fit into the Value Chain. The following case study on the Tourism Sector GVC, highlights this development and how their integration into the value chain can enhance the value of services offered to the end customers.

The tourism sector is growing fast in many economies and is today an important contributor of economic growth, job creation and wealth. Today, tourism is one of the most internationalised sectors of the world economy, as it is a networked industry which links and integrates different sectors. Tourism characteristic activities (activities which the principal output is characteristic of tourism) include accommodation, restaurants, passenger transport services, travel agencies and tour operators, cultural and sporting services. These industries gather a very large number of small businesses (e.g. family hotels, guesthouses, travel agencies, campsites, guided tour operators, etc.) as well as some global players (e.g. hotel chains, integrated tour operators, airlines, etc.). The dual nature of the tourism industries, the mix of public and private sector enterprises and the dominance of large integrated firms (e.g. tour operators or airlines) as part of the value chain characterise the global tourism economy.

Tourism is by nature a “connecting business”. Over the last decade there has been therefore a considerable interest and dynamism in developing clustering and networking among destinations and tourism related MSMEs to strengthen their competitive advantage. Value-based MSME networks are established within a destination or a tourism cluster. Clusters and networks allow MSMEs to combine the advantages of small scale with the benefits of large scale. MSMEs in tourism participate in several “overlapping” networks, depending on perceived value, such as the lowering of transaction costs and exploitation of economies of scale. The participation of MSMEs in value chains and networks is also an incentive for entrepreneurs to take a more managerial approach to business and for MSMEs to increase their capacity, thus improving their economies of scale and achieving cost reductions.

The impact of globalisation on the structure of tourism supply and value chains is evident. The participation of MSMEs in value chains and networks contributes to the emergence of innovative projects, behaviours and activities by generating a process of continual improvement to satisfy customer expectations. There is a high potential of niche markets, notably of high yield markets, for further MSMEs and entrepreneurship development in tourism.

Conclusion: This case study highlights how MSMEs with their small size and flexibility have been able to play an important role in adding to the value offered by the Tourism Sector value chain by enhancing customer satisfaction and giving individual treatment to customers.

Development of value chains and MSMEs

Adapting to competitive pressures has implied an increase in the outsourcing of activities. To improve their competitiveness, firms concentrate on core competencies and activities with the highest added value, and outsource non-core activities. This has led global companies to increasingly outsource non-core activities to MSMEs across the world and procure from regions which provide maximum value, and add in terms of product quality and cost.

This phenomenon has further led to development of value chains for such companies across the globe which has an increased participation of MSMEs, keeping in mind the flexibility and cost effectiveness they provide. Furthermore, the development of a value chain across the globe helps the outsourcing company obtain significant gains in terms of both cost cutting and also by giving them the opportunity to increasingly concentrate on high value-addition activities of the business.

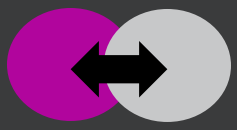
The case study on Domino's, in the next page, focuses on how Domino's has managed to create a successful value chain in India and how MSMEs were able to fit into the Domino's Value Chain very effectively.

Essentially, as the Tourism Sector case study highlights that integration of MSMEs is critical for the financial viability of Global Value Chains, not only do they provide a low cost way of operations, but also with their geographical reach and innovation capabilities MSMEs form the cornerstone for fostering global economic growth.

Also, as the Dominos Case Study in India further highlights the potential for value addition presented by MSMEs to their respective value chains. It can be assumed that this trend will keep growing and keep including other industries in countries across the globe that are currently bereft of the benefits of the Global Value Chain concept.

However, as the Global Value Chains grow and the value addition capabilities of MSMEs increase, mechanisms would have to be formed to enable those MSMEs to be able to form their own value chains without fear of competition from existing bigger players. There are however, many challenges currently being faced by MSMEs as they try to integrate with the Global Value Chains which need to be addressed to enable holistic growth.

Case study: Domino’s in India



Domino’s opened its first outlet in India in 1996. And now there are 274 outlets in over 55 cities. Around 70% of its output is generating from home deliveries and the rest 30% over the counter. A large group of customers approx. (41.94%) focus on the service quality, where Domino’s wins by delivering pizzas in just 30 minutes.

The success story of Domino’s begins with the logistic model adopted by them which offers them a lower transportation cost, cheaper procurement and economies of scale. Based on the agricultural map of India, Domino's looked for the best product at the lowest cost. Further Domino's India planned to extend its operations to Nepal, Sri Lanka and Dhaka. Domino's also identified specialty crops in each region.

For an instance, the commissary for the eastern region in Kolkata was responsible for buying tomatoes, processing them and then sending them to all the other commissaries. Similarly, the northern commissary had to deliver pizza bases. This way, Domino's minimised duplication as well as the dangers of perishability. Below is a table which shows how Domino's outsources its ingredients to different parts of India and abroad, and at the same time could reduce the cost of raw material.

Dominos focused on developing its market across India, by building stores in areas that fell en-route their supply chain thereby giving a further impetus on MSME development in various second tier cities of India. The regime behind the success of Domino’s in India was the cheap outsource of raw material within the country and create a huge customer line by providing them with the best of quality, variety, taste and services.

Key takeaways: Domino's contributed significantly to MSME development in India by focusing on low cost supplies and enabling its expansion throughout the Indian market by identifying strategic locations across its supply chain, thereby controlling logistics cost even while providing continued support for MSME development across the Value Chain. Thus, Domino’s India under the franchise of Jubilant Food Works Limited has proven to be a more valuable company than its Brand owners/parent company.

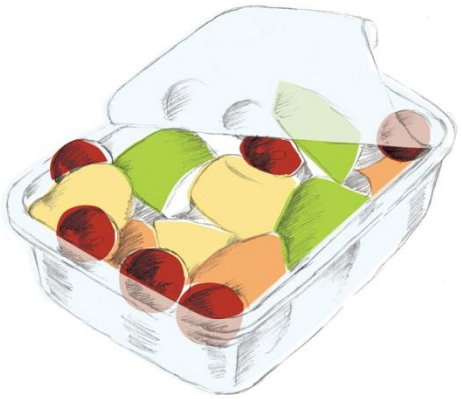
Domino’s outsourced ingredients

Wheat	Jalandhar (Punjab)
Cheese	Karnal, Haryana
Tomatoes	Bhubaneswar, Orissa
Spice	South India
Baby Corn	Nepal
Exotic Vegetables	Sri Lanka
Jalapeno	Spain
Pepperoni	Australia

Issues and challenges

The integration of MSMEs is critical for the financial viability of GVCs – not only do they provide a low cost way of operations, but also with their geographical reach and innovation capabilities MSMEs form the cornerstone for fostering global economic growth. Also, the Domino's case study in India further highlights the potential for value addition presented by MSMEs to their respective value chains.

However, as the GVCs grow and the value addition capabilities of MSMEs increase, mechanisms would have to be formed to enable those MSMEs to be able to form their own value chains without fear of competition from existing bigger players. There are thus many challenges currently being faced by MSMEs as they try to integrate with the GVCs which need to be addressed to enable holistic growth.



Some of the challenges and problems of MSME are:

1. A majority of MSMEs across different industries are not able to identify their competitive strengths within the value chain, nor do they fully understand that this identification is important to optimise their participation in global value chains. Some of the firms explicitly point to the lack of time and resources to understand the evolving global context and devise a market strategy. This, in turn, translates into an insufficient ability to define the adequate business model to gain or reinforce a firm's competitiveness.

2. MSMEs are mainly concerned with both the inadequate availability of managerial and financial resources, and the poor ability to upgrade, protect in-house technology, and to innovate. MSMEs stress that they do not have the critical dimension necessary to support adequate R&D costs, training of personnel particularly with contexts involving increased participation in the GVC, thus restricting their ability to grow further in the value chain. Lack of working capital is also indicated as an obstacle, in particular when faced to delayed payments from international partners.

3. The fulfillment of strict product standards and quality required for participation in GVCs is difficult and costly. MSMEs have to proliferate to private standards set by contractors and the fact that they differ one from another, which makes the costs of compliance burdensome.

Issues and challenges

4. MSMEs want frameworks that assist them to better manage their intellectual assets, including through protection of intellectual property rights when appropriate. A recurrent practice requesting complete transparency from sub-contractors on virtually every relevant aspect of their business has facilitated unfair behaviours, consisting in the contractor passing to lower-cost competitors original designs and plans submitted by MSMEs partners. However, the issue of intellectual property is not to be reduced to one of protection. For some MSMEs, in fact, the realisation of value from their innovations comes from selling them to the market instead of keeping them in-house. For this reason, it is the overall management of intellectual assets that MSMEs struggle to target.

5. To move up the value chain, MSMEs need to take-up larger and more complex set of tasks, which may range from contributing to product development and organising and monitoring the network of sub-suppliers (as in the automotive industry) to introducing organisational or marketing innovations (especially in the tourism and cinema industries). The lack of managerial capacity to deal with the complexity of the issues at stake plays against their possibility of responding in a timely and effective manner to the challenges of globalisation.



6. Awareness and understanding of the structure and dynamics of global value chains by MSMEs are generally insufficient, although unequal across firms and sectors. For example, small firms in the automotive sector seem more apt to understand the structure of the value chain to which they contribute than the average MSME in other sectors, for which the concept itself of value chain is not always easy to grasp. This is likely related to the complexity of the configuration of the value chain (as in the tourism or cinema industries), or could be due to the fact that the MSME serves very different industries (as is the case of suppliers in the precision and scientific instrument industries) or that it occupies a low position in the chain therefore there is limited knowledge beyond the surrounding environment (some MSME suppliers in the automotive sector).

Key takeaways

The overall challenges faced by MSMEs globally are similar both in terms of increasing their own competitiveness and also integrating further with the GVC. However, to holistically address these challenges, strategies need to be formulated differently for MSMEs in developed countries and in developing countries. This need primarily stems from the fact that the key focus areas of MSMEs in both environments are different. It is encouraging to see that governments globally have identified the importance of their MSMEs integrating into the GVC and have started devising policies to address the challenges faced by MSMEs in their respective countries; and even the global organisations have stepped in to contribute towards continual success of these initiatives.

3 Improving competitiveness of Value chains

Improving competitiveness of Value chains

There appears to be a number of distinct GVC development paths, including "engaging" in GVCs, "upgrading" along GVCs, "leapfrogging" and "competing" via GVCs. The best development outcome may result from increasing participation and upgrading along GVCs at the same time. Countries that, over the last 20 years, managed to grow both their participation in the GVCs and their domestic value, have added in exports and have further experienced GDP per capita growth of 3.4% on average, compared to 2.2% for countries that only increased their participation in GVCs without "upgrading their domestic value addition".

Globalisation has immensely contributed to increasing competitiveness of Value Chains, with it encouraging MSMEs in developed countries to take up more high value add activities in the value chain, as low value add activities were being outsourced to lower cost countries, thereby increasing innovation and research & development drives in those economies.

On the other hand with increasing amount of work being outsourced to developing economies, it encouraged and improved competitiveness in those regions as well, as companies in developing economies were looking at developing a competitive advantage for themselves by innovating or targeting a niche area, helping drive operational reforms across the macro-economic environment.

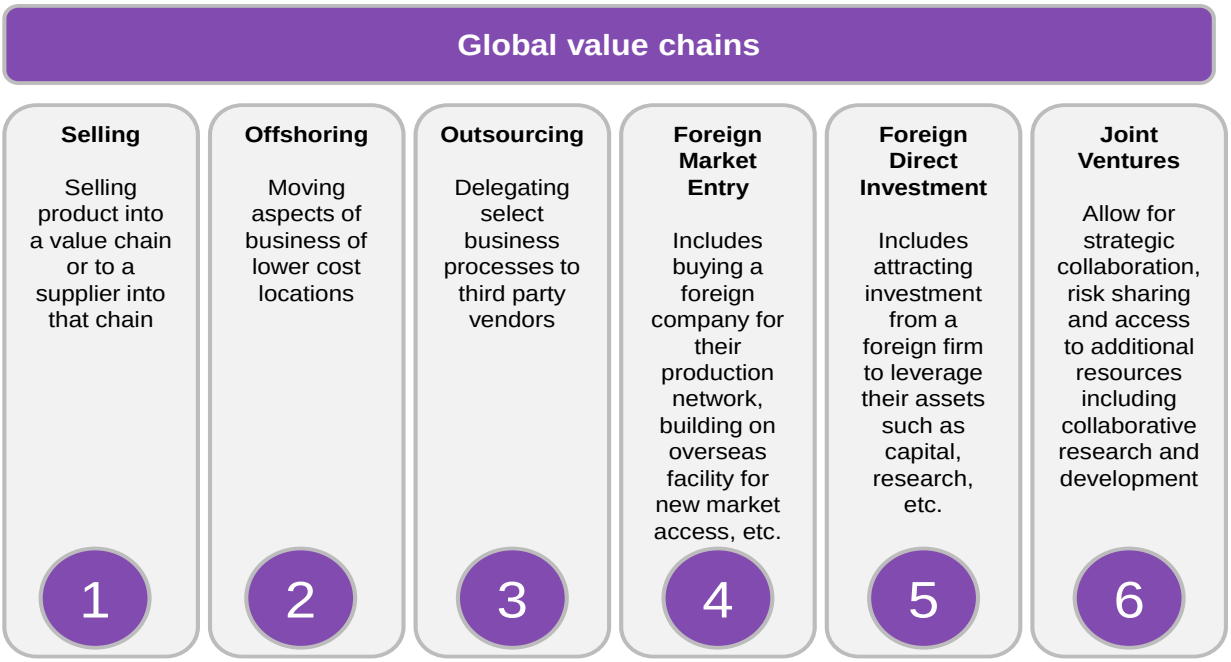
Accessing global markets through GVCs

Most of the countries and industries indicate that MSMEs can participate effectively in international production and access global markets. In particular, integration into the global economy increasingly means participation in GVCs by linking local producers, including MSMEs, to "international production networks" (IPN).

