



**SIDBI**

भारतीय लघु उद्योग विकास बैंक  
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

We empower Micro, Small & Medium Enterprises

Knowledge Series, 2011

# SIDBI Report

on

# Micro, Small and Medium Enterprises Sector

# 2011



**SIDBI REPORT**  
**ON**  
**MICRO, SMALL AND MEDIUM ENTERPRISES**  
**SECTOR**  
**2011**



भारतीय लघु उद्योग विकास बैंक  
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Published by  
Small Industries Development Bank of India  
'SIDBI' Tower, 15, Ashok Marg, Lucknow - 226001, India.  
Website : <http://www.sidbi.in>

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**SIDBI Report on MSME Sector**

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"This publication is supported under the Technical Assistance of  DFID Department for International Development, United Kingdom, under the MSME Financing & Development Project which is being implemented by  SIDBI SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA The views expressed are not necessarily those of DFID."

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## FOREWORD

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MSME sector, comprising more than 3 crore units, contributes over 40% of the total exports and forms the second largest source of employment after agriculture, employing more than 7 crore. Over the years, MSME sector has emerged as an important vehicle for attaining inclusive growth in the country. Information asymmetry has been a major challenge for MSMEs, particularly those at the lower level of the value chain. It is important to attend to the expectations of MSME stakeholders towards access to right information, both in content and value.



Small Industries Development Bank of India (SIDBI), being the Principal Financial Institution for the MSME sector, has been taking various initiatives to enhance the sector's competitiveness, along with concerted efforts to improve its informational efficiency. Sponsoring workshops/seminars/conferences, supporting skill/technology/management programmes, developing toolkits/thematic publications/knowledge series and coming out with a policy series (such as Factoring, Global Best Practices, Risk Capital, Corporatization etc.) are all targeted at instilling sustainability within the sector and building its resilience

We are pleased to share with you SIDBI's Report on the MSME Sector 2011. The Report contains information not only on the status, structure, policy initiatives, institutional support, prospects and outlook of the sector, but also on the achievements under its multi agency / multi activity / multi partnership MSME Financing and Development Project (MSMEFDP). MSMEFDP is being implemented by SIDBI for the past few years wherein the Department of Financial Services, Ministry of Finance, Government of India is the nodal agency and World Bank, Department for International Development (DFID), UK, KfW & GIZ Germany are the international partners. The Project has endeavored to make MSME lending an attractive and viable financing option as also in facilitating increased turnover and employment in the sector. The project has attended to both demand and supply side issues of the sector through a multi-pronged approach addressing financial and non financial aspects. Its initiative in clusters towards 'Making Markets work for MSMEs' has been a pathbreaking intervention ready for replication and scaling up.

This report has been brought out under the MSMEFDP and we take this opportunity to express our sincere thanks to the international partners, particularly DFID, UK for their support in its publication. We take this opportunity to thank the Catalyst Team engaged by us to prepare the report, more particularly for bringing

in an independent perspective and transparent but neutral lens to mirror the key project achievements and dovetail them to the domain's requirements.

I would like to place on record my appreciation of the efforts of the SIDBI Team, led by Shri R.K. Das for making this Report interesting by bringing in replicable case studies and role models. I would also like to express my appreciation for the co-operation extended to SIDBI by the Ministry of Finance, Government of India, our domestic and international partners, participating banks/state level institutions/industry associations, Facilitator Agencies, BDS providers, Foundation for MSME Clusters and other stakeholders, who have been directly or indirectly involved in strengthening our endeavor of empowering MSMEs.

We sincerely hope that the Report achieves its objective and shall serve as a referral point for policy makers and researchers and a trusted knowledge access tool on MSME domain for all stakeholders.



**S. Muhnot**

Chairman and Managing Director

## PREFACE

The importance of MSMEs in economic growth, job creation, regional and local development, and social cohesion is globally accepted. The Millennium Development goals and National priorities are aptly attended by and through this sector. A dynamic MSME sector is important for combating poverty in restructuring economies and ensuring inclusive growth. Globalization, the acceleration of technological change and innovation create opportunities for MSMEs but they also involve transition costs, increase in competition and manifold new challenges. MSMEs need to show high adaptability and embrace these changes rapidly so as to retain their competitiveness. Accordingly, policies need to be tailored to the expectations of MSMEs after assessment of the needs on a sectoral / cluster basis.



Sustainable development is the buzzword. As the World is looking at us, we have realized that we need to offer the MSME domain a concise, relevant and transparent information system encompassing the developments, supportive ecosystem and best practices so that they attract enough investments while becoming globally competitive.

Guided by the belief that better information leads to enhanced efficiency and better decision making, SIDBI has continued with its series - 'Report on MSME Sector - 2011' with a special focus theme on sharing the learnings under the World Bank-led multiagency MSME Financing Development Project (MSMEFDP), steered through SIDBI. We have brought in a few case studies; select best practices and validated tools as an offering and are confident that researchers, analysts, policy makers and other readers interested in enterprise development will find these interesting. Our endeavor is that this report bridges the prevailing information asymmetry challenges and acts as an encyclopedia and single stop shoppe providing information on the MSME framework, emergent themes, solutions and addressal mechanism.

I am thankful to DFID-UK-our international partner for their support in bringing out this Report which will help the sector, policy makers as also all other stakeholders.

A handwritten signature in black ink, appearing to read 'N. K. Maini', written over a diagonal line.

**N. K. Maini**  
Deputy Managing Director





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## ABBREVIATIONS USED

ACDS	Apex Cluster Development Society
APSFC	Andhra Pradesh State Financial Corporation
BDS	Business Development Services
BDSPs	Business Development Service Providers
BMOs	Business Membership Organizations
CART	Credit Assessment and Rating Tool
CB	Capacity Building
CETP	Common Effluent Treatment Plant
CFC	Common Facility Centre
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIBIL	Credit Information Bureau (India) Ltd.
CMS	Catalyst Management Services Pvt. Ltd.
DC-MSME	Development Commissioner - Micro, Small and Medium Enterprises
DFID	Department for International Development, UK
EDII	Entrepreneurship Development Institute of India, Ahmedabad
EE	Energy Efficiency
EFL	Electronica Finance Limited
GBP	Great Britain Pound
GIZ	Deutsche Gesellschaft für International Zusammenarbeit (GIZ)
GMP	Good Manufacturing Practices
IA	Implementing Agency
ICT	Information and Communication Technology
IL&FS CDI	Infrastructure Leasing and Financial Services Ltd. - Cluster Development Initiative
IPR	Intellectual Property Rights
KfW	Kreditanstalt für Wiederaufbau
LoC	Line of Credit
MoF	Ministry of Finance
MSMEs	Micro, Small & Medium Enterprises
MPC	Mohali, Panchkula and Chandigarh
MSE	Micro and Small Enterprises

M/o MSME	Ministry of MSME
MSME-FDP	MSME Financing and Development Project
NBFCs	Non-banking Financial Companies
NFA	Natural Facilitator Agency
NMCP	National Manufacturing Competitiveness Programme
NSIC	National Small Industries Corporation Ltd.
NOC	No Objection Certificate
PAG	Policy Advisory Group
PBs	Participating Banks
PMD	Project Management Division
PMEGP	Prime Ministry Employment Generation Programme
PPP	Public Private Partnership
PRC	Project Review Committee
RBI	Reserve Bank of India
RSF	Risk Sharing Facility
SFCs	State Finance Corporations
SDP	Skill Development Programme
SIDBI	Small Industries Development Bank of India
SPV	Special Purpose Vehicle
SSI	Small Scale Industries
TA	Technical Assistance
TERI	The Energy and Resources Institute
TIIC	Tamilnadu Industrial Investment Corporation Limited

# MSMEs IN INDIA

## 1.1 Introduction to MSMEs in India

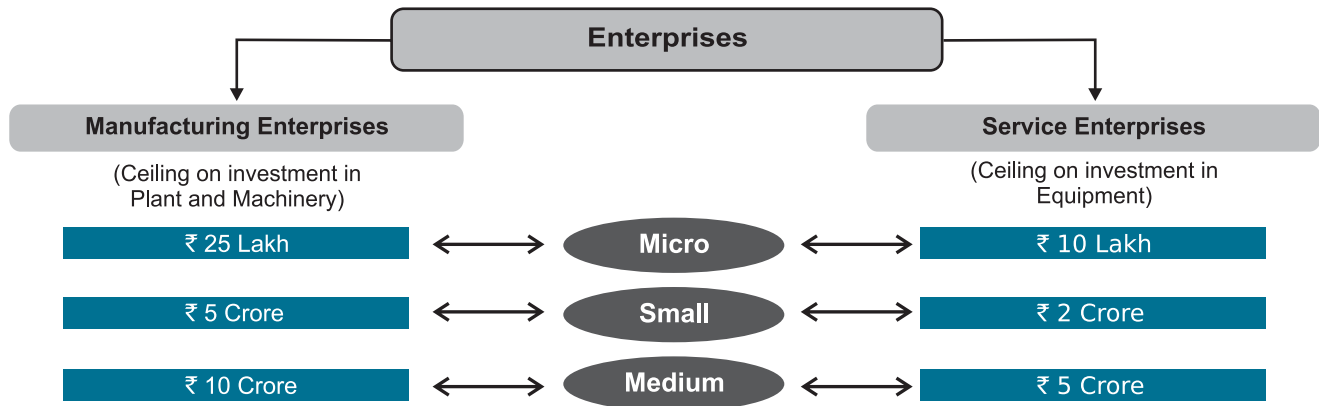
The Micro, Small and Medium Enterprises (MSME) sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. MSMEs are the driving force behind a large number of innovations and contribute to the National growth through employment generation, investments and exports. Considering the sector's significance, the 12th Plan (2012-17) Draft Approach paper has rightly 'adopted the more sustainable approach of nurturing competitive MSMEs'.

The Micro, Small and Medium Enterprises Development Act, 2006 is the legal framework for development and enhancing competitiveness of the MSME sector in the country. A major component of the Act talks about the marketing assistance and export promotion support by the government. The Act came into effect from 2nd October, 2006. The Act has introduced the concept of "Enterprise" as opposed to earlier concept of industry. Subsequently, both the Central and State Governments have taken effective measures towards implementation 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, the details of which are given later in the Report under the Section "Institutional Framework for MSMEs".

In India, the enterprises have been classified broadly into two classes, in accordance with the provisions of MSME Development (MSMED) Act, 2006:

- ▶ **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 Enterprise are defined in terms of investment in Plant & Machinery.
- ▶ **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Both classes of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipment (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is given in the chart below.