GVCs and related production networks are considered to be the best strategy for accessing global markets. Under few conditions, there may be a slight choice for enterprises but to participate in GVCs and related production network. In progressively wide range of product markets GVCs are becoming the leading organising framework for production, and related trade and investment. GVCs and associated production networks may provide more manageable opportunities for MSMEs to access global markets and upgrade skills over time. E.g. Within the context of such global value chains MSMEs can specialise in a restricted set of activities and through association in production networks they can access large regional and global markets.

Options for optimising global market integration with the global value chain:
There are several different ways to integrate into GVCs. Some of them are more widely used than the others. Below are the most frequently used ways of adapting your business model towards the global value chain approach. The figure presents an outline of these integration methods.

Improving competitiveness of Value chains



Selling: Many large firms have reduced their in-house activities, sourcing needed parts and services from outside firms who can deliver the product or service better, faster or cheaper than the firm could itself. This creates an opportunity for MSMEs with strong capabilities in their product or service area.

If a product or service is something that another firm (domestic or foreign) uses as an intermediary input (i.e. parts, raw materials, other components, management or financial services etc.) it may be able to link into that firm's global value chain by supplying directly to the company. It may also link into that same chain, further down the line, by selling to an existing supplier of the value chain. Some advantages of this way of integration into the Global Value Chain can be, increased and more consistent sales, reduction of dependency on domestic markets, expansion of business network etc.

Offshoring: Offshoring involves the movement of internal business processes to locations outside of a company's domestic headquarters in an effort to lower costs or take advantage of other local strengths, such as labour talent. The processes remain within the total control of the company; they are simply in a different location.

Outsourcing: Outsourcing has two different approaches, one involving the sourcing of intermediate inputs such as raw materials, components, sub-systems etc. from outside suppliers; with the objective of choosing a supplier that meets the needs of the outsourcing company. The other approach is to delegate a select business function to a third party vendor who would ideally be able to perform the task cheaper, better and at a faster pace.

Improving competitiveness of Value chains

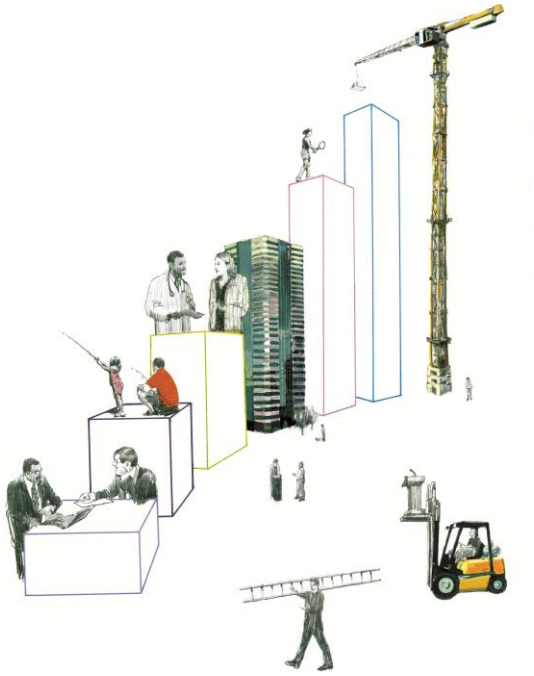
Foreign Market Entry: Setting up a wholly owned subsidiary in the foreign market, by buying or building a facility, also has a range of advantages. This provides access to raw materials, cheaper or uniquely skilled labour, technology, innovative operational methods, etc. This can improve firm productivity, profitability and, in the long term, sustainability.

Foreign Direct Investment: Involves a capital investment flow into a foreign Multi-national Enterprise that allows it to make changes, upgrades or innovations. FDI can allow the investor access to other potential suppliers of the company, while connecting its own operations to the rest of the value chain, opening up linkages for supply elsewhere. Additionally, FDI can provide access to innovative technology, techniques, or research and development.

Joint Ventures and Strategic Relationships: Another way to integrate into a global value chain is through a joint venture or strategic partnership. A joint venture is a partnership arrangement where two businesses each contribute capital to a newly created entity that they operate either together or through a separate management structure which is accountable to the parent companies. Partnering with a local firm is that partners can complement each other's capabilities, as local partners would bring in a lot of local knowledge to leverage, enabling ease of forging local partnerships and also share the risk of entering a new market.

The globalisation of industry has facilitated tremendous growth in participation in the GVC by MNEs and MSMEs alike, with the share of participation from developing countries growing at a much higher pace. As per reports, the developing country share in global value added trade increased from 20% in 1990 to 30% in 2000 to over 40% in 2012- 2013.

Below is a case study on Maruti India. The case study highlights how a firm which led the whole country enabled the integration of Indian MSMEs into the GVC by initially providing it with the ability and technological know-how; that the MSME was able to leverage and become a supplier to the GVC of the Automotive Industry.



Case study: Maruti Suzuki

Maruti Suzuki India Limited a partial subsidiary of Suzuki Motor Corporation of Japan, is India's largest passenger car company, accounting for over 45% of the domestic car market. It was the first company in India to mass-produce and sell more than a million cars. It is largely credited for having brought in an automobile revolution in India.

Maruti Suzuki has sold over 7.5 million cars since it opened its doors and exported 500,000 units. In 2008-09, it exported over 70,000 cars, growing the exports business by over 30 percent - and making it a clear focus area for the company.

Maruti Suzuki India manufactured vehicles in India to be sold under the brand called Nissan the European market. For the purpose of export of cars, Maruti needed a transparent system to interact with its partners abroad. The challenge was to create an integrated, foolproof, automated system which could talk to multiple systems. To support this thought, they developed a Unix Shell programming, Oracle forms, .Net, and Windows FTP technology, the internal team brought transparency to the export supply chain.

Maruti Udyog was embarking on a world-wide procurement Programme to source components from the best and the cheapest suppliers. Its manufacturing facilities are located at two facilities Gurgaon and Manesar in Haryana and south of Delhi. Maruti Suzuki's Gurgaon facility has an installed capacity of 900,000 units per annum. The Manesar facilities, launched in February 2007 comprise a vehicle assembly plant with a capacity of 550,000 units per year and a Diesel Engine plant with an annual capacity of 100,000 engines and transmissions. Manesar and Gurgaon facilities have a combined capability to produce over 14, 50,000 units annually.

Service is a major revenue generator of Maruti Udyog Ltd. Most of the service stations are managed on franchise basis. Other automobile companies have not been able to match this benchmark set by Maruti Suzuki. The Express Service stations have helped many stranded vehicles on the highways by sending across their repair man to the vehicle.

Brief: The basis for the global role of the Indian company lies in the specific characteristics of the domestic market. The global partner of India supplies sophisticated component to those assemblers in India that require it. The Indian joint venture supplies the component not only to assemblers in India, but also directly to certain export markets, and indirectly to other customers through the marketing operations of the joint-venture partner.

Example in case of Maruti: Several companies were set up as suppliers to Maruti, such companies were Jai Bharat Maruti, Minda Industries, Sona Koyo Steering Systems Ltd etc. Few of these companies used a proprietary technology developed by Suzuki's Japanese supplier, which held an equity stake in the Indian company. Until 1995, Maruti was the company's major customer. Few of these companies began to provide specialized products to its Japanese associates. In the industrially advanced countries, the product evolved and only the most basic cars used the old technology. In India, the older product remained widely used. On the other hand, the Japanese company began to source its world production of products from India, selling it on to other assemblers and component manufacturers in Japan and elsewhere.

This case study highlights how a lead firm enabled the integration of Indian MSMEs into the Global Value Chain by initially providing it with the capability and technological know-how; that the MSME was able to leverage and become a supplier to the Global Value Chain of the Automotive Industry.



China: a perspective

China has over 5 million MSMEs which contribute to 60% of China's GDP and 50% of the tax revenues. They employ over 200 million people. Less than 3% of MSMEs are financed through formal channels like bank loans, they are primarily dependent on informal lending, such as family, friends, and "non-legal" credit entities. The small and medium enterprises in China have achieved rapid and sustainable growth in the past two decades. Over the last 30 years, China's industry has produced a compounded growth rate of 15.6% in value-added manufacturing, from almost INR 1,742 billion in 1980 to over INR 117, 254 billion in 2009. During this advancement, Chinese companies have focused primarily on low value-added products.

The ensuing economic reforms involving state-owned enterprises (SOEs) in China, major SOEs rapidly changed into small and medium non-SOEs. The development of MSMEs has increasingly contributed to China's economic growth.

They make up over 99% of all enterprises in China today. MSMEs account for generating more than 82% of employment opportunities in China. Under processing trade regime, firms are allowed to buy /import inputs duty free provided they are further used to produce further processed goods destined solely for export promotion to developed countries like USA, UK etc. This policy, in fact has helped the Chinese MSME markets to grow at such a high pace in China.

This regime has primarily led to the success story of China. China's production activities have remained consistent with its competitive advantage in labour intensive tasks.

China's attractiveness as an offshore location is not only driven by the low labour costs, political stability and export promotion policies, but also from its geographical proximity to its East Asian neighbors, as it provides China with privileged access to the regions of upstream suppliers and downstream markets.

"Globally, it has been seen that besides pure cost arbitrage, it is the development of sourcing efficiencies that lead to the emergence of integrated value chains. China is a fine example of how industry has developed large sector-focused clusters to provide better efficiencies. This has been the primary reason for its emergence as a primary supplier to most global value chains.

India must explore concentrated cluster development in particular sectors so as to improve the competitiveness of MSMEs, and provide them with an opportunity to integrate effectively with the Global Value Chain."

Piyush Patodia
Director, Government and Infrastructure Advisory
Grant Thornton in India



Factors potentially pushing China up in the Value Chain

a. Processing trade regime: Under processing trade regime, firms are allowed to buy /import inputs duty free provided, they are further used to produce further processed goods destines solely for export promotion to developed countries like USA, UK etc.

b. Capital accumulation: With over 45% of its GDP in savings, China has one of the highest savings rates in the world, according to the U.S. Congressional Budget Office. This capital accumulation has contributed to a high growth rate and enabled China to move up the value chain. Foreign Direct Investment (FDI) also tends to be a good source of capital. Fixed asset growth in manufacturing more than tripled in China between 2004 and 2009, driven largely by new entrants to the World Trade Organisation. FDI on the other hand has the added advantage of providing advanced skills and management know-how to the Chinese market.

c. Improved education: Increased wealth has directly contributed to the increasing numbers of college students in China over the last ten years. Going forward, not only do we expect China to be in an improved capital position, but we also expect a larger educated labour force with the ability to monetise this capital.

d. Technology transfer: The size of its domestic market allows China to spend more on research and development (R&D) and so potentially build technology and scale more quickly than many foreign competitors. The Chinese government has been instrumental in promoting the transfer of technology (import of technology) by supporting joint ventures (JVs) with foreign players and providing subsidies. We also expect to see more Chinese companies going abroad to buy foreign technology in the future.



Factors potentially pushing China up in the Value Chain

The government of China assigned to oversee MSMEs in China consists of four administrative departments:

a) The National Development and Reform Commission;
b) China Coordination Center for Cooperation of MSMEs with Foreign Countries;
c) China Association of MSMEs; and
d) Local MSMEs department in every province.

China's manufacturing sector has enjoyed high and sustained rates of growth, with shares of GNP and exports rising gradually. The emergence of dynamic small and medium enterprises is, above all, one of the most important outcomes of the entire reform process.

The Chinese government has, recently, taken some active steps to promote the MSME sector. It has adjusted related legislation and policies, and launched a series of policies and initiatives. In June 2002, China introduced the MSME Promotion Law, 2006/2010, which includes, among other initiatives, measures that would dismantle institutional barriers that would hinder the development of privately-owned MSMEs, as well as promote a greater level of scientist and technological innovation as well as outgrowth advancement.

To understand the factors contributing to the rise of China in the GVC, it will be helpful to take a look at factors that led to Apple shifting its manufacturing base from the US to China. The reasons have been highlighted in the case study below which increasingly emphasise that low cost of labour is not the only reason why Apple and other Global Production Networks have shifted their manufacturing operations to China. In addition to the factors listed in the case study, another critical factor that has prompted global companies to shift their manufacturing base to China is the fact that China provides the manufacturing bases the ability to tap into synergies that are available across their value chain, with procurement being possible from multiple inputs across the value chain and also be able to get the end result just by procuring from a small geographical spread. This enables production units to manage the logistics complexities and also save on significant amounts of cost in form of custom duties and other trans-national tariffs.

Recent finance and investment reforms in China have made businesses an even more attractive partner for international MSMEs seeking an entry to or expansion across, the Chinese market. As a result of recent initiatives by the central government, Wenzhou's (southern city in china) entrepreneurs now has the freedom to set up small banks among themselves, possibly reducing or even eliminating the dependence on the country's larger banks and financial institutions, which are often out of touch with the latest business trends and commercial opportunities. Globalisation has produced opportunities for Chinese MSMEs to dynamically enter and participate in the global markets. Due to the nature of high competition, this opportunity has also created remarkable pressure on the Chinese MSMEs to increase their abilities to adapt to the market changes, advanced ways to develop the new market, and the entrepreneurial skills to meet global consumers' needs.

Case study: Why Apple manufactures more overseas, especially China

An estimated 90 percent of Apple parts are manufactured outside US. Advanced semiconductors have come from Germany and Taiwan, memory from Korea and Japan, display panels and circuitry from Korea and Taiwan, chipsets from Europe and rare metals from Africa and Asia. All of it is put together in China. China is a lot closer to the raw materials than America is. In many cases, it makes a lot of sense to keep the manufacturing plant close to the supply chain.

Another advantage for Apple was that China provided engineers at a scale the United States could not match. Apple had estimated that about 8,700 industrial engineers were needed to guide the 200,000 assembly-line workers involved in manufacturing iPhones. The company had forecast it would take as long as 9 months to find those many qualified engineers in the United States. In China, it took 15 days.

For Apple, moving its manufacturing unit to Asia was not just about cost, but about flexibility, scale, and efficiency. Further, with the support of the Chinese government and huge amounts of subsidies (subsidy on import of raw material for the purpose of export at the end of the production, special government fund to support technology innovation of MSMEs etc).Chinese business partners can deliver results to American corporations in a way that would make it unfeasible to have a factory in the U.S.

The contribution of China to the iPod value chain is not limited to its IPod assembling activities, as Chinese factories are also involved in the production chains of some of the components, in particular in the assembling of the HDD and also in the Manufacturing of some of its components.

The iPod example clearly illustrates the basic concept of a global value chain. Value is added at various stages of production through the utilisation of production factors labour and capital (including tangible capital such as machinery and land, as well as intangible capital such as software and knowledge).

The reason, Apple makes iPhones in China are:
Most of the components of iPhones and iPads the supply chain-are now manufactured in China, so assembling the phones half-a-world away would create huge logistical challenges.
China's factories are now far bigger than those in the US. They can hire (and fire) tens of thousands of workers practically overnight. Because so many of the workers live on-site, they can also press them into service at a moment's notice. And they can change production practices and speeds extremely rapidly.
China now has a far bigger supply of appropriately-qualified engineers than the U.S. does.
People with the technical skills necessary to build complex gadgets but not so credentialed that they cost too much.

China's workforce is much hungrier and more frugal than many of their counterparts in the United States.



4 Policy-level support to Indian MSMEs

MSME development support by the Central & State Governments of India

Promotion and development of MSMEs is predominantly the responsibility of the States and Union Territories (UTs) and the role of the Central Government (including the MSME Development Organisation, formerly known as SIDO) in this field is to benefit and support the States/UTs in this attempt.

State level institutional support

State Government performs different promotional and evolving projects and schemes for MSMEs. They also provide a number of associated incentives for development and promotion of MSME sector in their particular States.

These are executed through State Directorate of Industries, who has District Industries Centers (DICs) under them to implement Central/State Level schemes.

The State Industrial Development & Financial Institutions and State Financial Corporations also contribute to looking after the needs of the MSME sector.

Policies to govern and promote MSMEs in India

The development of Small Scale Sector has been assigned an important role in India's national plans. In order to protect, support and promote small enterprises and also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government.

The promotional measures cover:

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire-purchase terms
- Assistance for domestic marketing as well as exports
- Special incentive for setting up enterprises in backward areas etc.
- Technical consultancy & financial assistance for technological upgradation

While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the State Governments in erratic notches to attract investments and promote small industries in varying degrees to attract investments and promote small industries with a view to enhance industrial production and to generate employment in their respective States.



MSME development support by the Central & State Governments of India

Few of the policies of State and Central Government for the promotion and development of MSMEs are as follows:

Implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The MSME Development Act 2006 came into effect on 2nd October, 2006. Both the Central and State Governments have taken active steps towards execution of the Act. While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act as below:-
(i) Notification for Authority for receiving Memoranda for Micro and Small Enterprises. All States & UTs except Mizoram have issued the necessary Notifications nominating the authority for receiving Entrepreneurs Memorandum (ii) Notification of Rules of MSE-Facilitation Council (MSEFC): All States & UTs with the exception of Arunachal Pradesh, Assam, Manipur and Mizoram, have issued the Notifications providing for Rules of Micro and Small Enterprises Facilitation Council (MSEFC). (iii) Notification of Constitution of Micro and Small Enterprises Facilitation Council (MSEFC): All States & UTs except Sikkim have issued the Notifications for constitution of Micro and Small Enterprises Facilitation Council (MSEFC).

Reservation/De-Reservation of products for manufacture in the Micro & Small enterprise Sector

The Policy of Reservation of Products for Exclusive Manufacture in SSI was initiated in 1967 with the objective of attaining socio-economic development, through development and promotion of small units all over the country. The MSMEs are being encouraged to renovate and improve their effectiveness for facing the challenges rising out of liberalisation and globalisation of the economy.

National Manufacturing Competitiveness Programme (NMCP)

This policy delivers competitive edge to the units in the MSME Sector in the global environment has been one of the important keystones of the policies being followed by the Government for nourishment of the sector. This policy was brought forward with a view to build the capacity of the Indian micro, small and medium manufacturing enterprises for overwhelming competition in the global markets and facing challenges being impersonated by the entry of the multi-nationals in the domestic markets. The MSME is applying the National Manufacturing Competitiveness Programme (NMCP). The main objective of NMCP is to guarantee healthy growth of the MSME Manufacturing Sector.

Prime Minister's Task Force on MSMEs

The Prime Minister had declared setting up of the Task Force in August, 2009 when representatives of prominent MSME associations had met him to highlight their issues and concerns.

MSME development support by the Central & State Governments of India

The detailed recommendations covered 6 major areas including credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation. A separate section covers the development of MSMEs in the North-East and Jammu & Kashmir. The execution of these recommendations is being observed periodically by the Chairmanship of Principal Secretary to the Prime Minister.

Rajiv Gandhi Udyami Mitra Yojana

The objective of Rajiv Gandhi Udyami Mitra Yojana is to provide funding and assistance to the potential first generation entrepreneurs, who have already successfully completed Entrepreneurship Development Training Programmeme (EDP)/ Skill Development Training Programmeme(SDP)/ Entrepreneurship/Skill Development Training Programmeme (ESDP)/Vocational Training Programmeme through the selected lead activities i.e. 'Udyami Mitras', in the establishment and organisation of the new enterprise, in dealing with numerous procedural and legal hurdles and in completion of various procedures required for setting up and running of the enterprise.

An 'Udyami Helpline' (a Call Centre for MSMEs) with a toll free No. 1800-180-6763 is functioning under the Scheme which provides information, support, guidance and assistance to first generation entrepreneurs as well as other existing entrepreneurs.

The Udyami Helpline provides information about various promotional schemes of the Government, procedural formalities required for setting up and running the enterprise and how to access credit from Banks etc.

Public Procurement Policy for goods produced and services rendered by Micro & Small Enterprises (MSEs)

The Government of India has notified Public Procurement Policy for goods produced and services rendered by Micro & Small Enterprises (MSEs) Order, 2012 which is applicable for every Central Ministries/ Departments and PSUs for effective implementation. The policy mandates for achieving an overall procurement of minimum 20 per cent of total annual purchases of products produced/services rendered by MSEs within a period of three years. With effect from 1 April 2015, overall procurement goal of minimum 20% are to be made mandatory by every Central Ministry /Departments/PSU.



MSME development support by the Central & State Governments of India

Initiatives for Women entrepreneurs

Women entrepreneurs have achieved remarkable success. The MSME Development Organisation (MSME-DO), the various State Small Industries Development Corporations (SSIDCs), the nationalised banks and even NGOs are conducting various programmes including Entrepreneurship Development Programmes (EDPs). To cater to the needs of potential women entrepreneurs, who may not have adequate educational background and skills, MSME-DO has introduced process/product oriented EDPs in areas like TV repairing, printed circuit boards, leather goods, screen printing etc. A special prize to "Outstanding Women Entrepreneur" of the year is being given to recognise achievements made by and to provide incentives to women entrepreneurs.



Cluster development approach

An MSME cluster is a regional and geographical concentration of MSMEs producing a similar range of goods or services and facing similar threats (e.g. product obsolescence or lack of markets) and opportunities (e.g. scope for increasing turnover through quality up-gradation or the introduction of new products or increasing exports through targeted marketing). The firms producing the product by which a cluster is known are called principal firms.

The number of principal firms can vary widely. In Austria, a successful wood cluster exists with less than a dozen firms. In clusters with a small number of principal firms, the firms tend to be fairly large. Large clusters, with 1,000 or more firms, tend to be clusters of very small manufacturing firms. India has more than 6,500 industrial, handloom, handicraft and micro-enterprise clusters. These clusters represent the socio-economic heritage of the country where some of the towns or contiguous group of villages known for a specific product or a range of complementary products have been in existence for decades and centuries.

A cluster manifests common opportunities in MSMEs. Cluster configuration can give rise to:

- Collective benefits, e.g. through the spontaneous inflow of suppliers of raw materials, components and machinery or the availability of workers with sector specific skills
- Favour the creation of providers of specialised technical, administrative and financial services.
- Create a conductive environment for the development of inter-firm co-operation as well as of co-operation among public and private institutions to promote local production, innovation and collective learning.

The cluster development approach looks at the key problem faced by MSMEs as one of relative isolation rather than size. The main objectives of cluster development are as follows:

1. Develop a consensus-based vision for the future; and
2. Strengthen their capacity to act upon that vision.

A decade of cluster development in India

Policy recognition for clusters was first made in 1997. This was followed up in several Budget Statements and recognition in the 11th Five Year Plan. During the last decade 24 schemes/ programmes have supported around 1358 clusters, of which 278 are traditional manufacturing and 1080 are micro enterprise clusters.

Cluster development approach

The resource allocated for cluster development is estimated at a cumulative of INR 700 crores till 2006-07. It is estimated that 91.4% has been contributed by the Central Government, 2.4 per cent by the State and the remaining 6.2 per cent by the techno financial institutes and international organisations. The support has been highly driven by promotion of infrastructure it is estimated that during the next 5 years resources worth INR 4500 crores are likely to be invested for cluster development. Out of which, 80% of this amount will be for cluster infrastructure.86 per cent of the implementing agencies belong to the experience group of 1-2 cluster-years and 0.57% has more than 50 cluster-years of experience.

India MSME cluster

With a contribution of 40% to the country's industrial output and 35% to direct exports, the Small-Scale Industry (SSI) sector has achieved substantial landmarks for the industrial development of India. Within the SSI sector, an important role is played by various clusters that have been in existence for decades and sometimes even for centuries. According to a UNIDO survey of Indian SSI clusters undertaken in 1996 (later updated in 1998), there are 350 SSI clusters. Also, there are approximately 2000 rural and artisan based clusters in India. It is estimated that these clusters contribute 60% of the manufactured exports from India. The SSI clusters in India are estimated to have a significantly high share in employment generation.

Some Indian clusters are so big that they account for 90 per cent of India's total production output in selected products. As an example, the knitwear clusters of Ludhiana. Almost the entire Gems and Jewellery exports are from the clusters of Surat and Mumbai. Similarly, the clusters of Chennai, Agra and Kolkata are well known for leather and leather products.

However, the majority of Indian clusters, especially in the handicrafts sector, are very small with no more than hundred workers, so specialised that no other place in the world matches their skills and the quality of their output. This is the case, for example, of the Paithani sarees cluster in Maharashtra.

However, only a tiny minority of such artisan clusters are globally competitive. The tough challenges created for the SSE sector by the liberalisation of the Indian economy, as well as its closer incorporation within the global economy, have generated a great deal of interest within India on novel approaches to SSE development. As a result, both private and public sector institutions at the Central as well as the State levels are progressively undertaking cluster development initiatives.

Cluster development approach

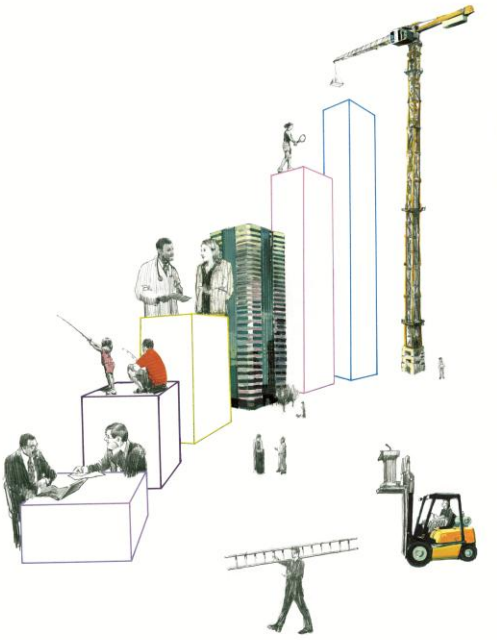
The United Nations Industrial Development Organisation (UNIDO's) Cluster Development Programme in India is providing technical support to MSME Foundation has been funded by the Directorate General for Development Cooperation (DGCS) of the Ministry of Foreign Affairs, Government of Italy, and Swiss Agency for Development and Cooperation (SDC).

The UNIDO has developed a methodology to help the public and the private sector co-operate to revitalise MSME clusters. This methodology lures trainings from global finest practices and it has the capacity to adapt to the characteristics of various developing countries. Since 1996, India is one of the countries where this innovative programme is being implemented.

Challenges clusters aim to solve for Indian industry

- Becoming more competitive in the global market by cost-cutting, productivity improvement and efficient management of supply chains, greater public and private investment in infrastructure.
- Enhancing access to global markets by greater policy coordination within the Indian government for a coherent approach to emerging trade policy issues, an institutional partnership between the private sector and the government in devising specific marketing strategies.
- Safeguarding Intellectual Property by effectively administering copyright and patent legislation, encouraging more innovations and patenting them.
- Promoting Small-Scale and Cottage Industries, and Regional Cluster Development by removing policy impediments; financial support; technology, skills and quality upgrading; market support and improving links between small and large firms.
- Increasing Exports

Despite these challenges there have been many successful clusters in India, Tirupur Textile Cluster is one example that stands out because of the scale of integration it was able to achieve. The success of the Tirupur Cluster has been highlighted in the case study on the next page.



Case Study: TIRUPUR CLUSTER a success Story

Tirupur Exporters' Association commonly known as TEA was set up in the year 1990. At present TEA has 668 knitwear exporters as members and doing useful service to the exporters. Tirupur a small town in Coimbatore District has been retained in the knitwear map of global, apart from catering to the whole country. Within a matter of two decades Tirupur has grown the exports by leaps and bounds, from less than INR 10 Crores in 1984 to INR 11, 000 Crores in 2006-07. However, due to appreciation of rupee against dollar in 2007-08 export has declined by 10% and registered INR 9,950.