Indian MSMEs are making good progress due to their entrepreneurship skills in Industry, Service, Retail, IT, Agro and Food Processing, Pharmaceuticals, Precision Engineering and Manufacturing Sectors. As a result, MSMEs are getting more and more opportunities to enhance their activities and expand & diversify their business in core sectors. MSMEs are an integral part of the supply chain of large-scale industries and provide vital forward and backward linkage to the overall industrial sector. As large firms outsource more of their value added functions, MSMEs get the opportunity to climb up the value chain. MSMEs act as ancillary to many Original Equipment Manufacturers (OEM). Globally, there is competition in terms of product, service and quality in these equipments; hence, OEMs demand highest quality products from MSMEs at the competitive price with timely supply system. OEMs prefer MSMEs for outsourcing, since MSMEs have innovative capabilities in niche manufacturing, greater flexibility, lower overhead costs and their ability to learn and absorb new technologies. Most of the MSMEs are working closely to the expectation of these OEMs.

## 1.2 Statistical Overview of MSMEs in India

It is well known that the MSME sector provides maximum opportunities for both self-employment and wage-employment, outside agriculture sector. MSME sector contributes not only to higher rate of economic growth, but also in building an inclusive and sustainable society in many ways through creation of non-farm livelihood at lower cost, balanced regional development, gender & social balance, environmentally sustainable development and above all recession proofing of economic growth, which the sector has proven time and again.

As per the quick estimates of 4th All-India Census of MSMEs in 2006-07, the number of enterprises in the country is estimated to be about 2.6 crore and these provide employment to an estimated 6 crore persons. Of the 2.6 crore MSMEs, only 0.15 crore (6%) are in the registered segment while the remaining 2.45 crore (94%) are unregistered. The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States only, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Andhra

Pradesh and Karnataka. Only about 7% of MSMEs are owned by women; and more than 94% of the MSMEs are proprietorships or partnerships. MSMEs in the country manufacture over 6,000 products, comprising of Food Products (22%), Chemical & Chemical Products (12%), Basic Metal Industries (10%), Metal Products (8%), Electrical & Machinery Parts (6%) and others (36%). An overview of the MSME sector is placed below in the Table 1.1.

**Table 1.1: Overview of the MSME sector in India**

S. No.	2006-07			
	Census Parameters	Registered	Unregistered	Total
1.	<b>No. of Enterprises (lakh)</b>	<b>16 [6%]</b>	<b>246 [94%]</b>	<b>261 [100%]</b>
	a) Break-up in terms of Manufacturing and Services			
	■ Manufacturing	10 (67%)	64 (26%)	74 (29%)
	■ Service	5 (33%)	181 (74%)	186 (71%)
	b) Break up by type of social category			
	■ Socially Backward Classes (SC/ ST/OBCs)	8 (50%)	126 (51%)	134 (51%)
	■ Others	8 (50%)	120 (49%)	128 (49%)
2.	<b>Employment (lakh)</b>	<b>92 [17%]</b>	<b>503 [83%]</b>	<b>595 [100%]</b>
	(a) Break-up in terms of Manufacturing and Services			
	■ Manufacturing	80 (87%)	224 (45%)	304 (51%)
	■ Service	12 (13%)	278 (55%)	290 (49%)
	(b) Break up in terms of Male & Female			
	■ Male	73 (80%)	413 (82%)	486 (82%)
	■ Female	19 (20%)	90 (18%)	109 (18%)
3.	<b>No. of Women Enterprises (lakh)</b>	<b>2 [14%]</b>	<b>17 [7%]</b>	<b>19 [7%]</b>
4.	<b>No. of Rural Enterprises</b>	<b>7 [45%]</b>	<b>128 [52%]</b>	<b>135 [52%]</b>
5.	<b>Share in Exports (%)</b>	<b>40%</b>		
6.	<b>Source of Finance</b>	<b>16 [6%]</b>	<b>246 [94%]</b>	<b>261 [100%]</b>
	■ No Finance/Self Finance	14 (88%)	229 (93%)	242 (93%)
	■ Institutional Sources	2 (11%)	12 (5%)	14 (5%)
	■ Non-Institutional Sources	0.16 (1%)	5 (2%)	5 (2%)
7.	<b>Fixed Investment (₹ crore)</b>	<b>5,00,758</b>	-	-
8.	<b>Gross Output (₹ crore)</b>	<b>7,09,468</b>	-	-
9.	<b>Employment Per ₹ 1 lakh Investment in Fixed Investment</b>	0.19	-	-
10.	<b>Per unit Fixed Investment (lakh)</b>	32.26	-	-
11.	<b>Per unit Gross Output (lakh)</b>	45.70	-	-
12.	<b>Per unit Employment</b>	5.93	-	-

Note: (i) Figures in parentheses indicate the percentage to the total.  
(ii) The figures indicated in point 7 to 11 are available only for registered enterprises.

Source: (i) Quick Results Fourth All India Census of MSMEs 2006-07  
(ii) Annual Report of Ministry of MSME, 2010-11

The MSME sector has shown significant growth of 11.6% in terms of production during the FY 2009-10. The performance of the sector for the last three years is placed below in Table 1.2.

**Table 1.2 : Performance of MSMEs**

Year	Total MSMEs (in lakh Nos)	Fixed Investment (₹ crore)	Production (₹ crore) (Current price)	Employment (lakh persons)
2007-08	272.79 (4.51)	5,58,190 (11.47)	7,90,759 (11.47)	626.34 (5.34)
2008-09	285.16 (4.53)	6,21,753 (11.39)	8,80,805 (11.39)	659.35 (5.35)
2009-10	298.08 (4.53)	6,93,835 (11.59)	9,82,919 (11.59)	695.38 (5.47)

Note: The figures in brackets show the percentage growth over the previous year.

Source : Annual Report of Ministry of MSME, Government of India, FY 2010-11.

### 1.3 Major Stakeholders in MSME Sector

The MSME sector has a wide range of stakeholders including the regulators, facilitators and the beneficiaries. The framework for institutional support has evolved over a period of time. The MSME sector in the country is highly heterogeneous in terms of its size, variety of products and services produced, and the level of technology employed, the legal form in which it operates, etc. Given the multiplicity of sectors, multi-disciplinary support requirements of MSME, and multi-levels of operations, the institutional mechanism for support and development of MSME in the country is complex. Many institutions play variety of roles, and across different levels – ministries and departments (central, state and local government), private players, banks and financial institutions, research and technical institutions, training organizations etc., addressing the key components of the MSME development strategy of the country.

These stakeholders are listed below (the list is indicative and not exhaustive).

#### (A) Regulators

- Reserve Bank of India
- State/UT Governments
- Central Ministries/Departments/ PSU's
- Organizations under administrative control of the Ministry



**(B) Facilitators**

- Banks/Financial Institutions like SIDBI
- Entrepreneurship and Skill Development Institutions, both in the public and private sector
- Research and Development Institutions
- Educational Institutions
- International donors / development agencies
- Business Development Services providers

**(C) Beneficiaries**

- MSMEs (both existing and prospective) and their Associations
- Large enterprises including multinationals (as procurer of goods and services)

**1.4 Key Recommendations by the Prime Minister's Task Force on MSMEs**

To identify issues inhibiting growth of the sector, a Task Force was constituted by the Hon'ble Prime Minister in 2009. In its report, the Task Force submitted its Report in January, 2010 and made 85 recommendations (For details please refer to SIDBI Report on MSME Sector, 2010 available in [www.sidbi.in](http://www.sidbi.in) /[www.msmeftp.net](http://www.msmeftp.net)) to unshackle the Indian MSMEs. These recommendations are being implemented by various Ministries of Government of India in a time bound manner.

**1.5 Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for the 12th Five Year Plan (2012-17)**

Planning Commission constituted a Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for the 12th Five Year Plan (2012-17), under the chairmanship of Secretary (MSME) with 46 members representing various Ministries/Offices of Government of India, representatives of selected State Governments and Industry Associations, NGOs etc. The terms of reference of the Group was to carry forward the recommendations of the Prime Minister's Task Force and suggest specific action plan and milestones to be achieved within the 12th Plan period.

The Working Group constituted 11 sub-groups to deliberate various aspects of MSME sector, viz.:

- 1) Credit and Institutional Finance
- 2) Technology and Innovation
- 3) Skill Development and Training
- 4) Marketing and Procurement

- 5) Infrastructure
- 6) Khadi & Village Industries
- 7) Coir Sector
- 8) Institutional Structure
- 9) Emerging Technologies
- 10) Special Areas & Groups
- 11) Unorganized Sector

The Working Group examined the recommendations of the 11 Sub-groups. While formulating its recommendations, the Working Group took note of the fact that the National Manufacturing Policy (NMP) envisages increasing the sectoral share of Manufacturing in GDP to 25% over the next decade and generating additional 10 crore jobs in manufacturing sector through an annual average growth rate of 12-14 % in manufacturing sector. MSME sector being the major base of manufacturing sector in India, with its contribution of over 45% in the overall industrial output, the Working Group is of the view that the achievement of the NMP targeted growth of the manufacturing sector would necessitate substantial enhancement of the growth rate of MSME sector during the 12th Plan from the current growth rate of 12-13%.

The Working Group decided that issues relating to growth of MSME sector may be classified under six important verticals of i) Credit & Finance ii) Technology iii) Infrastructure iv) Marketing & Procurement v) Skill Development & Training and vi) Institutional Structure, to provide theme based focus while devising any strategy for the sector. The major recommendations of the Working Group are:

### **Credit & Finance**

- ◆ Scheduled Commercial Banks (SCBs) may be directed to maintain minimum 22% in their outstanding credit growth to MSME sector during the first two years of the 12th Five Year Plan (i.e. FY 2012-13 and FY 2013-14) and further minimum 25% during the remaining three years of the 12th Five Year Plan (i.e. FY 2014-15, FY 2015-16 and FY 2016-17).
- ◆ Banks should achieve 10% increase in new micro enterprises borrowers on year-on-year basis during the 12th Five Year Plan. As a Subset, banks should add at least 12 new MSMEs in their semi-urban and urban branches.
- ◆ Guarantee coverage under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) may be increased to at least 10 times the corpus during 12th Five Year Plan. The corpus of the scheme may be enhanced by an additional ₹ 10,750 crore during 12th Plan period. This is expected to make available ₹ 1,80,000 crore of credit guarantees to MSEs by the end of 12th Five Year Plan.