Tirupur's direct exports started with Italy. Verona, a garment importer from Italy came to Tirupur in 1978 through Mumbai exporters to buy white T-shirts. Tirupur is known for the cluster activity and mostly each activity of garment making is being carried out be outside units e.g. Knitting units, Dyeing & Bleaching Units, Fabric Printing, Garmenting, and Embroidery, Compacting and Calendaring and other ancillary units. The following table shows the position of Tirupur units.

Operations	Number of Units
Knitting Units	1500
Dyeing and Bleaching	700
Fabric Printing	500
Garment Making	2500
Embroidery	250
Other Ancillary Units	500
Compacting and Calendaring	300
Total	**6250**

Tirupur Export performance has no parallel anywhere in the world. They had set a target INR 25,000 Crores by the end of 11th Five Year Plan, 2012. As far as the export is concerned, all leading brands Nike, Cutter & Buck, Adidas, GAP, Tommy Hilfiger, Katzenberg, Van Heusen, Fila, Arrow etc., and leading chain stores like C&A, Wal-Mart, Target, Sears, C&A and Mothers Care, H&M are sourcing from Tirupur. It was a fact that one of the garment manufacturer in Tirupur supplied T-Shirts to FIFA World Cup as well.

Microsoft will also develop a Tirupur cluster Portal which will have a public interface and a certain person accessible to MSME community in Tirupur. Microsoft will help and provide online platform to facilitate collaborative exchange for addressing issues like regulatory compliances, environmental issues quality and certification procedures, Project Management and Textile design development.

Inference:
Tirupur cluster is widely recognised as a `dynamic' cluster with essential `vertical' depth, critical mass of enterprises as also suitable factor conditions. The Tirupur cluster has grown as a highly linked cluster of units which together convert cotton to knitwear products. Individual units are highly specialised at the manufacturing of fabric, dyeing, processing, knitting and export marketing. As of date, over 5000 units in Tirupur work in the cluster and accomplish an cumulative export volume of over INR 54 billion.

Cluster development initiatives in India

Cluster Development Programmes launched by the Government of India look at the following aspects:

- Infrastructure creation for Industry
- Capacity building for existing and new clusters
- Viability Gap Funding to make new clusters economically viable
- Other incentives for promoting the clusters approach

The cluster development initiatives in India can be viewed from two perspectives, one is the modernisation, upgradation and performance of existing clusters in India and the second is the initiatives that look at developing newly infused clusters.

Existing clusters

Understanding the importance of clusters for growth of MSMEs and consequently of the economy, existing cluster initiatives introduced by the government of India primarily cater towards capacity building for existing clusters and providing them with funding to overcome the challenges faced in the dynamics of current economic situation.

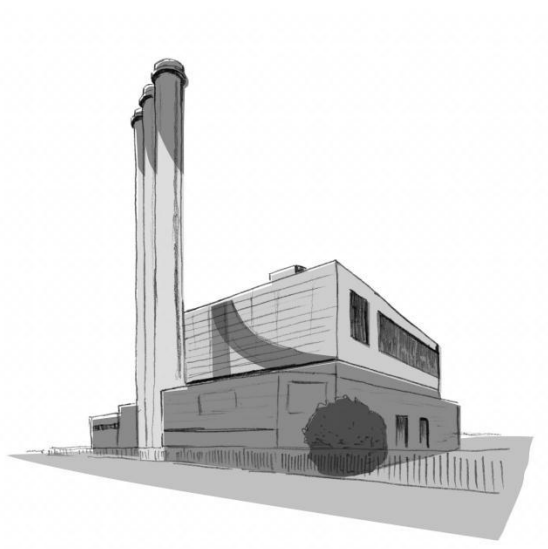
The scheme focuses on clusters in India that have naturally evolved over time due to reasons like geographical proximity, skill availability etc. The funding provided can be used to various purposes ranging from Research and Development to skills upgradation of employees

1. MSE-CDP

The Ministry of MSME has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. Clustering of units also enables providers of various services to them, including banks and credit agencies, to provide their services more economically, thus reducing costs and improving the availability of services for these enterprises.

2. IIUS

Launched in December, 2003 as a Central Sector Scheme, with the objective to enhance competitiveness of the industry by providing quality infrastructure to existing industrial clusters through Public-Private Partnership mode (PPP). The scheme targets existing clusters with high growth potential.



Cluster development initiatives in India

The objectives of the Scheme is to facilitate development of:

- Physical infrastructure activities like Transport, Road, Water Supply, Common captive power generating units, Transmission and distribution infrastructure, Common fuel/gas supply system, Common effluent treatment plant , Solid waste management facilities
- Information and Communications Technology (ICT) Infrastructure, ICT-induction and Management Consultancy Service Centre.
- Common Facilities Centre. (Tool Room, Display Centre, Testing Centre, Training Centre etc.)
- Quality Certification & Benchmarking Centre.
- R&D Infrastructure
- Infused clusters

Plastic parks

The department of Chemicals and Petrochemicals announced the setting up of new Plastic Parks through a cluster development approach to promote modernisation of the Indian Plastics Industry. The scheme is to ensure state of the art infrastructure and common facilities to assist the sector move up the value chain and contribute to the economy more effectively.

The primary reason for the scheme was the fact that the Indian plastic industry is large but highly fragmented with dominance of tiny, small and medium units that do not have capacity to tap opportunities of grabbing the international trade. The central government is providing a grant of INR 40 crore for setting up of common infrastructure and facilities, and the development of such parks will need to follow an SPV model.

Mega food parks

The Mega Food Park Scheme is the flagship program of the Ministry of Food Processing Industries. Mega Food Park Scheme proposes a demand driven/pre-marketed model with strong backward/forward linkages and sustainable supply chain, thereby forming an infused cluster. The primary objective of the proposed scheme is to facilitate establishment of integrated value chain, with processing at the core and supported by requisite forward and backward linkage.

The scheme provides for creating infrastructure for farm level primary processing centre-cum-cold chain in identified clusters, processing of intermediate products, collection centre cum cold chains, centralised infrastructure to take care of processing activities, which require cutting edge technologies and testing facilities, besides the basic infrastructure for water supply, power, environmental protection systems, communication etc. The supply chain will establish on-Farm Primary Processing Centre cum cold chain facilities for aggregation of the produce at village level, which will be linked, to the retail outlets/processing parks through appropriate produce aggregation facility and collection center cum cold chain and Reefer van transportation networks.

The scheme envisages a onetime capital grant of 50% of the project cost subject to a maximum of INR 50 crores in general areas and 75% of the project cost subject to a ceiling of INR 50 crores in difficult and hilly areas i.e. North East Region including Sikkim, J&K, Himachal Pradesh, Uttarakhand and ITDP notified areas of the States.

Case Study: Mega Food Park

Mega Food Parks are comprehensive industrial estates for Food Processing units where industries would have provision of common facilities like cold storage, cold chain, effluent treatment plant, warehousing power connection, water facilities, sewerage etc.

These parks are expected to promote establishment of multiple processing units which will further make optimum use of the Agri raw materials, inclusion of farmers irrespective of land-holdings or cropping pattern and a significant drive to enhance the socio-economic development of the surrounding region. The Government has shown its commitment by ensuring a significant subsidy to ensure project viability, which ensures an IRR (Internal Rate of Return) in the range of approx. 13-16 percent, post subsidy.

With a view to enhancing attractiveness of the sector, as well as to bring in fresh investments, the Ministry of Food Processing Industries, has formulated the 'Vision 2015 – Strategy and Action Plan', with a stated goal to enhance:

- Level of processing of perishables from 6% to 20%;
- To increase value addition from 20% to 35%; and
- To increase India's share in global food trade from 2%to 3%.

A mega food park comprises 50-100 acres area, containing a common CPC which acts as a food processing hub connected by 5-10 primary processing centres (PPC), located in the catchment area. The primary function of a PPC is aggregation of agricultural and horticultural produce, with facilities for quality testing, sorting and grading lines, storage and cash payments.



Case Study: Mega Food Park

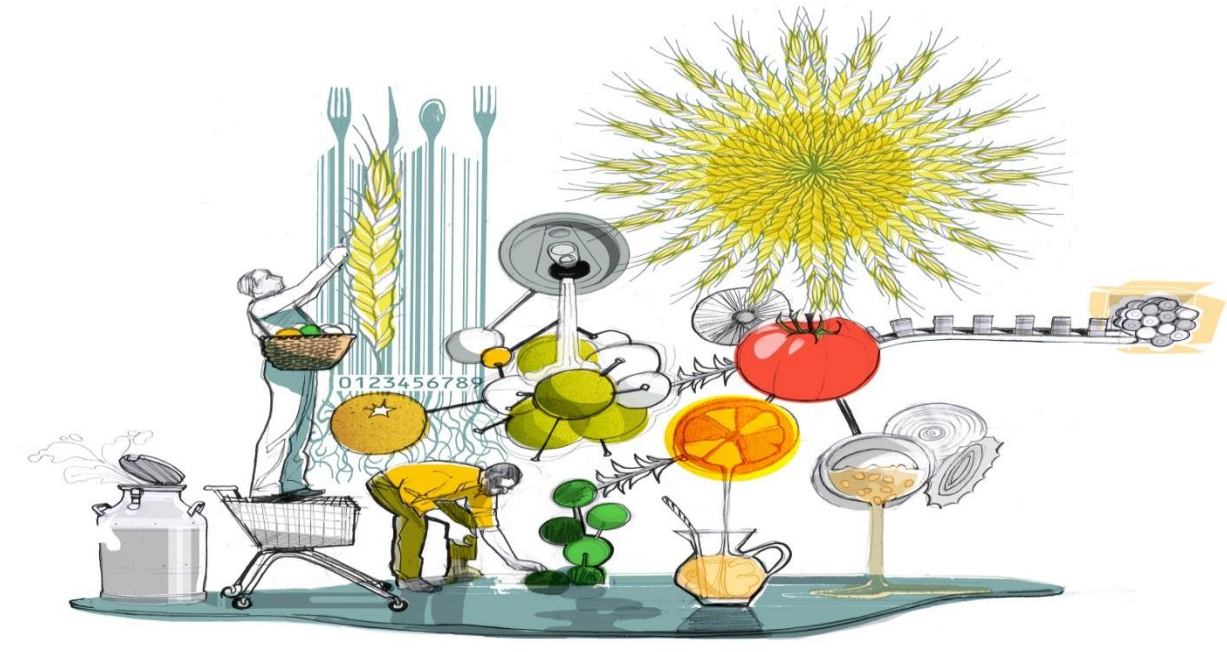
The CPC will encompass core processing units, packaging units, warehouses, cold chain infrastructure, irradiation facilities, etc. The units that can be put up in such parks will naturally be a function of the major crops grown in the surrounding primary catchment area.

Each of these parks would entail an investment of INR 250 crore, wherein, the Ministry of Food Processing provides assistance up to 50 per cent of the project cost (excluding land cost) limited to INR 50 crore in general areas and 75 per cent of project cost limited to INR 50 crore in certain North East hilly areas.

Thus, The primary objective of the MFPS is to provide adequate and excellent infrastructure facilities for food processing along the value chain from the farm to market. It will include creation of infrastructure near the farm, transportation, logistics and centralized processing centers.

Current status

13 parks out of 30 have completed their tendering process and contracts have been awarded towards various components of basic enabling, core processing and non-core infrastructure at the Central Processing Centre (CPC). While, the rest 17 parks have got In-Principal approvals.



Cluster development initiatives in India

Textile parks

The scheme for integrated textile park was introduced by the Government of India with a vision to provide the textile industry with world-class infrastructure facilities for setting up textile units. The scheme targets industrial clusters/locations with high growth potential, which require strategic interventions by way of providing world-class infrastructure support. The project cost covers common infrastructure and buildings for production/support activities, depending on the needs of the integrated textile parks.

The scheme is implemented through special purpose vehicles (SPV) which would be formed by including the representatives of local Industry, Financial Institutions, State and Central Government. The scheme provides a grant of 40% of the capital cost up to a maximum of INR 40 crores, required for building common infrastructure and facilities for the individual textile units to use.

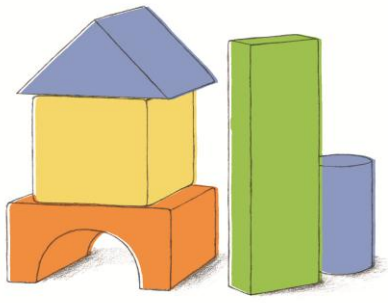
Electronics parks

The Electronics Hardware Technology Park Scheme is a 100% Export Oriented Scheme for undertaking manufacturing of electronic hardware equipment/components and other items. The Government in the proposed policy has established an objective of creating an eco-system for a globally competitive electronics sector in the country. The scheme provides a wide array of benefits for Electronics Hardware manufacturing units, looking to increase their export potential and even new manufacturing units looking at export oriented models; with incentives like exemption from payment of Corporate Income Tax, 100% Custom Duty exemption on imports of Capital Goods and Inputs (like Raw Material etc.), 100% Excise Duty exemption on indigenous procurement and provisions for Re-export of capital goods and import of second hand capital goods, provides a good ground for encouraging electronics manufacturers.

Leather parks

The Leather Parks Scheme aims at addressing the infrastructure constraints faced by the Leather Industry in the country today. The scheme is introduced to assist the industry to address its infrastructure needs in a holistic manner, which would usher the industry into achieving global competitiveness and global regulatory and trade compliances.

The scheme covers the entire value chain of leather industry i.e. tannery, finished leather products, footwear components etc. The strategy is to aggregate the demand of the industry in the form of clusters and develop need-based infrastructure for them through exclusive leather parks/complexes.



Cluster development initiatives in India

The total fund allocation for the Mega Leather Cluster scheme is INR 600 Crore under ILDP (India Leather Development Programme) and provides a grant of up to INR 40 crores for setting up a Leather park. It is proposed to develop Greenfield Mega Leather Clusters in the States having large concentration of leather units and also in states having potential for growth of the leather sector. The Mega Leather Clusters will have core infrastructure, social infrastructure, production infrastructure, HRD & social infrastructure, capacity building, etc. The state government would not have any say in the running of the SPV; the grant will be used to set up state-of-the-art infrastructure and a common emission treatment plant to service the leather industries that come up as a part of the cluster.

Pharmaceutical parks

Vision of the Department of Pharmaceutical (DOP), Ministry of Chemicals & Fertilizers, and Government of India is to catalyse and encourage quality, productivity and innovation in pharmaceutical sector and to enable the Indian pharmaceutical industry to play a leading role in a competitive global market.

It is for this reason that the DOP proposes to formulate Cluster Development Pro-forma for Pharmaceutical Sector (CDP-PS) to enhance Quality, Productivity & Innovative capabilities of the MSME Pharmaceutical sector in the country. The proposed Cluster Development Programme aims to help achieve better quality and higher productivity for all round growth of the Pharmaceutical industry in the country.

The Scheme proposes adoption of cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of MSMEs located in clusters by providing funding for setting up state of the art testing and Research and Development Labs, setting up Training Centres, to support first level processing facilities, assistance towards global compliances, and accessing new technology and IT Tools for efficient management.

Key takeaways

The vision behind promotion of Clusters and the host of cluster development initiatives launched in India is primarily because of the inherent role MSMEs play in the India economic growth. Clusters become a primary focus because they help in:

- Creating enabling infrastructure for the industry
- Helps increased and cost effective collaboration between similar companies
- Enables concentration of skills in key focus areas, thus enabling skills and capacity development amongst common industries
- Enables MSMEs to adhere to global standards while giving them the capacity to share costs
- Increased investments are available to individual small scale units into avenues which would be economically non-viable or that are capital intensive

Case study: Haryana Cluster Development

Circumstance in Haryana

The state of Haryana has a GSDP of about INR 2, 592 billion (2009-10) and has a considerable regional demand providing population base of 25-35 million people. The state has locational advantage by virtue of it being located besides New Delhi. In fact, a significant part of the NCR today comprises districts like Gurgaon and Haryana which are a part of Haryana. The state is rapidly creating its own space in the MSME industrial firmament of the country.

Today, every alternate car and third two wheeler produced in India is rolled out of this state and Gurgaon is often hailed as the IT capital of the Indian sub-continent. The state also has a number of other locations that serve as industrial hubs and "clusters" (many of which) that (are, or) have been nationally and even globally competitive.

Many such large MSME led clusters are presently facing grave threats from the Chinese industrial behemoth as well as from large MNCs abroad. For instance, the stainless steel utensils manufacturing cluster of Kundli and the footwear cluster of Bahadurgarh are confronting a scenario of growing Chinese imports. So are the scientific instruments clusters of Ambala and textile machinery cluster of Panipat for that matter. In fact, many manufacturers in these locations are already turning to be mere dealers of imported Chinese products!

Standing up to China

While some clusters such as the fittings and fabrication cluster of Faridabad and the engineering and fabrication cluster of Yamunanagar have the advantage of operating in niche markets and possess the ability to cater to customised and low-volume demanding market segments in India and abroad, many other clusters produce standard products and face extensive competition from China.

The very survival of thousands of units in the state as well as livelihood of tens of thousands of labour-force employed in the region is at stake. In this context, the Industries Department of the Government of Haryana (GoH), has in the last couple of years initiated interventions in over 20 clusters in a war footing as to upgrade enterprise capabilities individually as well as through joint (co-optetive) efforts on a PPP mode.

To this end, the Department is partnering with Grant Thornton for Technical Assistance and the partnership has already implemented several successful cluster development interventions, notable amongst them being interventions in the stainless steel cluster in the district of Kundli, the footwear cluster of Bahadurgarh and the printing and packaging cluster of Karnal.

Industries Department took the pioneering initiative in basic awareness generation on bringing of joint action to strengthen intra-cluster value chains. Department officials led by a dynamic leader – TL Satyaprakash, conducted several awareness generation initiatives. Subsequently, the expertise of Grant Thornton was leveraged and this institution was appointed as Programme Management Agency for technical assistance. The Department also handled interventions by stakeholders over conception and implementation by means of facilitating provision of land through HSIIDC and HUDA.

Case study: Haryana Cluster Development

Also, the Department invested considerable effort in advocacy with the Govt. of India as to enable assistance on priority basis or clusters in Haryana in the light of the fact that North India has any success stories whatsoever on Industry value chains strengthening PPP projects. The industries Depart also work closely with the PMC in leveraging assistance from institutions such as NSIC, EEPC, NIFT, AEPC, SIDBI and D&B. as well as regional Engineering colleges and technical institutions. And SIDBI to redress various credits, market connectivity, technology benchmarking and other gaps in intra-cluster value chains.

Technical Assistance involved creating awareness of Public-private Partnership (PPP) schemes like the Micro and Small Enterprise – Cluster Development Programme (MSE-CDP) within the Special Purpose Vehicle (SPV) or project implementing group in the cluster through counseling, motivation and trust building exercises; initiating joint action in a cluster by assisting in organising seminars, networking with technology and other service providers and organising exposure visits etc.; assessing cluster needs and guiding the synthesis of secondary data available in the public domain for the related sector; preparation of a project proposal (including preparation of a DPR) under the MSE – CDP scheme including Details of cluster – its geographical spread, number of units, products, cluster turnover, markets, exports; need assessment of the cluster including an evaluation of the requirement of a CFC; assessment of plant and machinery requirements; assessment of the organisational set up and manpower requirement of the cluster and structuring of the Special Purpose Vehicle; details of civil structures and utilities to be instituted; assessment of Financial details of the CFC; feasibility study of the CFC; preparation of an implementation schedule for the project; evaluation of the CFC's impact and likely benefit; developing and implementing a monitoring mechanism to track progress of the cluster under the scheme and advising members on management procedures and governance practices etc.



T L Satya Prakash
Director of Industries
Government of Haryana

"The idea was to design an intervention which can provide an institutional support system for creation of social capital. Common Facility Centre provided an institutional platform for collective action where the small and micro-entrepreneurs found a voice.

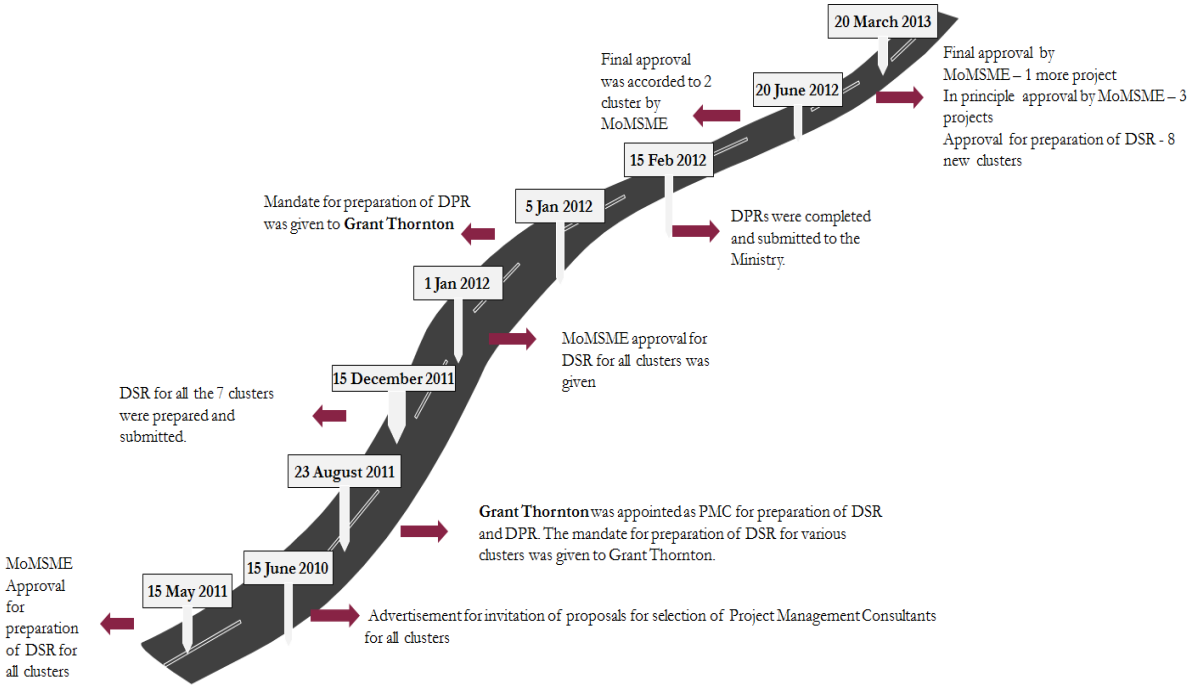
The characteristic feature of Haryana initiative is the synergy it leveraged between technology, management and social capital. The influence it wielded through advocacy approach over different stakeholders, political executives, government agencies is commendable. This is one of the most important pre-requisite for success in convergence scenario where everyone's opinion matters.

Among policy makers there is a consensus that it provides a customised design for cluster development in Indian perspective. It answers several questions as to why hitherto we could not succeed in realising the potential of cluster development in India and also provides the modus operandi to achieve the same. The fervour in more than 20 clusters has initiated a silent revolution.

To sum up, the initiative is a synthesis of social, political and technological action on a unified institutional platform."

Case study: Haryana Cluster Development

The initiative focuses on creation of fixed assets for tangible development of clusters. The process of establishing common facilities on a PPP mode, be it physical infrastructure or technology upgrading equipment. The time taken for conceiving and implementing a PPP project is critically dependent on capacities and capabilities of related industry associations and lead firms. Grant Thornton has been intervening in the region since 2011. The schematic of the road travelled till now is shown below:



Strengthening a Cluster Operating in Global Value-chains

Stainless Steel utensils and cutlery are amongst the most significant of industries of the country. The typical small-sized utensils units in clusters like Kundli in Haryana use basic power press, deep draw presses, bowl cutters, spinning machines and busting machines, while larger firms in some other clusters and regions have the resources and capabilities to invest in advanced equipment. The cluster faced critical equipment and technology gaps with respect to important value-chain activities.

Units in the cluster were already experiencing competition from better quality and more competitive units from China in some product categories. Also, firms do not have the wherewithal to produce a variety of value-added products with intricate design and quality finish. The cluster comprises about 70 small firms and 150 component manufacturing firms/fabrication units and has a total turnover of about INR 800 crore. The related firms in the region provide employment to about 8,000 persons.

Case study: Haryana Cluster Development

Cluster units confronted unfavourable circumstances in terms of circle cutting equipment. In fact circle cutting was often presently outsourced to units in the NCR affecting quality (dimensioning) and lead times. Further, cluster firms did not have facility for impact bonding even while there is considerable demand for penetrating Indian markets with related products. Also, cluster units had to largely avail the services of manually operated polishing equipment.

As a matter of fact, while a couple of larger units in the region possess some semi-automatic polishing equipment, such equipment is largely for captive use. Therefore, much of quality polishing work is carried out on job-work basis in the NCR involving time-lags and this lead to delayed export shipments and inability to polish and hence produce high-finish cookware.

In addition, there was virtually no facility for forging quality knife blades. Apparently, firms in India were already beginning to import quality knives from countries like China and firms in Kundli were already finding it difficult to supply complete cutlery sets of quality, thus losing out on this segment.

Basically, there was need for facilities by way of quality knife-blade forging, impact bonding press (for cookware manufacture), polishing as well as circle cutting technologies that could facilitate reduction in material wastage in the manufacturing process, value-added product development and quality finishing vis-à-vis many product categories.

In this context, the Industries-Department – Grant Thornton partnership facilitated sanction of PPP based assistance for establishment of circle cutting, impact bonding, polishing and value-added product development (quality knife-blade forging) facilities on PPP basis under the MSE-CDP of the Government of India.

The Kundli Stainless Steel Houseware Association is the largest cluster association of industry stakeholders in the District. With Technical Assistance from Grant Thornton, this cluster association took the lead to evolve an SPV, namely, "Kundli Stainless Steel Cluster Services Pvt. Ltd". The SPV members contributed 30.53 per cent of the project cost for establishment of such facility. The total contribution of State Government of Haryana is INR 150 Lakh and support under the MSE-CDP of the DCMSME was envisaged for INR 1, 050 lakh (60.79 per cent of project cost). The Oriental Bank of Commerce offered necessary working capital. While the project may take a year to implement, the envisaged benefits are substantial. To elaborate, the growth rate of cluster is likely to increase from 15% to at least 20%. Increase in cluster output is expected to be 100% in the next 5 years. It is also expected that firms will graduate into producing value-added utensils like sauce pans, and cutlery like knives etc. This will enhance turnover and capacity utilisation which is presently hardly 50%. Also, firms are expected to be able to produce products of better quality and finish to consumers at 10% lesser price. There is expected to be an increase in direct employment at least by 50% from 4200 persons to 6300.

Case study: Haryana Cluster Development

Further, it is envisaged that there will be a saving of approximately 10% in scrap loss from the raw material over circle cutting operations. There is also an envisaged reduction in time by 3-5 days by means of better polishing, with scope for realising higher quality in this activity. Chinese competition will be sustainably thwarted through consistent production of quality products with better finish!

Interventions in a domestic-demand focussed cluster

The synthetic leather footwear sector is manpower intensive and provides gainful employment to over 2.5 million persons. The non-leather segment largely targets domestic demand. Significantly, the sector comprises Micro and Small Enterprise (MSE) firms clustered in specific locations. Clusters in the synthetic leather or non-leather footwear segment operate at different value-chain levels in the country, and notably, the cluster at Bahadurgarh, Haryana, operates at the (relatively) higher-end of the value-chain producing a range of open and closed footwear products for the National (and partly even export market).

The 125 largely MSE-sized footwear manufacturing units in Bahadurgarh are supported by 175 odd fabricating units (including un-registered units). These core units in the cluster have a total turnover of about INR 1,560 crore per annum. The core cluster footwear enterprises and their fabricators operate employment intensive enterprises and therefore provide direct employment to about 12,400 persons; and directly and indirectly provide employment to about 25,000 persons.