- ◆ RBI-registered 'AAA' and 'AA+' rated NBFCs be made eligible for becoming Member Lending Institution of CGTMSE, subject to availability of additional corpus of CGTMSE.
- ◆ As per the RBI instructions, Banks may adopt clusters in collaboration with Industry Associations.
- ◆ Industry Associations can become an effective institutional mechanism for facilitating credit flow to MSME sector. The model adopted by SIDBI in this direction may be replicated by lead bank in their domain MSME clusters.
- ◆ RBI may announce a revised OTS scheme for SMEs under which MSMEs classified in NPA category as on 31st March 2008 would also be eligible for obtaining finance after settlement of dues under OTS.
- ◆ Banks to strictly follow Nayak Committee norms while sanctioning working capital to MSMEs and also adopt simplified application cum sanction form and Common Scoring Model for loan upto ₹ 25 lakh.
- ◆ SIDBI and NSIC may be permitted to raise SLR bonds / Tax free bonds /Capital Gains bonds from the market as per the eligibility limit fixed by Government of India to enable these institutions in providing cost effective credit to the MSME sector.
- ◆ Develop the capacity of the MSE loan officers by the banks to provide various advisory services like technology upgradation, consortium-led marketing etc. to the MSEs.
- ◆ To enable the MSMEs to have access to Venture Capital (VC) Funds, the following needs to be implemented:
  - Exposure by banks to dedicated MSME VC Funds is treated as priority sector lending.
  - Enhance existing exposure by banks to Capital Market cap by 20% for MSME VC Funds (from 40% to 48% for dedicated MSME VC Funds).
  - Permit investment upto 10% of corpus by Pension/Provident Funds in dedicated MSME VC funds.
  - Introduce personal Income Tax rebate for investment in equity of MSMEs to be listed on the proposed SME Exchange – Direct / Indirect through MFs.
  - Exempt investments in dedicated MSME VCFs from provisioning by Banks.
  - Dedicated MSME VCFs' income be made tax-free – apart from awarding pass-through status.
  - A guarantee fund with a corpus of ₹ 2,500 crore for the Venture / Angel fund investments in MSMEs.
- ◆ The SME Exchange may be operationalised soon and upscaled during the 12th Five Year Plan. The success of the MSME listings on the SME Exchange would depend a lot on the final investors of the

Exchange. The final investors comprise of (i) High – net worth individuals and corporate, (ii) Qualified institutional buyers (QIBs) like VCFs, PE funds, PFs etc and (iii) Banks. These investors can be attracted by appropriate regulatory framework and other incentives. The first time investment in the shares of MSMEs in the proposed SME Exchange should be eligible for personal income tax rebate. Securities Transaction Tax should be waived for the first three years on the securities traded at the SME Exchange. Further, a budgetary support of ₹ 100 crore be made to incentivize market making and to create awareness about the proposed SME Exchange.

- ◆ **Support for Marketing** - Banks should come out with a short term loan scheme to provide bridge finance to micro entrepreneurs to proactively participate in the international trade fairs during the period they get the subsidy from Ministry of MSME.
- ◆ **Performance and Credit Rating** - The Ministry is already implementing a scheme to assist MSEs in Performance and Credit Rating by recognized agencies, which facilitates favourable interest rates from Banks as well as access to export markets. Being implemented by NSIC, the scheme is subsidizing the performance and credit rating fees charged by the rating agencies. Keeping in view the wide demand for assistance under the scheme, the Group recommends enhancement of allocation under the scheme from ₹ 174 crore in 11th Plan to ₹ 600 crore during 12th Five Year Plan period.
- ◆ **Equity Financing** - Lack of growth capital for the MSME sector is inhibits their growth beyond certain point. Growth capital has the leveraging capacity for raising additional debt to support capital expansion of these MSMEs. In order to fill the equity gap and also ensure MSMEs growth, it is suggested to introduce a new scheme to supplement Promoter's Contribution in case of projects proposed to be implemented by MSMEs to avail of loans from Banks/ FIs. Accordingly, a budgetary support of ₹ 5,000 crore may be made during the 12th Plan, under which equity finance will be extended.
- ◆ **Factoring Services** - Delayed payments or delayed realization of receivables has all along been a growth constraint of MSME sector by impinging on their liquidity. Factoring services by all banks, particularly for MSMEs would help in addressing the issue and will fill an important gap in the MSME lending as factoring assistance does not involve any requirement of collateral and help MSMEs in sales ledger administration, collection and credit protection. In order to upscale the factoring services for augmenting the flow of credit to MSME sector, it is suggested to enable setting up of a number of factoring companies which requires support by way of equity capital contribution to the new and existing factoring companies to enhance their net worth and enable them to leverage higher credit from the institutional channels. Hence, a scheme called "Support for Factoring Services" may be introduced with budgetary support of ₹ 500 crore during the 12th Plan, under which assistance would be provided for equity / margin money support for factoring companies, Publicity & Popularization of the scheme and provision of training for Associations on the benefits & support under factoring services to spread awareness among individual enterprises.

## Technology

- ◆ The Ministry may launch a Technology Acquisition Scheme to provide assistance in both, development of indigenous R&D products as well as procurement of global technology. The possibility of a revolving fund for technology acquisition may also be considered.
- ◆ Ministry may organize Technology exhibitions with the assistance of Technical bodies / Institutes for disseminating information on latest technologies, and may also select certain demonstration projects for implementation at Government cost, so that the proven technologies can be absorbed by MSMEs.
- ◆ The Government initiatives viz. Defence offset policy, MSME procurement policy etc, need to be leveraged suitably to ensure that MSME sector becomes technically advanced and competitive. The indigenization of latest components and technology would be encouraged through Technology Acquisition initiatives.
- ◆ Technology Incubators of Ministry of S&T would be replicated through Accelerator model for technology development and encouraging innovations. The financing of these initiatives will be assisted by Government to maximum possible extent.
- ◆ As regards to Innovation, the best practices of other countries such as Israel or Darfa Model of USA may be examined and suitably adopted for Indian scenarios. This is especially, to boost MSMEs in Defence and Security sectors wherein huge growth potential would exist in coming years.
- ◆ **Procurement of Machinery and Equipments**
  - Under CLCSS, assistance is provided for procurement of machinery and equipment for technology upgradation. The project ceiling under the scheme is needed to be enhanced to ₹ 5 crore to provide support for acquisition of state-of-the-art equipments, which would be needed for Medium Sector.
- ◆ **Support for Soft Skills**
  - Under NMCP, support is already being provided for implementation of best practices for enhancing productivity, quality and product designs along with assistance for enhancing marketing. NMCP also has a component for Infrastructural Support through Tool Rooms.
  - One reason for lesser success of NMCP may be separate schemes for separate components which need separate implementation channel /mechanism. The components of NMCP may be divided into three groups – i) Product and process related, ii) Marketing related and iii) Infrastructure related, which may be addressed under the respective verticals.
  - It would be appropriate to combine all schemes related to productivity, quality and design into one scheme, which may be offered on a ‘cafeteria’ mode. The leveraging of similar initiatives

by other ministries and departments including State Governments will have to consider in specific industry verticals.

- Cluster/Industry verticals may be invited to develop own packages with combination of various tools as per the requirements under the new scheme, which may be implemented through the respective nodal agencies/experts.

#### ◆ **Emerging & Innovative Sectors**

- The emerging sectors may be provided assistance on a higher scale under each of the three proposed schemes for technology acquisition, procurement of equipments and support for soft skills, respectively.
- Similarly, higher scale of assistance may be decided for adoption of clean manufacturing technologies, renewable energy sources and environment friendly processes.
- A key issue for investment in emerging technologies will be regarding critical mass of production. This will be encouraged by taking lead through Government Procurement. The procurement policies of MSME and defence offset policies will encourage MSMEs in this matter.

#### ◆ **Information and Communication Technology**

- NMCP has a separate component for ICT application. As ICT today covers all areas of activity of an enterprise – processing, training, marketing, infrastructure planning etc., the need for a separate component on ICT may be reconsidered.
- More appropriately, there should be support for application of ICT in each of the five verticals / support – Finance, Technology, Marketing, Infrastructure and Skill Development.
- The use of new concepts such as CLOUD Computing will offer an effective and affordable solutions for early ICT penetration during 12th Five Year Plan. The CLOUD computing would minimize the investment risks for MSMEs. It is expected that upto 90% of registered MSMEs in the country, would be using ICT applications by the end of 12th Five Year Plan.

### **Infrastructure**

#### ◆ **Industrial Infrastructure Development**

- To complement efforts of State and Central Government, private sector (companies and SPVs) should also be allowed for development of infrastructure.
- Maintenance of industrial estates is a critical component for successful functioning of Industrial Enterprises in any Industrial estate/area. Industries Associations, Local bodies, state govt. agencies, SPVs may be entrusted to take care of the issue on self sustaining basis by levying maintenance charges, or one time collection.

- Availability of Land for MSEs has to be ensured. State governments may earmark at least one industrial estate in each block. Government may identify barren lands and allot it to MSEs at affordable price or set up industrial estates.
- Land use classification may be updated, based on demand. Clear Policy should be evolved on “Change of Classification for Industrial purpose”.
- Deemed Local Body Status should be given to manage Industrial estates by bringing necessary changes in rules / procedures. SPVs should be formed in each estate with representation from the Government and the Developing agency. It should be empowered to collect charges and maintain the estate.
- Industrial Township Act, like the one in Tamilnadu, may be invoked for estates having more than 50 Acres of Land. This should be made mandatory under the ‘Panchayat Raj Act’.
- Smaller estates, where the Deemed Local Body Status / Industrial Township Act could not be invoked, local body can share the revenue with the SPV.
- Availability of Power is one of the major criteria of an Industrial estate. Many states, particularly Tamilnadu is facing acute power shortages. Captive power generation has to be encouraged.
- Electricity Act has to be amended to wheel power by Estates /Clusters and distribute among them (At present the Act permits only an individual captive power user to transport power).
- SPVs should be authorized to buy power from anywhere and distribute it to its member units.
- Many states are providing uninterrupted power supply to MNCs and depriving even the normal power to MSMEs. Priority in providing Power connection as well as uninterrupted power should be ensured for MSEs. Electricity Act may be amended to stop any unfair practice.
- 50% Subsidy should be given to Micro Units for buying Gensets.
- Providing good, motorable roads is one of the foremost duties of a Government. Roads are very essential for an Estate. Many of our estates lack this. There is an urgent need to up-grade the existing estates.
- Demand based additional ID projects may be permitted in district, subject to 90% allotment and 50% setting up of units in approved ID projects in one district.
- Assistance for upgradation of existing industrial estate may be made more attractive in order to get proposals from state govt. for upgrading of existing.
- More awareness is required regarding infrastructure development through MSE-CDP. Scheme

should be made more liberal by allowing expenditure variations for various components within the overall funding support of the Government.