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While the project may take a year to implement, the envisaged benefits are substantial. To elaborate, the growth rate of cluster is likely to increase from 15% to at least 20%. Increase in cluster output is expected to be 100% in the next 5 years. It is also expected that firms will graduate into producing value-added utensils like sauce pans, and cutlery like knives etc. This will enhance turnover and capacity utilisation which is presently hardly 50%. Also, firms are expected to be able to produce products of better quality and finish to consumers at 10% lesser price. There is expected to be an increase in direct employment at least by 50% from 4200 persons to 6300.

Case study: Haryana Cluster Development

The typical and critical process (and related constraints) involved in Bahadurgarh may be elaborated in terms of design. The practice in the cluster involved preparation of footwear design through service providers, and in the case of orders from large marketers and brand leaders operating in India as well as export orders, design is specified by those stakeholders. Often, designs are merely copied from/after visiting fairs in countries like China. Die making is subsequently undertaken through supporting enterprises to make samples.

The need for development of indigenous design capabilities and use of equipment like die-less pattern cutting was evident; manpower skills: In Bahadurgarh, most fabricators operate on job-work basis and have investment in plant and machinery in the range of less than INR 4 lakhs. The equipment used by such job-workers comprise of only basic stitching, cutting, binding, embossing and folding machinery.

Many such fabricators as well as integrated footwear manufacturers do not upgrade as there is a shortage of new manpower to complement expansion plans of these fabricators as well as footwear manufacturers. There is also a dearth of training facilities to facilitate necessary skill upgrading to help manpower operate advanced sewing machines and the range of ancillary/supporting quality enhancing and finishing equipment.

Also, cost of the range of necessary supporting equipment for making value-added components make them beyond the reach of most micro-sized fabricators as well as smaller footwear units; value-addition: Cluster firms suffered from a virtual dearth of facility for more value-added component development in terms of multi-head embroidery, automatic screen printing, and embossing; and also limitations vis-à-vis advanced last development facilities.; testing facilities: Firms in the cluster also did not have convenient access to testing equipment for regular testing of raw material polymers as well as components and finished footwear.

Also, there were no facilities in the cluster to facilitate compound development necessary for commercial batch-wise testing. There was apparently dire need for joint-upgrading and value-chain gap filling on different fronts.

The common facilities sanctioned for implementation on PPP basis by the GoI and envisaged for early implementation include: Skill development facility; design facility; value adding facility; and a testing facility. The Special Purpose Vehicle (SPV) "Bahadurgarh Footwear Development Services Pvt. Ltd." members contributed 28.67 per cent of the project cost.

The total contribution of SPV members was therefore INR 443.14 lakh. Support under the MSE-CDP of the DCMSME was for INR 952.29 lakh and the Government of Haryana INR 150 lakh. The Bank of India is offering necessary working capital.

Case study: Haryana Cluster Development

The envisaged project is expected to complement the rapid growth of the cluster in terms of manpower as well as upgrading and testing needs. It will increase net earnings of footwear manufacturing firms by over 50 per cent as a result of the common facility and related interventions. This is because use of advanced and the complete range of value-adding (and expensive) facilities like embroidery and embossing could help lend better aesthetic look, finish and quality and help increase sale value by at least 5 per cent.

Envisaged testing facilities will also help improve raw material and hence product quality, in complementary fashion. In addition, establishment of the common facility could enable reduction in production cost by the way of optimisation in raw material use by optimally designed pattern cutting. It will contribute to generation of jobs and upgrading of skills to the benefit of over 16,000 persons, even while encouraging enterprise-level upgrading in fabrication and footwear manufacturing units. Importantly, the project could also serve as a demonstration project for public-private partnership based action- which, till date has largely by-passed the region.

In addition to clusters that operate in global value-chains or confront competition from abroad, there are several who operate in relatively fragmented markets as in the case of those in the printing and packaging sector. In this case, the intervention in the printing and packaging cluster of Karnal is also yielding demonstration results.

Interventions in a cluster catering to fragmented regional demand

The Indian printing and packaging industry is amongst the prominent industries in the country. Larger enterprises in some clusters like Rai, Haryana and Sivakasi in Tamil Nadu in India have constantly upgraded technology to meet diverse market requirements, while other clusters comprise micro-sized firms sans the wherewithal to do the same.

The potential for joint-action to invest in necessary upgraded equipment needs to be exploited by firms in such clusters. In this setting, the printing and packaging cluster firms of Karnal in Haryana comprises a mix of offset and screen printers who undertake a variety of jobs ranging from printing of visiting cards, marriage cards, posters, school books, student note books, magazines and periodicals, calendars, diaries, bill books and printed stationaries to labels.

They also undertake a variety of print-packaging jobs for industrial consumers such as cracker units, pharmaceutical firms, engineering units, dairy units, food processing and garment manufacturing firms. Jobs include corrugated box manufacturing, pharmaceutical packaging, sweet and gift box manufacturing, gift envelope, paper cup manufacturing and monocartons for the pharmaceutical and cosmetic industry. The overwhelmingly micro-sized 76 offset and 200 screen printing enterprises as well as 24 packaging units in the cluster alone have a turnover of INR 452 crore per annum. The enterprises in the cluster provide employment to a labour force of about 10,000 persons.

Case study: Haryana Cluster Development

Presently, cluster firms are largely targeting the local (district) demand for customised services and products. There is intense competition from medium-sized and large printing and packaging units in such as the NCR. Basically, the large industrial demand form distilleries and white goods as well as engineering units in the region is yet to be tapped by cluster firms. There are constraints in the cluster in terms of use of conventional design equipment and software and Computer to Film (CtF) than Computer to Plate facilities. Further, there are limitations in terms of digital printing and UV coating facilities.

This leads to the inability of enterprises to offer quality printing services, quick design services as well as competitive small volume jobs. Also, there are limitation in terms of value-adding quality packaging facilities in terms of die-cutting being typically undertaken in semi-automatic machines leading to high cost and corrugation, at best, involving only 2 ply and at best 3 ply equipment with high drying (lead) time and inability to cater to many industrial consumer segments. With regard to post-press and finishing operations the cluster has a veritable gap in terms of the range of equipment required for quality finishing.

The CFC under implementation on PPP basis in the cluster is expected to facilitate Quality design development through use of appropriate software and systems as well as CtP equipment; value-added printing facilities in terms of digital printing, UV coating and semi-automatic screen printing; value-added packaging facilities; and value-added finishing facilities.

The Karnal Print N Pack Association was guided to evolve an SPV under the name and style of "Karnal Print & Pack Cluster Pvt. Ltd" comprising a network of about 25 micro enterprises. The SPV members contributed to about 17.30 per cent of the project cost. The total contribution of SPV members was therefore about INR 265.22 Lakh. Support under the MSE-CDP of the GoI was for INR 1117.76 lakh (72.92 %) and from the GoH is INR 150 lakh (9.78 %). The Union Bank of India is offering necessary working capital.

In the next 5 years, cluster output is expected to rise from 452 crore to 1500 crore. Also, in the larger time-frame, there is a need for graduation of firms into producing value-added products like 5-ply boxes and offering value added services in terms of printing with quality finish. Direct employment could increase by 2000 persons in the next 5 years by virtue of the common facility. Slated increase in profit margins on sale through reduction in lead time, quality of printing/ packaging is by 10 per cent.

The common facility is to be open to all cluster firms to utilise facilities and is to cater to premium market segments like branded and MNC footwear etc. The facility will also offer the scope to double capacity utilisation and profitability of micro-sized firms in the cluster.

Case study: Haryana Cluster Development

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Conclusion

While about 25 micro and small-sized enterprise members are directly contributing to each of such PPP projects and are beneficiaries, such common facilities are to be kept open for use by non-members- including those who do not have the resources to contribute to necessary equity capital, also. Therefore, hundreds of micro enterprises dispersed across each cluster are to be benefited.

The case illustrations on on-going interventions on a PPP mode in Haryana seem to demonstrate the intra-cluster value-chain upgrading options in such clusters across the country and is expected to serve as role model interventions for emulation by all development oriented policy-makers, field-level implementers, as well as entrepreneurs. Importantly, the role of the Industries Department of the region in pioneering and catalysing interventions was pivotal; also Mr. Satyaprakash's role was the key in placing the entire community of SMEs ahead of everyone. His hundreds of hours of observation on shopfloor and inspiring interactions with MSMEs have paved the way for brighter future for MSMEs.

5 Ethical trading practices and implications for Indian MSMEs

Ethical trade practices

Ethical trade is practised when enterprises producing for the global market, in partnership with their buyers and suppliers of goods and services, collectively take up the responsibility of providing safe working condition to their employees, respect their human rights and continually improve the environment. Ethical trade thus can be defined as supply chain integrity to conduct business responsibly.

According to the 4th All-India Census of MSMEs there are 26 million enterprises in this country and they contribute 8 per cent to the country's GDP. It is a well-known fact that the MSMEs are highly innovative and have a high growth potential. They can contribute considerably to the country's exports. However, it is also true that the MSME sector has negligible inflow of equity capital and their contribution to the country's exports is miniscule compared to their potential. Amongst many, one of the important reasons for this is ethical trading practises have not been incorporated into their business ethos by MSMEs. In an era when ethical trade has become a pre-requisite to stay globally competitive, MSMEs are lagging behind.

In a milieu where information explodes like a bomb killing the reputation of brands. Brand image built over years can be destroyed overnight. There is a need to build a positive image of MSMEs in order to cater to the global market, protect its reputation and manage the international public opinion. The irony however is that majority of the MSMEs are part of the unorganised sector in India where child labour is rampant, fire safety arrangements are dismal, emergency preparedness is low and the working conditions are poor.

Where workers are exploited, discriminated and harassed as they are not aware of their human rights. They work excessive hours, do not enjoy a weekly day off and are not even paid the minimum wages. The time to address these concerns was yesterday. Therefore, preserving and building the brand image of MSMEs should be one of the top priorities and not delayed any further.

Since independence the Government firmly believes that the MSME sector can be an effective tool to expand employment opportunities; help ensure equitable distribution of the national income; increase export earnings; and facilitate effective mobilisation of private sector resources of capital and skills. To facilitate this the Government has undertaken numerous initiatives since independence. However, with the enactment of the Micro, Small and Medium Enterprises Act in 2006 the intent of the Government is clear. The Act seeks to facilitate the development of MSMEs as also enhance their competitiveness. Thus, the potential of MSMEs for socio-economic empowerment of the country is immense. It can play an important role in realising inclusive growth.

There is a need to enhance the competitiveness of MSMEs through capacity building. If they have to attract alternate funding from the securities market, venture capital and private equity, they need to adopt the global standards.



Ethical trade practices

The export market is highly competitive and there is no room for businesses that do not engage with their stakeholders to address their interests, do not have a positive image and have not adopted sustainable practices to build social, environmental and human capital. Amongst many, the employees, community, customers and consumers are the most important stakeholders that cannot be neglected while doing business.

Although, high priority has been accorded to export promotion for MSMEs and numerous initiatives have been taken by the Government by providing policy, legal, financial, infrastructure, marketing, technical and quality support. However, concerns pertaining to ethical trade have been addressed in a limited way. This is the gap that needs to be plugged by the MSME sector by making ethical trade a way of life/an integral part of doing business to become globally competitive, increase their contribution to exports and realise inclusive growth.

There are six indicative ethical trade imperatives or global standards the MSME sector has to adopt in becoming globally competitive. In ethical trade parlance they are also referred to as Code of Conduct. An apt phrase as it clearly sets out what is desired. These standards are borrowed from the ILO Conventions, Human Rights and International & National Laws. The best interest of the employees is central to these standards. For each standard to be interpreted correctly there should be a supporting guideline. The key words used in the standard should be clearly defined to rule out any possible ambiguity.

The six indicative ethical trade imperatives include aspects like child labour, forced labour, health and safety, working hours, remuneration and environment. These are not all inclusive. There are other aspects like freedom of association and right to collective bargaining, non-discrimination, disciplinary practices and sub-contracting. However, these are concerns that can be addressed subsequently. This does not in any way imply that these concerns are not important. The six indicative ethical trade imperatives are set out in the ensuing paragraphs of this chapter. However, it is important to note that to comply with these standards is not an overnight exercise and the sole responsibility of MSMEs. There are important stakeholders like the government, civil society, media, corporate houses, customers, consumers, etc. who have to collectively participate in the process. However, the MSMEs have to ensure that they engage with these stakeholders and collectively achieve the objective.

The first imperative is **'do not employ child labour'**. It is difficult to estimate the exact number of child labourers in India. However, we cannot deny the fact the globally India is known to be one of the largest employers of child labourers. Child labour is regarded as one of critical concerns in ethical trade and is non-negotiable. Therefore, to make the MSME sector child labour free is a task uphill and would also require a robust child remediation plan to rehabilitate erstwhile child labourers if they have to be removed from employment.

Ethical trade practices

The second imperative is **'do not use forced labour'**. It would be wrong to say that there is no forced labour in our country and it was a problem during the feudal era which has been abolished. The use of forced labour is disguised in our country, specifically in the unorganised sector. Vulnerable sections like child labourers and migrant workers are bonded to their employers due to indebtedness. Workers are made to work excessive hours involuntarily, they are not paid on time, a part of their compensation is withheld, they are prevented from leaving the employment, their toilet breaks are restricted, etc. Thus, there are numerous ways in which the employees are getting exploited which makes the problem complex. Forced labour is another critical concern of ethical trade that has to be addressed. Therefore, the elimination of all forms of forced labour from the MSME sector poses a challenge that has to be dealt with.

The third imperative is **'to provide a safe and healthy working condition'**. Employers have to give top priority to the health and safety of their employees through corrective and preventive actions. Every incident that jeopardises the safety of employees and accident has to be investigated. Life has to be valued. Appropriate personal protective equipment (PPE) needs to be provided to employees in conjunction with training on their usage. Hazards in the work place have to be identified and eliminated. Safe drinking water and clean toilets have to be provided to the employees.

Housekeeping, lighting and ventilation have to be proper. It is difficult to find such arrangements in the unorganised MSME sector where employees are not provided with the basic amenities, infrastructure is poor, there are no fire fighting arrangements, PPE are not provided, accidents are common, etc. Thus, the gap between where the MSMEs are and where they ought to be in providing a safe and healthy working condition to their employees is immense. Health and safety too is an important imperative for ethical trade which cannot be compromised.

The fourth imperative is **'working hours'**. The work life balance is an important pre-requisite to stay healthy and remain productive. The standard working hours should not exceed 8 hours in a day and 48 hours in a week. At least one day off should be provided in a week.

The legally allowed overtime in our country is 12 hours per week and 50 hours per quarter. However, in India many enterprises work a 12 hour shift and overtime hours often exceed the prescribed legal limits. This is on account of poor production planning, short lead time and the willingness of the employees to work overtime to maximise their earnings. It is a tricky situation for any employer to strike the right balance. The problem becomes more complex when children are made to work long hours as it amounts to exploitation. Both child labour and excessive working hours are not acceptable by organisations involved in ethical trade.

Ethical trade practices

Further, it results in violation of human rights. MSMEs to remain competitive have to take up the challenge of managing the hours of work of their employees to comply with national and international requirements.

The fifth imperative is **'remuneration'**. It covers both wages and benefits that should be provided to employees for them to lead a dignified life. Minimum wages in India are calculated based on the consumer price index and revised state-wise every six months. Employees' Provident Fund (EPF) and Employees' State Insurance (ESI) Acts have been enacted to provide social security to the workers. Overtime is to be compensated at a premium in our country, at twice the normal rate of wages. But the pertinent question in the unorganised sector in India is do the employees get paid the minimum wages? Are they covered under the EPF and ESI schemes? Is overtime compensated at the premium rate? The only answer to these questions is no. Further, the problem gets compounded when equal wages are not paid to men and women for equal work. Yet another challenge for the MSME sector in its endeavour to become globally competitive.

The last imperative to be discussed in this chapter is **'environment'**. There is a need to control the damage we have done to the environment through responsible behaviour and taking initiatives that replenish the environment. All that is required is to respect the law of the land and international norms and adopt measures to reduce, reuse and recycle. Emissions and effluents should be within permissible limits, chemicals and wastes that are harmful to the environment should be handled, stored and disposed of appropriately. Initiatives should be taken to continually improve the environment by adopting green initiatives. Addressing environmental concerns is integral to ethical trade. The MSME sector has to refrain from violating environmental norms and respect the environment to build a positive image for itself.

The six imperatives that have been discussed above are actually challenges the MSME sector has to face in its path to become globally competitive. If we take a closer look they are nothing but legal requirements that have been overlooked or not given a top priority. However, they can have tremendous business implications for the MSMEs like increasing sales and market share; strengthening brand positioning; enhancing image and clout; increasing ability to attract, motivate, and retain employees; decreasing operating costs and increasing appeal to investors and financial analysts.

For MSMEs to adopt and practice ethical trade there has to be change in the thought process of entrepreneurs. What is important is ethical trade should become a way of life for them. It will revolutionise the MSME sector and the implication for India would be priceless. It will usher in an era of inclusive growth.



6 New-age marketing channels and finance

New-age marketing channels

In order to succeed in an ever-dynamic economic and business environment, MSMEs have to think beyond traditional marketing practices and adopt new age tools to promote their products and services. Today an online marketing strategy is critical to the success of sales and marketing efforts of any organisation.

Website, search engine optimisation (SEO), social media, blogging and e-commerce tools, for instance, have emerged as channels that businesses cannot ignore. They have become a necessity than a choice. A number of MSMEs fail to perform often because they are not able to develop their unique value proposition, and an even greater number of MSMEs do not succeed because they are not able to effectively communicate their unique value proposition in the market. Traditional marketing tools which include promotion through print and electronic modes remain out of reach for most MSMEs.

In such a scenario, digital marketing provides a platform which is effective both in terms of cost and reach. As a matter of fact, even large multinationals are relying on digital marketing to maintain and enhance their presence in the market.

There is no second opinion that MSMEs have to market their products in an effective manner. At the same time, differentiation is the need of the hour. Following marketing practices of other organisations may not help. An MSME has to define its target market clearly and develop a marketing plan accordingly. On the positive side, the advent of digital media provides a level-playing field to MSMEs. Social media, in particular, is a highly cost-effective means to reach masses as well as specific groups of people.

How new-age marketing tools can help MSMEs?

- Advertising / Brand promotion
- Building brand identity
- Increasing website traffic
- Generating leads
- Helping in recruitment and retention
- Getting instant feedback



New-age marketing channels

To be or not to be

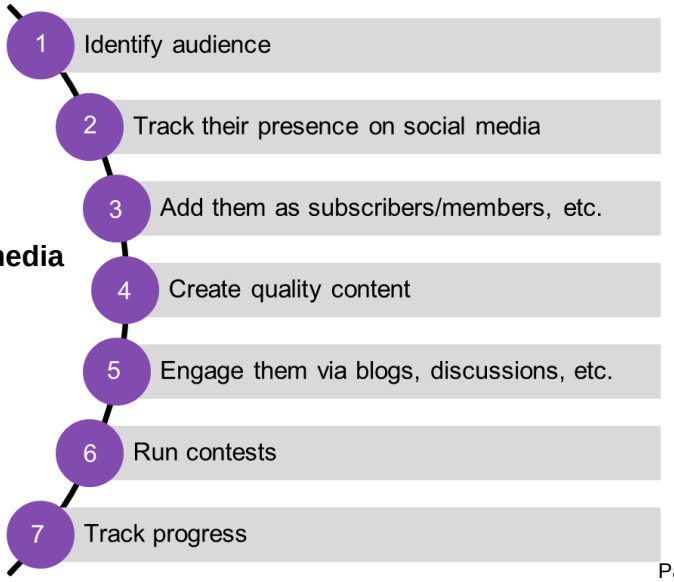
A large number of MSMEs realise the increasing popularity of digital media tools and keen to leverage them in all possible manners. At the same time, they are found in a state of dilemma with respect to these new age tools. This is largely due to lack of sufficient knowledge, techniques and skills to use them. Quite understandably, since a number of MSME owners come from non-technology background, they are not very comfortable with techniques and channels such as those concerned with SEO and social media.

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.

In fact, some MSME owners believe that digital media has nothing to do with their businesses, however, wish to generate more leads from their websites. Most of them rely on traditional media like yellow pages, fliers and pamphlets to reach their customer base. Industry trends, on the other hand, indicate that a huge opportunity exists for MSMEs to reach their desired financial goals by optimising their digital marketing capabilities.

A few years ago, having a website was more about registering a presence on the Internet and providing an initial reference point to customers, suppliers and markets at large. Today, website and other Internet-based channels are rather used as a strategic tool to attract potential customers and reach markets on a wider scale, and more and more MSMEs are realising this trend.

7-point action plan to utilise social media



Finance: the Alternative Investment Market – Access to International Capital for Indian Companies

Since its inception in 1995, the AIM (Alternative Investment Market) Market has grown to be the market of choice meeting the fund raising needs of small growing companies. It is part of the London Stock Exchange and is targeted at growth oriented companies to tap into the lucrative financial markets in UK. Historically over 3,000 companies from across the globe have chosen to join AIM since its inception.

The main reason which has attracted companies to AIM has been its unique ability to provide a balanced regulatory framework suited to the needs of growing companies with the benefits of a publicly quoted security. It has developed and adapted according to market conditions, issuer needs and investor demands. Some benefits of AIM include:

- No requirement of minimum - trading history, market capitalisation and public shareholding
- Access to a sophisticated set of institutional investors and no restrictions on follow-on issues making secondary fundraising very quick.
- Supports companies beyond financing, by providing an attractive platform for them to increase their profile and visibility with key stakeholders
- An attractive exit route for earlier stage investors and enables them to "recycle" capital
- Once the company has reached a certain stage and size they can more easily to the main board of the London Stock Exchange

The London Stock Exchange's markets are already home to over 70 Indian focused companies who have collectively raised over INR 313.2 billion in London over the last 5 years.

In particular, AIM has proven itself as a robust platform for development for Indian growth companies. The number of Indian (or with exposure to India) companies listed on AIM has gone up from three in December, 2005 to 26 today. Several companies in the energy and infrastructure sectors have raised capital successfully on AIM and outperformed the market on a sustained basis. Companies such as KSK Power Ventur Plc and Great Eastern Energy Corporation Ltd have progressed from the AIM market to Standard Listing on the LSE.

In the last 18 months the AIM market attracted over INR 504 billion worth of investments in new and further issues of which INR 436.8 billion were secondary issues indicating the keenness of the investor community in supporting existing businesses with a proven track record as opposed to startups ventures. AIM's post-crisis recovery has been steadier and stronger than most other major growth markets, despite being hit the hardest by the crisis.

Grant Thornton's India Watch index which tracks the performance of Indian companies listed on the London Stock Exchange reveals Indian companies listed on the LSE are collectively outperforming the FTSE 100 and AIM all-share Index. Even through the IPO activity in India is picking up, going forward, in the absence of a well-developed market in India focused on growth companies, AIM will continue to be a preferred destination, bridging this gap and creating a public platform for companies to tap a global institutional base to meet growth capital needs.

Select history of Indian companies on AIM

KSK Power Ventur Plc was one of the early starters, having commenced its first power plant of 20 MW in 2001. The Company successfully raised an additional £31 million in the AIM secondary market in April 2009. It transferred its AIM listing to the Main Market in March, 2010. At the time of transfer its market capitalisation had increased 5.8 times since listing to approximately £869 million. Today the company has a market capitalisation of £753 million.

iEnergizer Inc, a third party integrated business solutions provider to companies globally, listed on AIM in September 2010 with a market capitalisation of £174 million. It was one of the five largest IPOs in 2010. It recently completed the USD 150 million acquisition of Aptara Inc, an end-to-end outsourced multi-channel content production and digital media solutions provider based in the US.During 2 years of listing the company's market capitalisation has increased by over 200% to £528 million.

Greenko Group Plc, a renewable energy company from Hyderabad, listed on AIM in November 2007 when its capacity was only 42 MW with another 49 MW in pipeline and a market capitalisation of £66 million. As of today, the company has a strong development pipeline and projects to generate 1,000 MW in the next three years. Greenko which had raised £ 29 million at admission, raised a further £ 72 million in November 2009 and £ 50 million in June 2011.The Company further investment commitments from General Electric and Standard Chartered for c.£ 78 million. Today the company has a market capitalisation of £161 million.

Looking more attractive to lenders

Due to a tough economic environment many MSMEs in the industry are experiencing difficulties in accessing finance, more and more are choosing to explore alternate sources of funding, with a number of them confirming that they have considered alternatives to traditional bank debt.

Our conversations highlighted a number of key strategies for MSMEs seeking finance. In order to put your business or project in the best position for financing, consider the 'Four Cs'.

Character

- The strength of your relationship with current or prospective lender
- Ensure historical compliance obligations are all up-to-date
- Focus on the industry reputation and experience of your team. Even if you are new to the industry, look at the people you have involved or advising on the project and use their expertise to sell the opportunity
- Know what your credit history looks like
- If you are partnering with another party, consider what reputation and financial solidity they bring to the arrangement
- Consider your ability to offer good quality internal reporting on a timely and regular basis

Capacity

- Demonstrate you can manage the payback period even if set-backs occur - has adequate financial modelling with sensitivity analysis been completed?
- Allow for contingencies in the loan servicing plan
- Consider whether the project deliverables match lenders' timeframes
- Ask what other projects or income producing activities are available to service the loan through tighter periods

Capital

- Be prepared to have some 'skin in the game' and have those arrangements in place first
- Don't be caught by surprise when the bank valuation comes in – have an independent idea of what the asset you are developing is worth so you are prepared when negotiating Loan to Valuation Ratio (LVR)
- Get in early enough to allow adequate time for the bank to do their assessment

Collateral

- Be prepared to think about what the bank might be left with by way of assets if things don't work out. For example, will there be an income producing asset or vacant land to resell? While it may seem negative to ask these hard questions at the start, you can be sure the bank will be asking the same questions
- Consider your capacity to offer additional security and ask, what is the saleability of this asset?







7 Industry opinion: Survey results

Industry opinion: survey results

Grant Thornton and FICCI undertook a survey of Indian MSMEs to gauge the Indian business environment vis-à-vis its ability, need and intention to become a part of the Global Value Chain, while also trying to understand the current levels of engagement that Indian MSMEs have with the Global industry. The survey also intended to bring out the steps that Indian MSMEs were taking to remain competitive in the global scenario, by trying to understand their appetite for expansion and product innovation; along with their perspective on technological advancements occurring globally. The Indian MSME respondents also provided with an overview of the challenges they were facing with respect to these factors and also with respect to their integration into the Global Value Chain.

The results came out to be quite comprehensive, given the wide array of respondents and were able to provide a holistic analysis of the overall India MSME scenario and its perception towards integration with the Global Value Chain.

Sector profile of survey participants

23% Industrial

22% Services

20% Automobile

29% Others

6% Food & Beverage

Annual turnover

13% >500 crore

1% Rs 200-500 crore

13% Rs 50-200 crore

15% Rs 10-50 crore

58% <10 crore

Industry opinion: survey results

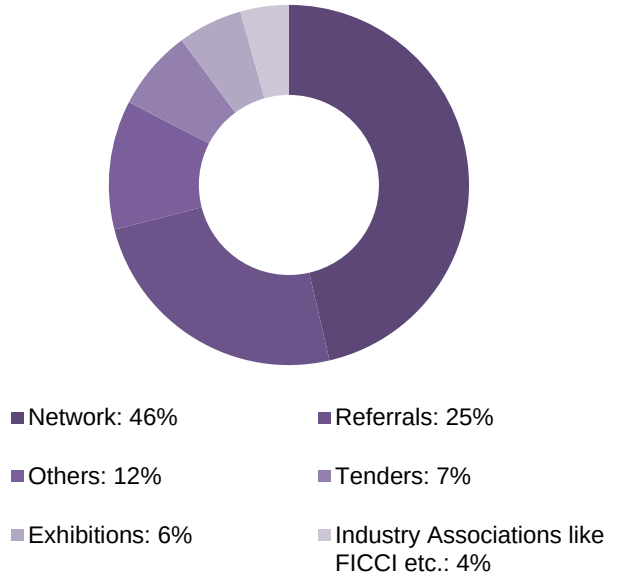
- Almost 70% of the respondents mentioned that they had an organised distribution network, whereas 29% of the respondents did not have an organised distribution network. This augurs well for the integration of Indian MSMEs and the Indian industry at large when they look at integrating into the Global Value Chain, as having an organised distribution network would provide them the ability to efficiently meet the demands of integration into the Global Value Chain.