- Provision under MSE-CDP scheme may be made for Product Specific Modular Estates having Raw material Bank, Technology Resource Centre, Design Centre, Business Centre, Tool Room, Incubation Centre, Training Centre, Mini Trade Fair Centre etc.
- Land and infrastructure constraints are a major problem, particularly in bigger and metro cities. Flatted Factory Complexes may be encouraged under MSE-CDP. Likewise, accommodation problem of industrial workers may be addressed by supporting dormitories. SPVs may run the dormitories on sustainable basis.
- Setting up of CFC under MSE-CDP may be allowed for activities not dovetailed under any other verticals.

#### ◆ **Infrastructure for Quality Assurance**

- There is a need to set up quality testing laboratories for MSMEs in almost every cluster/ industry concentration, district/major industrial area. This activity can be undertaken under Public Private Partnership mode. The Group recommends setting up of 100 nos. quality testing laboratories including strengthening of existing MSME Testing Centers during the 12th Plan Period.

#### ◆ **Development of Marketing Infrastructure for MSMEs**

- Establishment of Display Halls/Exhibition Grounds and Information Dissemination Centers. There is a need to provide assistance to MSMEs to enable them to show case their products and capabilities to produce high quality products and also to sell them at spot. Setting up of display halls and exhibition centers, in each State capital or major industrial centers having concentration of MSMEs is recommended. This scheme can be implemented by the Central or State Organizations, Industry Associations, Export Promotion Councils in the Public Private Partnership mode. District Industries Centers (DICs) having adequate vacant land can also support this activity by creating such infrastructure. The Group recommends establishment of 10 nos. exhibition halls and display centers.
- The Group also recommends that Information Dissemination Centers should be established during the 12th Plan period for dissemination of information with one main centre for coordinating the activities of all the centers.

#### ◆ **Setting up of New Tool Rooms and Technology Development Centers**

- Towards enhancing skill level of workers of MSME Sector, setting up of 100 Tool Rooms/ Technology Development Centers(TDCs)/ Central Footwear Technology Institutes (CFTIs) is



recommended which will provide specialized training to the existing and prospective workers of the manufacturing sector. These Institutions set up in Industrial Districts / Clusters with state of the art machines shall provide training to the youth to make them readily employable in high growth sectors like auto components, engineering, leather, garments etc. Necessary Budgetary allocation has been proposed under Infrastructure vertical. There is also need for upgradation and modernization of the existing 18 Tool Rooms/ TDCs of the Ministry.

## Marketing & Procurement

### ◆ **Public Procurement Policy**

- Marketing is a major concern for the MSMEs. To ensure a reasonable market share for MSMEs in the Government procurement, a public procurement policy has been announced under MSMED Act, 2006. The policy envisages the target of 20% of the total procurement made by Central Ministries/Depts./PSUs. The overall target of 20% would be made mandatory at the end of 3 years. Out of the 20% target of annual procurement from MSEs, a sub-target of 4% has been earmarked for procurement from MSEs own by SC/ST entrepreneurs. The policy will facilitate in improving the market access of MSEs through Government procurement and also develop linkages between micro and small enterprises and large enterprises.

### ◆ **Market Development Assistance**

- Convergence of Existing MDA Scheme - The convergence of 'Marketing Development Assistance (MDA) scheme run by Ministry of MSME, NSIC, KVIC and Ministry of Commerce needs to be made. Uniformity in the concessional rates for space rental, air fare etc. by various organizations will make the scheme clearer and commonly acceptable by its end-users. A uniform selection criterion should also be laid down for all implementing agencies.

- ◆ **Increased budgetary allocation for Organization /Participation of Exhibitions** - Presently, the budgetary limit for participation in a domestic exhibition/trade fair is restricted to ₹ 10 lakh. Similarly, for organizing the domestic exhibition / trade fair the maximum budgetary support is ₹ 30 lakh. Keeping in view, the expenditure involved in participation/organizing the event, the ceiling may be enhanced from ₹ 10 lakh to ₹ 30 lakh and ₹ 30 lakh to ₹ 60 lakh respectively.

- ◆ **Organization of Specific Fairs** - In addition to participation in International fairs/exhibitions, Industry associations should be encouraged to organize MSME specific fairs after identifying the markets/products for aggressive marketing. Chambers of Commerce (Indian & foreign) and Indian embassies should be actively involved in this exercise.

- ◆ **Advance intimation for Participation in Exhibitions** - Participation in exhibitions/fairs should be decided in advance (preferably yearly schedule at the beginning of the year) and publicized through Industry Associations/other means to achieve better participation from MSMEs.

- ◆ **Dissemination of the Scheme** - Awareness of the scheme should be enhanced by dissemination of information w.r.t. participation by MSMEs in national/international exhibitions.
- ◆ **Wider Participation in Exhibitions** - MSMEs operating in small towns, remote/tribal areas and women entrepreneurs should be encouraged to participate in fairs/ exhibitions. Help of Industries Associations could be taken to identify MSMEs who can participate in such fairs after taking into account their product range and quality of products.
- ◆ Accordingly, the budget allocation for MDA scheme needs to be enhanced.
- ◆ **Bar Coding** - To make the scheme more effective, Group recommends the following:
  - Wider publicity be given for creating awareness of the scheme.
  - Presently, reimbursement of one time registration fee is covered in MDA scheme and the reimbursement of recurring annual charges are covered under NMCP scheme. It is recommended that both components of the scheme should be merged into one scheme.
  - In addition to micro and small enterprises, the scheme should also be extended to medium enterprises. The ceiling of reimbursement should be 90% of one- time registration fee and annual charges in case of MSEs and 50% in case of medium enterprises.
  - Reimbursement of annual charges should be extended from present first three years to first five years.
  - The existing disbursement procedure be amended wherein Government should provide funds to GS1 India directly and GS1 India will utilize these funds by releasing to MSEs on reimbursement basis and will report periodically to the Ministry of MSME about the status of utilization of budget.
- ◆ **Packaging & Designing** - There is only one specialized institution i.e. Indian Institute of Packaging (IIP) in the country which imparts training in packaging and designing and it is unable to meet the huge demand of MSME sector. It is recommended that more numbers of specialized institutions need to be set up during the 12th Plan Period. In addition, the awareness of these institutions should also be spread among the MSMEs to avail benefits under the scheme.
- ◆ **Establishment of Marketing Organizations (SPVs) in Clusters** - Marketing Organizations in Clusters can be established through formation of Special Purpose Vehicles (SPVs) in the form of Cooperative Societies to support MSMEs in the procurement of raw materials and marketing of their products. These societies should involve in designing of products, branding of products, advertisement of products and e-marketing through B2B portals. Group recommends setting up 36 societies/companies in the form of SPVs during the 12th Five Year Plan Period.

- ◆ **Greater Use of Information Technology (IT)** - To make greater use of IT in the MSME sector, Sub Group recommends for developing and implementing an international user friendly B2B portal to make it accessible to larger section of MSMEs of India and abroad during the 12th Five Year Plan Period.
- ◆ **Implementation of Schemes through “Voucher Delivery System”**- ‘Voucher Delivery System’ (VDS) can be introduced for implementing the various government schemes in an effective and efficient manner. Under the VDS mechanism, upon presenting the voucher by implementing agency under the scheme, the bank will reimburse and release the amount to nominated implementing agency directly. The system will ensure faster disposal of the proposals leading to timely achievement of targets under the schemes.
- ◆ **Brand Building** - Group felt the need to build All India Marketing Assistance Network through physical and electronic means. This can be achieved by building and coordinating the efforts of various institutions engaged in the promotion and development of MSME sector at State, Regional and Cluster levels and also by involving MSME Associations in the country to undertake various marketing functions. Group suggests that it would be apt to make NSIC as an Apex organization to coordinate the efforts of the various institutions. NSIC can provide help in organizing/participating national and international exhibitions, formation of Special Purpose Vehicle (SPV) for marketing in clusters through societies/companies, providing consultancy etc. Further, efforts should be made to promote industry specific brand building of Indian products. MSEs may be extended support to create awareness about their products through participation in overseas trade shows.
- ◆ **Enabling Global Footprint of Indian MSMEs** - Today, India is one of the fastest growing economies in the World and poised to become an economic super power. This has been fuelled by the excellent growth rate of Indian economy during the past decade and also the stagnation suffered by the developed world during the recent period. The deceleration of the developed economies, sovereign debt issues in the European countries and USA etc. have stymied exports from developed countries. On the other hand, the high growth rate of Indian economy during the recent period has enabled an outward bias to the Indian Industry. While acquisitions by Industry leaders viz., Jaguar Land Rover by Tata and African Telecom Company Zain by Bharti are making the global headlines, these are also opening newer opportunities for the Indian MSMEs in the overseas markets. With the enhancement of the productivity and quality, a significant section of Indian MSMEs have acquired global competitiveness. Exploring newer markets and opportunities, particularly in developing world like Africa could be multi folded through enabling services like information on new markets /products, offshore warehousing, offshore manufacturing, product promotion etc. Government can provide necessary facilitation by cluster / consortia based initiatives through PPP mode. Government can facilitate the global footprint of Indian MSMEs by providing support for conducting market studies in new markets for newer products, developing brand equity of Indian MSMEs particularly for niche

products like herbal medicines, health care, education etc., developing market intelligence on enterprises available for take over etc. The Group recommends that a dedicated scheme with a corpus of at least ₹ 1000 crore during the 12th Plan period may be launched to support the MSMEs in their above initiatives.

- ◆ **E-marketing** - Group felt that E-marketing would be very helpful for MSME Sector in resolving their marketing related problems and recommends that it may be promoted through the following:
  - ▣ E-marketing can be promoted through launching of specialized MSME portals. The portal should contain the information of prospective buyers, sellers, products etc.
  - ▣ The establishment of e-Kiosks in Govt. & private domain would also help in enhancing marketing capabilities of MSMEs. These e-Kiosks can be involved in providing market intelligence, market requirements, Branding of products, advertisement of products & creating E-tools, E-marketing B2B portals.
  - ▣ Creation of Special Purpose Vehicle (SPV) in the form of societies/companies can also help in promoting E-marketing through B2B portal.
- ◆ **Offset** - Set up a mechanism in the M/o Defence to ensure that the offsets under defence purchases are suitably focused to support SMEs in upgrading their capacities.

## Skill Development and Training

- ◆ **Development of Entrepreneurial Skill**
  - ▣ The Skill and Entrepreneurial Development Programmes of the Ministry of MSME are the flagship programmes of the Government, since 1960s, for providing unemployed youth with necessary skill for wage employment and particularly for starting of micro enterprises. Keeping in view the increasing number of youth joining the job market in the next five years, the scheme may be continued with enhanced scope and quality. The Prime Minister's National Council on Skill Development was constituted on 1st July 2008. The objectives of the Council are to lay down overall broad policy objectives, financing and governance models and strategies relating to skill development with a framework of private public partnership. The Council has set a target of creating 50 crore skilled people by 2022 with emphasis on inclusiveness. To achieve the targets set for the Ministry of MSME by the Prime Minister's Skill Development Council of training 15 crore persons within 2022 and more than 40 lakh persons during the 12th Five Year Plan period (2012-17), the Ministry need to develop a mission for skill development linked with the entrepreneurial promotion with adequate budgetary support.
  - ▣ Equitable access to training for all youth of India is another benchmark initiative of the Prime Minister's Skill Development Mission. Towards facilitating skill development of youth from the weaker section, the Ministry of MSME is already providing skill development training to SC/ST/

Women and differently able persons free of cost. For focused programmes for these categories of youth, there is also provision for stipends. To facilitate participation of more youth from the weaker section in the skill development programmes of the Ministry, the Ministry may set up focused Entrepreneurial Development Institutes (EDIs) in the backward areas and districts. These EDIs may provide residential skill development programmes for the youth from the backward areas.

- There is also an urgent need for convergence of skill development programmes conducted by the various divisions and offices under the Ministry of MSME as well as programmes conducted by other Ministries. The Ministry has already taken initiative for standardization of curricula of skill development programmes conducted by various divisions and offices. This programme may be appropriately harmonised so that a youth may join a skill development programme according to his immediate requirement and present qualification/background and subsequently upscale his skill through more advanced programmes, viz., starting from the grass root level programmes conducted by KVIC, MSME-DIs etc. and can reach to the advanced programmes conducted by the MSME Tool Rooms/TDCs and EDIs.
- In this regard, linkage of the skill development programmes of the Ministry with the proposed National Vocational Education Qualification Framework (NVEQF) is also essential, so that after completion of training on skill development, the participant is appropriately certified to be able to join next level of programmes conducted by any institution conducting programmes under NVEQF. This will also need accreditation of the skill development programmes conducted by the Ministry under the overall framework of NVEQF, thus making these programmes an integral part of the overall national level skill development framework.
- Developing a labour market information system (LMIS) is also essential for identifying present and future skill gaps in the various sectors of the economy and accordingly, design and conduct skill development programmes. Ministry of Labour & Employment has already started an initiative in this regard and when the system is developed, it can be accessed by the Divisions / Offices under the Ministry conducting skill development programmes, to develop appropriate regional and sectoral training curricula. However, as the focus of the skill development programmes of the Ministry is to cater to the requirements of the MSME sector, these programmes are required to be conducted in closed collaboration with the sectoral stakeholders, particularly the MSME Associations. This will ensure providing skill to the youth as per the requirements of the local/regional MSMEs, which in turn ensure placement of the trainees.

#### ◆ **Upscaling of Training Infrastructure**

- The MSME Development Institutes under the office of DC-MSME are conducting skill development programmes since 1960s. With the increasing number and range of the programmes, these MSME-DIs need to be strengthened with equipments and facilities for

providing quality training. For this purpose, training labs and workshops on technologies like automobile repair, mobile repair etc. should be provided to these institutes. As majority of the training programmes are conducted outside, providing mobile training vans may also be considered.

- The MSME Testing Centers/Testing Stations are providing training in laboratory technologies / calibrations, along with testing services. Keeping in view the large demand for the skill, the training capacity of these TC/TS should be enhanced with adequate training facilities.
- The 10 tool rooms and 8 Technology Development Centers under the Ministry are providing high level skill development programmes. Keeping in view the huge demand for such skill at least 100 such tool rooms TDCs/ CFTIs may be opened in growth oriented clusters / Industrial districts.
- The 3 National level Entrepreneurship Development Institutes under the Ministry are conducting trainer's training programmes for domestic and international participants. The training facilities of EDIs should be further upscaled with International linkage for developing curricula, pedagogy etc. to make them centers of excellence for skill and entrepreneurial development.
- Similarly, the training facilities of NSIC, KVIC and Coir Board should also be upgraded to cater to their focal constituencies.

#### ◆ **Transparency in Implementation and Quality Assurance**

- Towards wide and transparent dissemination of the training programmes of the Ministry, a single web-based portal should be launched, which will provide complete and detailed information about the training programmes being organized/planned by the various offices/agencies under the Ministry all over the country. In fact, the same portal should have a provision for submitting online application by the prospective candidates.
- At present, the Ministry does not have a system for rating the training programmes organized by the various offices/agencies under the Ministry and particularly those conducted by the private partner institutions. It is necessary to implement a rating system immediately for the training institutions and place the same in public domain.
- It is also necessary to develop a hierarchy of the levels of various training programmes organized by various agencies viz., the programmes conducted by KVIC for the village/rural artisans at level one and hi-tech programmes conducted by the Tool Rooms at the highest level with the level of other programmes in between. This may help the prospective participants to join a programme according to their skill requirements.
- There is also an immediate need for assuring quality of the programmes conducted. This could be ensured through quality of the Training Faculty, standardization of the course curricula

and real time monitoring of the programmes conducted. While quality of the faculty could be ensured through a systemic quality upgradation programme of the faculty, the training curricula need to be standardized by consultation with MSME Associations, expert agencies and other Stakeholders. Real time monitoring of the programmes is possible through management information system software.

#### ◆ **Virtual SME University**

- Government has constituted NSDC to facilitate participation of private sector and civil society in Skill Development Programmes. The programme modules conducted by NSDC supported institutions need also to be harmonized with the programme modules of the Ministry. Ideally, there should be an independent national level institution/body to harmonies conducting of the programmes, the quality of the programmes and the level of the programmes at all-India level.
- The task mentioned above may be best done by a virtual SME University with the necessary intellectual and financial resources, which can provide the necessary accreditation service to the training institutes/organizations, decide the level of the programmes and also certify individual trainers as per their proficiency level.
- The proposed University should also maintain online data base of the accredited institutions as well as trainers whose services can be availed by the skill development institutions as per their requirements. Towards further synergizing skill development programmes at all-India level, the University should provide certification of the participants, after completion of the programme, with appropriate grading/rating. Logically, the data base of the certified trainees, available online, will function as a virtual employment exchange.

#### ◆ **Training on PPP Mode**

- The Ministry is already operating a scheme “Assistance to Training Institutions” (ATI) under which State level entrepreneurship Institutes are provided financial support to upgrade and upscale. Under the Scheme, private/NGO promoted training institutions are also assisted in conducting skill development programmes. The scheme is being presently implemented only by the National level Entrepreneurship Development Institutes (EDIs) under the Ministry. As enhancing the skill of unorganized sector will be a focal area of the Ministry during the 12th Five Year Plan, all offices/ divisions of the Ministry should upscale their training capacity through PPP mode under the ATI Scheme. It would be essential to enhance the budget allocation under the ‘assistance to training institution’ scheme to at least ₹ 2,500 crore.
- The Ministry is also required to make special allocations to set up EDIs in special areas viz., NE region, Jammu & Kashmir, Naxalites affected areas etc. and the special categories of persons like differently-able, destitute etc. For these categories of candidates, special residential programmes may also be considered.

- At present, the programmes of the Ministry are provided almost free, with the exception of the high level programmes conducted by the Tool Rooms and the National level EDIs. Ideally, all training programmes conducted by the Ministry should be fee-based to enhance their sustainability and support from the Ministry to desiring participants may be released through credit vouchers.

◆ **Hand Holding of Trainees**

- The process of facilitating skill development starts with identification of the prospective entrepreneurs and completes only with handholding of the trained entrepreneur to start an enterprise with required finance etc. The Ministry already operates a flagship scheme, PMEGP for subsidizing bank credit to new entrepreneurs. PMEGP need to be enlarged to take care of credit need of at least 50% of the trainees of the programmes conducted by the Ministry.
- Handholding of new entrepreneurs for setting up the enterprise, operations and marketing is also essential for success. Towards this end, the existing scheme of the Ministry, Rajiv Gandhi Udyami Mitra Yojna needs to be further upscaled. Along with the individuals and other institutions, industry associations should also be encouraged to provide handholding services to new entrepreneurs. For this purpose, adequate support package may be developed. Ideally, hand holding should be an integral part of the skill development programme with the training agencies providing required hand holding services to the trainees for employment/self employment.

- ◆ **Faculty Development and Upgradation** - To provide state of the art skill to the participants of the skill development programmes conducted by the Ministry, skill upgradation of the training faculty is essential. For this purpose, the Ministry should initiate a programme for periodic upgradation of skill of the officers of the Ministry to make them aware about the global developments in the area of skill development. Ideally, the faculty development programme should have linkages with skill development Institutions of Germany, Japan and other countries having strong national skill development framework. Research and development initiatives should also be encouraged among the training faculty leading to regular publication of research papers in frontier and innovative skill development approaches. The issue of faculty retraining is addressed under the Institutional Structure vertical.

- ◆ **Programmes for North East and Special Category States** - Deriving demographic dividend from the burgeoning youth population is a challenge for India, particularly in the North Eastern States, hilly and terrorist infected Special Category States and the districts affected by leftwing extremism (LWE). Widening of skill development network of the youth is required in these special areas to



ensure peace through economic development. This Group has recommended setting up of Special EDIs in these States and Areas to provide skill development training to the youth, preferably through residential courses. These programmes should focus on activities based on locally available resources and requirements of the local industries. For this purpose, appropriate linkage with the industry Associations, local administration and other agencies engaged in economic development in these areas need to be ensured.

- ◆ **TREAD Scheme** - The Trade Related Entrepreneurship Assistance and Development (TREAD) Scheme of the Ministry is a focal programme for assistance to illiterate & semi literate women of rural and urban areas for self employment. Under the Scheme, assistance is provided to nongovernmental organizations for capacity building of women in self employment through various non-farm activities. The projects from NGOs for handholding, training and providing marketing support to illiterate & semi literate women of rural and urban areas are provided linkage to bank finance with upto 30% of the project cost subsidized by Government. The Scheme need to be further upscaled to encourage self-employment in women, particularly, from rural and backward areas with further increase in allocation.
- ◆ **Standing Committee on Skill Development for the MSME Sector** - The Group recommends constitution of a Standing Committee under the Minister In charge of MSME to regularly review, monitor and upscale the skill development initiatives of the Ministry. The Committee should have representations from all Stakeholders, viz., Apex Chambers of Commerce, MSME Associations, other Ministries engaged in Skill Development etc.