- With regards to Customer development aspects, a major proportion of respondents still depended on Referrals and their Networks for gaining new customers. Other avenues like Tenders, Exhibitions and Industry Associations playing a minor role in this aspect. Amongst other responses organisations mentioned that they used their own Sales and Marketing teams, with online advertisements for customer development as well.

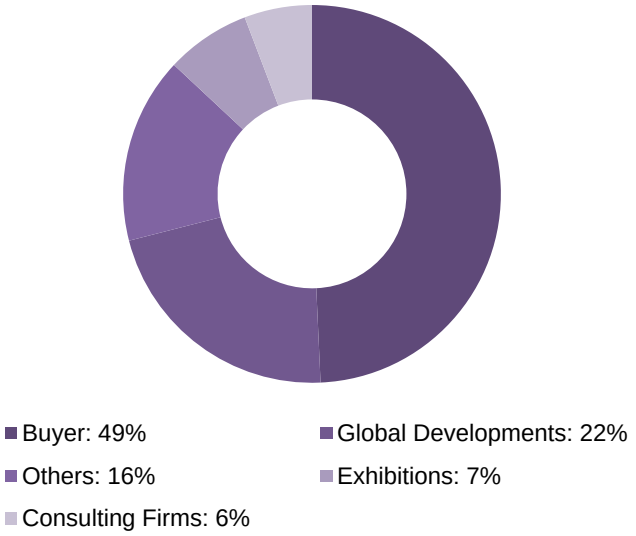
- For Product Development, a majority of the participating organisations mentioned that they still depend on inputs from Buyers for their product development initiatives, with another portion of organisations using Global Developments and Consulting Firms to guide their Product Development activities. There were also organisations that had their own Research and Development departments for Product Development whereas some of them used all the mentioned options for their Product Development exercise.

- Almost 90% of the respondents are looking to expand their business in the future and 97% of Indian organisations that are looking at expansion opportunities are targeting their expansions within the next 3 years.

What is the main source of customer development?



What is the main source of product development?

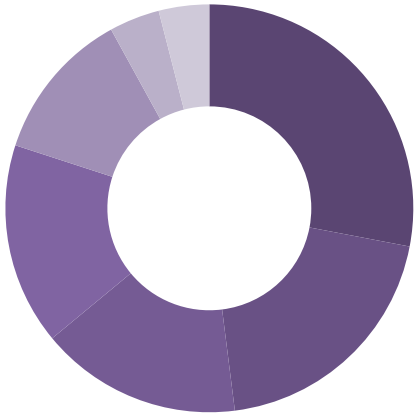


Industry opinion: survey results

- About 50% of the organisations had approached Multinational Corporations for business opportunities with the others not having approached any MNC due to some constraints faced by them.
- Out of the respondents, that had been able to secure business with Multinational Corporations, more than 50% of them had received an Excellent or a Good receptiveness from those brands towards the products and services offered.
- Only 39% of the respondents said they are exporting to other countries or had operations in other countries besides India. There were also respondents who were only outsourcing some of their work to other countries, whereas a majority of them did not have any international presence.

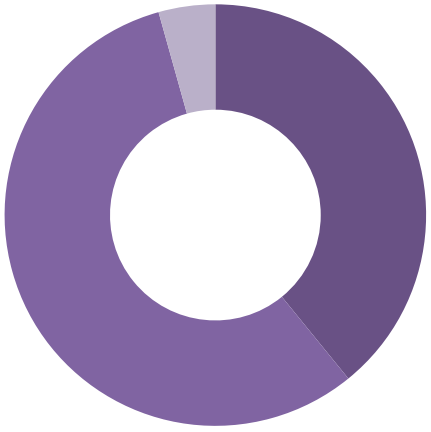


What are the major constraints facing your business?



- Lack of contact within the organisation: 28%
- Lack of response:20%
- Others: 16%
- Scale not viable (low/high):16%
- Compliance requirement: 12%
- Pricing: 4%
- Quality: 4%

Exports or international presence



No: 39% Yes: 57% Others: 4%

Industry opinion: survey results

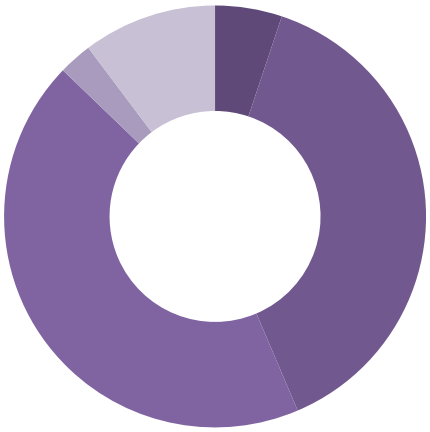
- Another positive factor pointing towards the potential of Indian industries to integrate into the Global Value Chain is the fact that out of the respondents that were able to secure business with Multinational corporations more than 80% identified Quality and Competitive Pricing as the reasons for Multinational Corporations to collaborate with them, while regulatory requirements being the reason for only 3% of the respondents.

- More than 60% of the respondents to whom the Ethical Trading practices were applicable responded that they were certified with their global partners for Ethical Trading

- Almost 60% of the respondents believe that none of the other countries they are operating from are enabling competitiveness in their business area, better than India. Out of the respondents who believed other countries were able to contribute to this factor better than India, primarily highlighted developed economies like USA, Canada and Australia as the countries which are enabling competitiveness in their business area better than India.

- Only 31% of the respondents however believed that the Government was playing a key role in enhancing competitiveness in their business areas, highlighting the need for the Government to introduce policies and procedures to address this gap to foster further growth

What has been the key driver for Global Brands to procure from you?



Industry opinion: survey results

- On the question of issues being faced by MSMEs in India, the respondents provided a ranking of the issues they faced. The result was quiet widespread with some issues consistently emerging as the higher ranked issues. A synopsis of the rankings provided has been given in the table below:

Issue faced	No. of times Ranked 1 or 2	No. of Times Ranked 3 or 4	No. of times Ranked 5 or 6	No. of times Ranked 7 or 8	No. of times Ranked 9 or 10
Regulatory Compliances	50	18	28	18	18
Finance Availability	52	28	26	14	16
Profitability	16	28	32	26	30
Labour Issues	30	26	30	18	28
Intense Competition	32	34	20	24	20
Supply Chain	8	30	18	56	18
Transportation and Logistics Infrastructure	8	18	30	36	36
Scale of Operations	34	34	28	16	18
Marketing and Distribution	28	32	32	30	10
Cheaper Imports	12	22	24	20	58

It can be seen from the figures in the table above.

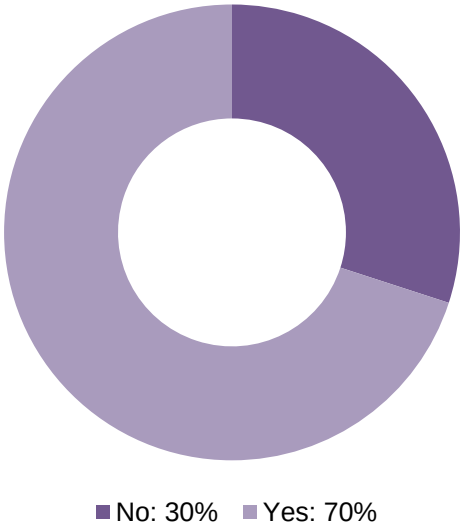
- Regulatory Compliances and Finance Availability is consistently highly ranked issue identified by MSMEs. Along with Scale of Operations also being seen as a highly ranked issue
- Intense competition and Scale of Operations are most consistently ranked as the 3rd or the 4th most prominent issue faced by Indian MSMEs
- Profitability and Marketing & Distribution as consistently ranked 5th or 6th on the most prominent issues faced
- Supply Chain and Transportation & Logistics Infrastructure are most consistently ranked as 7th or 8th. Showing that these are not seen as a major hindrance by Indian MSMEs.
- Cheaper Imports were considered to be the least important issue by the Indian MSMEs, thereby showing a lack of concern for cheaper imports with regards to their market share.

Industry opinion: survey results

- A large number of respondents mentioned using the Social Media and Online Media to reach Customers, with most of them using almost all the channels available for marketing, like Facebook, Twitter and other online marketing tools.



Are you using Social and Online Media to reach your customers?



Overall conclusion of survey results

- The survey results highlight the exceptional potential that Indian Industries have to integrate into the GVC. Indian industry at large has been able to invest in the right channels like distribution networks, product development through Research and Development and new technologies to be able to exploit opportunities offered by the Global Value Chain. With an increasing intent of Indian industries to look at expansion opportunities in the near future and availability of skill and capital with them, it presents to them an ideal time for greater participation into the Global Value Chain and contribute to the value addition activities being carried out in the value chains.
- The results also highlight that industries are hindered by a variety of factors, with the primary factor being difficulty in establishing contacts with the Global players. This is where it is believed that the Government of India and Industry Organisations can play a key role.
- Another pivotal factor that augurs well for the Indian industry and which would also encourage global players to partner with Indian organisations is that the Products and Services offered by Indian organisations to their Global Partners have been rated very highly by the Global players. The Indian organizations however felt that the compliance procedures of global organisations were too stringent and economically non-viable for them. Indian organisations also fare very well on the Ethical Trading practices parameter which is increasingly gaining importance in the international trade arena.
- As per the survey results however, there needs to be a greater role played by the Government of India, as Regulatory Compliances and Availability of Finance have been identified as the primary constraint being faced by Indian industry.

The way forward

It is globally recognised that the MSME sector must be the growth engine of any economy, given its scale of operations. Even in India, this sector has consistently contributed to the growth of the economy.

MSMEs also play a pivotal role in the Global Value Chain of large Multinational Corporations providing them with increased scale of economies, flexibility and agility in product development. MSMEs must therefore be completely integrated into the Global Value Chain to enable all-round growth.

Simultaneously, to enable a high growth environment and integrate Indian MSMEs with the Global Value Chain, a few measures have been suggested which will have a high impact in the immediate to short term.

- Develop effective clusters in key sectors of growth through effective capacity building and training at the State and District Levels. One of the key hindrances cited is a lack of knowledge of the support offered by the Governments and how MSMEs can effectively utilize those schemes

- Focus of Clusters should be on developing capabilities to deliver value added products and services, so that effective integration of MSMEs can happen across the value chain. Take China's cluster development program as an indicative model, in terms of the strategic capabilities it can offer and develop an indigenous model for the Indian environment.

- Conduct training and coaching programs for training MSMEs on global standards & educate them on how to effectively target Global Value Chains.

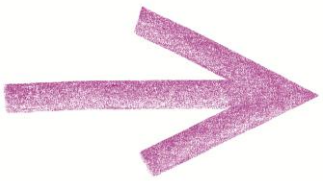
- Encourage Multinational Corporations and large Corporates to develop key vendor capabilities so that the product and service offering of the vendors can be enhanced, and thereby enable them to move up the value chain.

- Greater impetus needs to be put on Research & Development and Innovation. Thus creating intellectual assets which can be leveraged for faster growth and also enable MSMEs to offer greater value addition to the Global Value Chain.

- Utilisation of new age marketing techniques can ensure deep reach without a lot of capital spending. Collaborative marketing offers opportunities to develop customers quickly and effectively by servicing multiple client requirements.

- Raising finances on alternative means including private equity can provide the trigger for MSMEs for faster, inclusive growth.

- The government should facilitate ease of doing business for MSMEs, since compliances and regulatory hindrances are one for the key challenges being faced by them currently.



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List of abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CCEA	Cabinet Committee on Economic Affair
CFC	Common Facility Centres
CGTMSE	Credit Guarantee Trust Fund for Micro and Small Enterprises
CLCSS	Credit Linked Capital Subsidy Scheme
DIC	District Industries Centre
EDP	Entrepreneurship Development Programme
ESDP	Entrepreneurship-cum-Skill Development Programme
FTS	Field Testing Station
GM	General Manager
GOI	Government Of India
GMS	Greater Mekong Sub-region
ICT	Information and Communication Technology
IPFC	Intellectual Property Facilitation Centre
IPR	Intellectual Property Rights
KRDP	Khadi Reforms and Development Programme
KVI	Khadi and Village Industries
KVIC	Khadi and Village Industries Commission
MGIRI	Mahatma Gandhi Institute for Rural Industrialisation
M/O MSME	Ministry of Micro, Small and Medium Enterprises
MSE	Micro and Small Enterprises
MSE-CDP	Micro and Small Enterprises – Cluster Development Programme
MSME	Micro, Small and Medium Enterprises
MSME-DI	Micro, Small and Medium Enterprises-Development Institute
NMCP	National Manufacturing Competitiveness Programme
NSIC	National Small Industries Corporation
PMEGP	Prime Minister's Employment Generation Programme
QMS	Quality Management System
QTT	Quality Technology Tools
R&D	Research & Development
REGP	Rural Employment Generation Programme
REMOT	Rejuvenation, Modernisation and Technology Upgradation of the Coir Industry
RGUMY	Rajiv Gandhi Udyami Mitra Yojana
SDP	Skill Development Programme
SME	Small and Medium Industries
SSI	Small Scale Industries
SSE	Small Scale Enterprises
SFURTI	Scheme of Fund for Regeneration of Traditional Industries

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