## Recommendations on Institutional Structure

- ◆ **Environmental issues**
  - A list of items should be prepared by Central Pollution Control Board from amongst the items notified by State Pollution Control Boards for exemption from NOC and consent for setting up unit & operation respectively. The list of items should be reviewed every year and amended.
  - Establishment of a compliance assistance centre for MSMEs in MSME Development Institutes to create awareness on better environment management practices, policies and procedures as well as for better compliance of environment regulations.
- ◆ **Labour issues**
  - The compliance of labour related enactments should be linked with incentives. This will make the enterprises compete for setting up standards of excellence, both in product and labour markets.

- Following labour laws may consolidate:
  - Factories Act, 1948
  - Maternity Benefits Act, 1961
  - Workmen's Compensation Act, 1952 and
  - Contract Labour (Regulation & Abolition) Act, 1970
- Emphasis to be made in the existing as well as upcoming labour related statutes for self declaration and self certification for the requirements under concerned provisions of the Acts.
- Inspections should be streamlined. It should be based on authentic information/complaint and should be carried out after the written permission of an officer higher by two ranks in hierarchy.

#### ◆ **MSMED Act, 2006**

- Defined limit of investment in plant and machinery for classifying the micro, small and medium enterprises may be deleted from the MSMED Act, 2006 and should be announced through Notifications.
- The monetary limit of penal provisions of MSMED Act, 2006 should be provided in Rules instead of in the Act.
- Delayed payment of earnest money/security money should be included for payment of penal interest in case of MSEs as per provision in Chapter 5 of MSMED Act, 2006.
- Amount of award given by Micro & Small Enterprises Facilitation Council should be realizable as arrear of land revenue.

### **Re-engineering and Strengthening of DC MSME and its Field Offices**

- ◆ MSME Development Institutes of the Ministry of MSME provide facilitation to the new and existing entrepreneurs in developing their enterprises. With the implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, two new sectors were classified in the country i.e. medium sector and service sector, which required special attention for promotion and growth as these sectors were identified for the first time in any statute. The total number of small and micro units tremendously increased from 33 lakh in 2000-01 to 2.6 crore in 2007. The number of entrepreneurs trained in 2002-03 was 10,739 which have increased 8.2 times to 99,635 in 2010-11. Contrary to that the trainers and technological force of officers in MSMEDIs has gone down by 30%. Office of DC, MSME and MSMEDIs need to be strengthened both in terms of facilities and manpower to take additional charge of medium enterprises, formulate and implement promotional measures for them to make India a land of sunrise and technologically advanced enterprises. To provide support at the grass root level to MSMEs, there is an immediate need for the resurgence of DC MSME and its field establishments. For effective co-ordination, regional setup is also required. Re-engineering of the

MSME Development Institutes and the office of Development Commissioner, MSME may be taken up during the 12th Plan Period. The Group recommends allocation of ₹ 900 crore during the 12th Plan Period for re-engineering and strengthening of DC MSME & its field offices.

- ◆ Rapid Technological Innovations, concept of multi dimensional expertise, innovative methods of management, make a strong case for periodical training of MSME-DO Officers. With globalization, the MSMEs of our country are required to discover potential and new avenues and explore new destinations for marketing in the world. Now MSMEs have to develop competitiveness to deal with the challenges posed by multinationals in India. Not only this, the MSMEs of India must expand their operations in other countries by opening manufacturing facilities or service stations abroad. Some of the areas where immediate training of the MSME-DO officers may be instrumental in bringing about the above said impact are manufacturing process, re-usable asset management, product and service design, hardware development, supply chain management and the Government Policy in select countries in the areas related to MSMEs and its impact on the MSME development in that country. A minimum of three officers from each MSME-DI and five officers from Office of DC-MSME should be deputed for training for the above purpose every year. The Group recommends allocation of ₹ 100 crore during the 12th Plan Period for this purpose.
- ◆ **Application of e-governance**
  - Introduction of filing of Entrepreneurs Memorandum under the MSMED Act was an important initiative towards liberalization of the MSME sector. The Group recommends for application of e governance for streamlining of the procedures and for that purpose setting up of an information and data base network among the DICs, MSME-DIs and the Ministry.
  - The provision of the delayed payment under the MSMED Act was another facilitator for ensuring regular cash flow to the Micro & Small Enterprises against the supplies made. The Micro & Small Enterprises Facilitation Councils (MSEFC) stipulated under the Act to be set up at the State level were foreseen as facilitators to the MSEs. The Group recommends introduction of an information and communication network for operation and monitoring of these MSEFCs. A budget of ₹ 100 crore may be allotted for ICT enabled upscaling of the EM filing and MSEFC operations.
- ◆ **Creation of comprehensive database** - Creation and maintenance of comprehensive database for MSME sector, including the unorganized sector is a pre-requisite for sound policy formulation. Regular updating of database for the sector is important, which requires better administrative mechanism and enhanced budget provision. Further, there is a need for sectoral data research and compilation of data on Government/Public Sector procurement from MSE sector. An allocation of ₹ 2,000 crore may be kept for creation of comprehensive data base.

MSME sector of India is today at the gateway of global growth on the strength of competitive and quality product range. However, facilitation from the Government is required to minimize the transaction costs of technology upgradation, market penetration, modernization of infrastructure etc. History shows that only with persistent and effective Government support in these areas, the SMEs of countries like Japan, Korea etc. emerged as global players. The PM's Task Force has already taken significant initiatives in this regard. The above recommendations of this Working Group for the 12th Plan period will be vital enabler towards achieving quantum jump in the growth of MSME sector through participative, transparent and scalable policies and schemes of Government of India.

# INSTITUTIONAL SUPPORT TO MSMEs IN INDIA

## 2.1 Institutional Framework for MSMEs in India

The institutional support to MSMEs in India has evolved over a period of time, with increasing support to address the key challenges faced by the sector. The MSME sector in the country is highly heterogeneous in terms of its size, variety of products and services produced, and the level of technology employed, the legal form in which it operates, etc. Given the multiplicity of sectors, multi-disciplinary support requirements of MSMEs, and multi-levels of operations, the institutional mechanism for support and development of MSMEs in the country is complex. Many institutions play variety of roles, and across different levels – ministries and departments (central, state and local government), private players, banks and financial institutions, research and technical institutions, training organizations etc., addressing the key components of the MSME development strategy of the country.

At the country level, the Ministry of MSME is the overall policy making and coordinating body for the MSMEs in the country. Both central and state governments are involved in promoting MSMEs, with the primary responsibility resting with the State Governments. The Central Government supplements the efforts through various initiatives, schemes and incentives. There exists several ministries, institutions and departments, both at state and central level, which are involved in the promotion and development of this sector. Some of these have a MSME-specific focus, while others are of a cross-cutting nature.

The central ministries have institutional structures to implement various MSME focused schemes and programmes. The ministries and departments periodically come out with policy measures, specialized institutions, special purpose vehicles, and support measures to develop and strengthen MSMEs. Within the sector-specific ministries, the textile and food processing are very important for MSMEs, as these sectors constitute a third of MSMEs in the country, and also extremely labour intensive generating

significant employment in the country<sup>1</sup>. Each ministry and department has their plans to develop schemes and implement them independently.

Apart from these ministries and departments, there are other institutions that play critical role at different levels in providing services and support - banks and financial institutions, refinancing institutions, technology developers, skill building institutes, marketing agencies, etc.

The institutional support for MSMEs can be classified under two broad frameworks. First framework pertains to Development Support Institutions, which includes Advisory Set-ups and Policy setups.

- ◆ **Advisory Set-ups:** It comprises of distinguished professionals and intellectuals serving in their individual capacities, and include Prime Minister's Office (PMO), Planning Commission, National Board for MSMEs and National Manufacturing Competitiveness Council (NMCC).
- ◆ **Policy Set-ups:** Institutions under this head include the Reserve Bank of India, the country's apex Banking Institution entrusted with setting the monetary policy viz. Interest Rates, Credit supply, etc. The Ministry of Micro, Small & Medium Enterprises is responsible for initiating appropriate policy measures, programmes and schemes for the promotion of MSMEs, and rendering assistance to provide a comprehensive range of services and common facilities to the sector. The roles and functions of the Office of the Development Commissioner (MSME), major R&D Programmes, and services such as exhibitions, buyer-seller meets, and measures like the Rajiv Gandhi Udyami Mitra Yagna are covered in the chapter. The Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce has several roles and functions, such as the Formulation and implementation of industrial policy and strategies for industrial development in conformity with the development needs and national objectives; Monitoring the industrial growth, and the Formulation of Foreign Direct Investment (FDI) Policy and promotion, approval and facilitation of FDI. The Ministry of Textiles is responsible for policy formulation, planning, development export promotion and trade regulation in respect of the textile sector. The Ministry of Food Processing Industries is responsible for developing a strong and vibrant food processing sector; with a view to create increased job opportunities in rural areas, enable the farmers to reap benefit from modern technology, create surplus for exports and stimulate demand for processed food. The Ministry of Women and Child Development had been set to give the much needed impetus to the holistic development of women and children. The schemes of the Ministry like Swashakti, Swayamsidha, STEP and Swawlamban enable economic empowerment of the women.

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<sup>1</sup>Government of India (2010), Prime Minister's Task Force on MSME

The second framework includes Financial Support Institutions, which can be further divided into National Level and State Level Institutions.

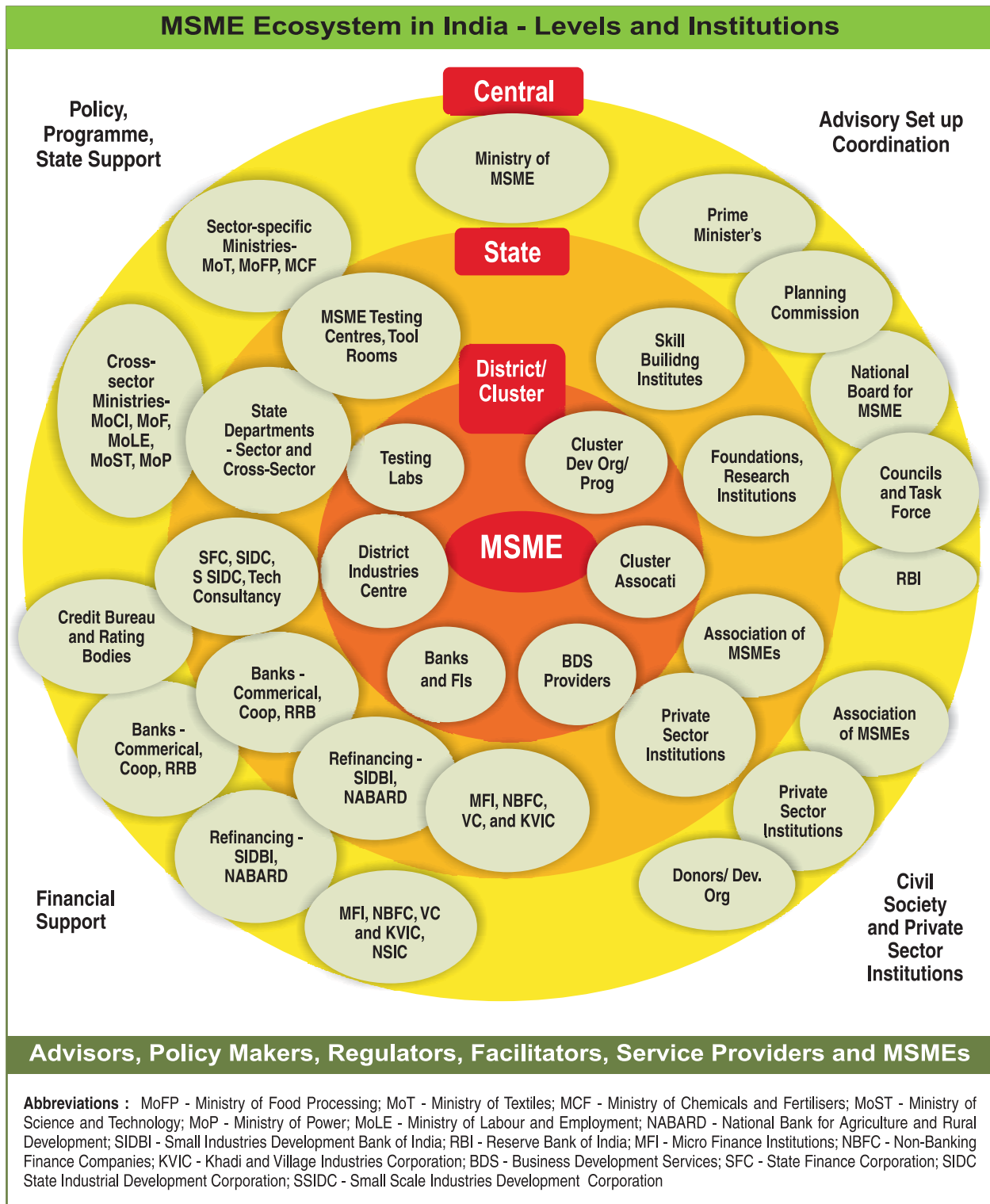
- ◆ National Level Institutions include Commercial Banks, Regional Rural Banks, Cooperative Banks, Refinancing Institutions [(Small Industries Development Bank of India (SIDBI)], National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB), Khadi and Village Industries Commission (KVIC), National Small Industries Corporation (NSIC) and North Eastern Development Finance Corporation Ltd. (NEDFi).
- ◆ State Level Institutions include State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), The State Small Industries Development Corporations (SSIDCs) etc. The 18 SFCs across the country provide financial assistance by way of term loans to MSMEs. At present, there are 28 SIDCs in the country, of which 11 also function as SFCs and are, therefore, termed as Twin-Function IDCs.

## **2.2 The Evolution of the Government Institutional Framework for support to MSMEs**

The roots for present institutional framework for MSME development can be linked back to the recommendations of the International Perspective Planning Team, 1953-54, which had then recommended the creation of small sector department under the then Ministry of Industry, a marketing corporation and centers equipped with appropriate machineries and other facilities for training of small entrepreneurs. In pursuance of these recommendations, Small Industries Development Organization (now named as Office of DC-MSME), National Small Industries Corporations (NSIC) and small industry extension training institutes were set up for providing support to the sector. Over the last 5 decades, institutional framework has undergone many changes and the whole network has been expanded. Each state had also set up institutions to assist the sector. The whole network was enlarged with the establishment of District Industries Centers in 1978 and thereafter, but followed basically the same approach of earlier decades.

At the central level, the Ministry of Micro, Small and Medium Enterprises (MoMSME) is the Nodal Ministry for policy matters relating to MSMEs and provide focused attention to the promotion and development of the MSME sector. The main role of the Ministry of Micro, Small and Medium Enterprises (MoMSME) and its organizations is to assist the MSME Stakeholders in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. To achieve its objectives, the Ministry runs various schemes /programmes attempting to address various key challenges related with credit, marketing, infrastructure, skill development & technology, which are implemented through its organizational network.

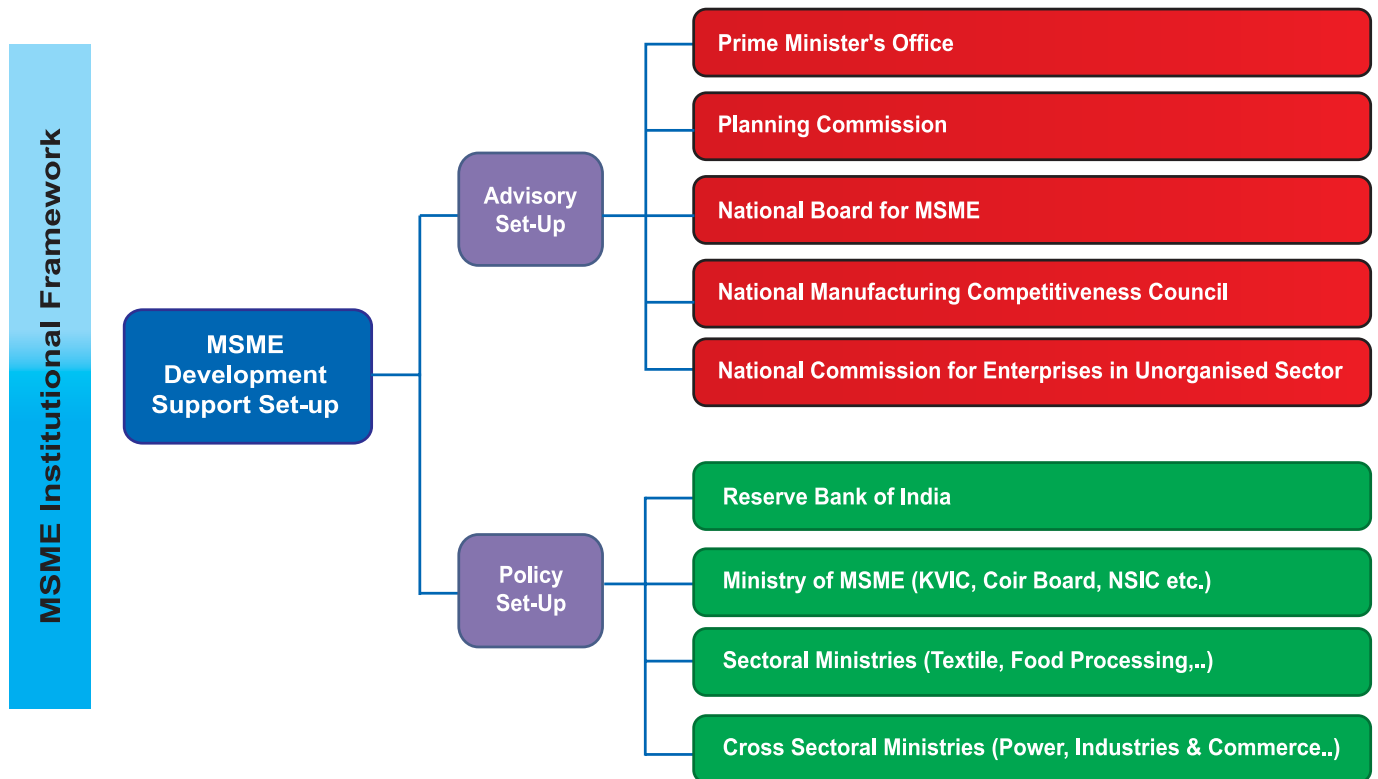
Ministry of Micro, Small & Medium Enterprises envisions a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with various Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.





## 2.3 Institutional Roles and Programmatic Schemes for Supporting MSMEs

### 2.3.1 MSME Development Support Set-up



#### ► Advisory Set-up

Advisory Council is intellectual structures that are periodically set up by Government as an interface with Civil Society in regard to the formulation and implementation of the MSME policies and measures. These comprise distinguished professionals drawn from diverse fields of development activity who serve in their individual capacities.

Through these platforms, the Government has access not only to their expertise and experience but also to a larger network of Research Organizations, NGOs and Social Action and Advocacy Groups. The Council makes detailed recommendations to the Government in the areas of priority and provides independent feedback on the impact of action initiated in various sectors.

#### Prime Minister's Office (PMO)

Based on representations received from the interest groups, PMO sets up appropriate task force to reconcile competitive interests and forces pulling in different directions. In the year 2009-10, the PMO set up a Task Force under the Chairmanship of the Principal Secretary to the Prime Minister to examine various issues relating to the MSME sector. The Task Force has made many far-reaching recommendations. PMO has established Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which

would oversee implementation of these recommendations on a half - yearly basis. The Ministry of MSME is the servicing arm for the Council.

### **Planning Commission**

The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was assigned with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. The economic planning has always been according special thrust to the MSME sector.

The Approach Paper of the Planning Commission for the 12th Plan period (FY-2012-13 to FY-2016-17) mentions MSME Sector as the foundation for the overall manufacturing sector. Nurturing competitive MSMEs would help in absorbing new technologies and improving productivity in manufacturing sector, with stimulation of the growth of dynamic clusters as a key to such an approach.

The Approach Paper also stresses on need for skilled human resources for competitive enterprises and linking Skill Development and training initiatives with industry requirements. It also stresses the importance of penetration of information and communication technology, which can enhance the overall competitiveness of the sector as well as the quality of governance. Further, it also recognizes the important role of innovation in spurring growth and unleashing potential of enterprises. Thrust on frugal innovation will result in generation of affordable and accessible products and services of global standards.

### **National Board for MSMEs**

The Central Government established the National Board for Micro, Small and Medium Enterprises (NBMSME) as per the provisions of the MSMED Act, 2006, to facilitate coordination and inter-institutional linkages among various Ministries, State Governments, Banks, Financial Institutions, MSME- Industries Associations, etc., the NBMSME has been constituted as the apex statutory advisory body to advise the Government on all issues pertaining to the MSME sector.

The Minister in-charge of the Ministry of MSME, Government of India is the Chairman of the Board. The Board comprises MSME/Industry Ministers of State Governments, Secretaries of various Departments of Government of India, MPs from both the Houses of the Parliament, the heads/senior representatives of financial institutions, industry associations and eminent experts in the field of Economics, Industry and Science & Technology which meets periodically.

## National Manufacturing Competitiveness Council

The National Manufacturing Competitiveness Council (NMCC) was set up by the Government in October 2004 to provide a continuing forum for policy dialogue to energize and sustain the growth of manufacturing industries in India. The NMCC looks into the total area of manufacturing activities in the context of increasing need for employment opportunities and to unlock the full potential of Indian Industry.

To achieve its objectives, NMCC is adopting the twin approach of drawing a National Strategy for Manufacturing which attempts to identify the areas of policy interventions and outlines the strategic directions that need to be pursued in order to realize higher levels of growth and employment and simultaneously, concentrate on certain sub-sectors of manufacturing where necessary policy interventions can unleash higher growth rates and expansion of markets. The NMCC has recommended a national level as well as sector level /industry level specific policy initiatives as is required for augmenting the growth of manufacturing sector. Ten elements have been identified for attention by the NMCC as a part of its long term manufacturing strategy:

- ▶ Enhance Government focus on manufacturing competitiveness.
- ▶ Creating conditions for investment in and growth of the manufacturing sector.
- ▶ Lowering the cost of manufacturing.
- ▶ Investing in innovations.
- ▶ Strengthening education and training at all levels.
- ▶ Adoption of global best practices in manufacturing.
- ▶ Right market framework, competition and regulation.
- ▶ Issues relating to competitiveness in small and medium industries.
- ▶ Competitiveness of public sector manufacturing industries.
- ▶ Infrastructure development.

The programme finalized by the NMCC and implemented through the Ministry of MSME mainly deals with firm level competitiveness.

In order to revive the manufacturing sector, particularly the MSME Sector, and to enable them to adjust to the competitive pressures caused by liberalization and moderation of tariff rates, a new scheme called the “Manufacturing Competitiveness Programme” was launched to help them strengthen their operations and sharpen their competitiveness. The scheme is to be implemented under the National Manufacturing Competitiveness Council (NMCC) in consultation with the industry.

The National Manufacturing Competitiveness Council (NMCC) has finalized a five-year National Manufacturing Programme. Ten schemes have been drawn up including schemes for promotion of ICT, mini tool room, design clinics and marketing support for MSMEs.

NMCC Schemes	
S. No.	Name
1.	Marketing Support /Assistance to MSMEs (Bar Code)
2.	Support for Entrepreneurial and Managerial Development of SMEs through Incubators
3.	Enabling Manufacturing Sector to be competitive through Quality Management Standard & Quality Tech. Tools (QMS/QTT)
4.	Building Awareness on Intellectual Property Rights (IPR) for MSMEs
5.	Lean Manufacturing Competitiveness Scheme for MSMEs
6.	Mini Tool Rooms proposed to be set up by Ministry of MSME (MTR)
7.	Design Clinic Scheme for design expertise to MSMEs Manufacturing sector (DESIGN)
8.	Marketing Assistance & Technology Up-gradation Scheme in MSMEs. (TEQUP)
9.	Technology and Quality Upgradation Support to MSMEs
10.	Promotion of ICT in Indian Manufacturing Sector (ICT)

## 1) Marketing Assistance and Technology Upgradation Programme (Bar-Code)

### Marketing Assistance

The basic objective of financial assistance is to enhance the marketing competitiveness of Micro & Small Enterprises (MSEs). Cost sharing in 80:20 ratio upto total cost of ₹ 10 lakh between GoI and Unit. The objectives of the scheme are to be achieved by performing the following major activities for MSMEs through Government of India financial assistance in the manner laid down in these guidelines:

- Technology Up-gradation in Packaging.
- Skill Up-gradation /Development for Modern Marketing Techniques.
- Competition Studies.
- Special component for North-Eastern Region.
- New Markets through State /District level local Exhibitions/Trade Fairs.
- Corporate Governance Practices.
- Marketing Hubs.
- Reimbursement towards ISO 18000 /ISO 22000 /ISO 27000 - Certification.

### Technology Upgradation Programme (Bar-Code)

- Providing 75% of one-time registration fee and annual recurring fee (for first three years) paid by MSEs to GS of India.
- Popularizing the adoption of bar codes on large scale amongst MSEs, and

- Motivating and encouraging MSEs for use of bar codes through conducting seminars on Bar Code, etc.

## 2) **Support for Entrepreneurial and Managerial Development of MSMEs through Incubators**

The main objective of the scheme is to promote emerging technological and knowledge based innovative ventures that seek the nurturing of ideas from professionals beyond the traditional activities of Micro, Small & Medium Enterprises (MSMEs). Such entrepreneurial ideas have to be fostered and developed in a supportive environment before they become attractive for venture capital.

Under this scheme, 100 “Business Incubators” (BIs) are to be set up under Technology Institutions over the next 4 years [ @ say 25 per year] and each BI is expected to help the incubation of about 10 new ideas or units. For this service, which includes the provision of laboratory /workshop facilities and other assistance /guidance to young innovators, each BI will be given between ₹ 4 lakh and ₹ 8 lakh per idea /unit nurtured by them, limited to a total of ₹ 62.5 lakh for the ten units.

## 3) **Enabling Manufacturing Sector to be competitive through Quality Management Standard & Quality Tech - Tools (QMS/QTT)**

This component envisages Micro & Small Enterprises to understand and adopt the latest Quality Management Standards (QMS) and Quality Technology Tools (QTTs) so as to become more competitive and produce better quality products at competitive prices. The adoption of these tools will enable MSEs to achieve:

- Efficient use of resources.
- Improvement in product quality.
- Reduction in rejection and re-work in the course of manufacturing.
- Reduction in building up inventory at the various stages in the form of raw materials, work-in-progress, finished components, finished products, etc.

This will also enable the MSEs to enter into or strengthen their position in the export market.

## 4) **Building Awareness on Intellectual Property Rights (IPR) for MSMEs**

The main activity proposed under this scheme cover the following broad areas of interventions:

- Awareness /Sensitization Programmes on IPR (₹ 1 lakh Max per Proposal)
- Pilot Studies for Selected Clusters/Groups of Industries (₹ 2.50 lakh Max per Proposal)
- Interactive Seminars/Workshops (₹ 2 lakh Max per Proposal)
- Specialized Training
  - Short Term (ST) (₹ 6 lakh Max per Proposal)
  - Long Term (LT) (₹ 45 lakh Max per Proposal)

- Assistance for Grant on Patent/GI Registration
  - Domestic Patent (₹ 0.25 lakh Max per Proposal)
  - Foreign Patent (₹ 2 lakh Max per Proposal)
  - GI Registration (₹ 1 lakh Max per Proposal)
  - Setting up of 'IP Facilitation Centre for MSME (₹ 65 lakh Max per Proposal)
  - Interaction with International Agencies
  - Domestic Intervention (₹ 5 lakh Max per Proposal)
  - International Exchange Programme (₹ 7.5 lakh Max per Proposal)

#### 5) **Lean Manufacturing Competitiveness Scheme for MSMEs**

The objective of the Scheme is to enhance the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques (5S System, Visual Control, Standard Operating Procedures, Just in Time, NBAN System, Cellular Layout, Value Stream Mapping, TPM (Total Productive maintenance), etc.)

The general approach involves engagement of Lean Manufacturing Consultants (LMC) to work with selected MSMEs in the chosen clusters with financial support by the Government. A maximum of 80% of the project cost for each cluster will be borne by the Government. The assistance would be limited to the first year, of the Scheme, which would cover 100 Mini Clusters (approximately 10 MSMEs per cluster), spread all over the country.

The objectives of Scheme are to increase the competitiveness of the MSME sector through the adoption of LM techniques with the objective of:

- Reducing waste
- Increasing productivity
- Introducing innovative practices for improving overall competitiveness
- Inculcating good management systems, and
- Imbibing a culture of continuous improvement

#### 6) **Mini Tool Rooms proposed to be set up by Ministry of MSME (MTR)**

The objective of the scheme is to set up mini tool room through PPP model, State PPP model and Centre - State Model. The financial assistance upto ₹ 9 crore would be provided under the scheme. This scheme is expected to improve the competitiveness of MSMEs, reduce the demand and supply of skilled labour, etc.

## 7) Design Clinic scheme

The objective of Design Clinic Scheme is to enhance the understanding and application of design and innovation in MSMEs. It aims to promote design as a value adding activity and integrating the same into the mainstream business and industrial processes of MSMEs. The Scheme will help MSMEs to avail independent and professional advice on all aspects of design. Practical support will be provided to MSMEs through seminars, workshops and one-to-one advice by design experts for new product development as well as enhancing existing product portfolio. The total scheme budget will be ₹ 73.58 crore, out of which ₹ 49.08 crore will be GoI assistance and the balance amount will be contributed by the beneficiary MSMEs.

## 8) Marketing Assistance & Technology Up-gradation Scheme in MSMEs

Clubbed with (1) above

## 9) Technology and Quality Upgradation Support to MSMEs (TEQUP)

The following activities have been envisaged under the scheme towards fulfillment of the above objectives:

- Capacity Building of MSME Clusters for Energy Efficiency, Clean Development Interventions and other technologies mandated as per the global standards.
- The initiatives planned under this activity include:
  - Conducting awareness programmes
  - Supporting energy audits
  - Identifying energy efficient technologies
- Creation of Detailed Project Reports (DPRs) and replication of model DPRs at the cluster level.
- Implementation of Energy Efficient Technologies (EET) in MSME units.
- This will be achieved through:
  - Invitation of bankable DPRs from MSMEs
  - Financing of DPRs through SIDBI and other financial institutions
- Setting up of Carbon Credit Aggregation Centers (CCA) for introducing and popularizing clean development mechanism (CDM) in MSME clusters. Under this activity, CCAs will be setup in 16 clusters to aid registration of CDMs by MSMEs and ensure that aggregation of CDMs to ensure that sufficient volume is obtained for trading on commodity exchanges.

- Encouraging MSMEs to acquire product certification /licenses from National /International bodies and adopt other technologies mandated as per the global standards. Towards this cause, eligible MSMEs will be provided financial support for obtaining national and international product certificates.
- Studying the Impact of the scheme, administration and other miscellaneous activities.

#### **10) Promotion of Information and Communication Technology in MSME Sector**

The Scheme envisages for a planned model of IT adoption in potential MSME clusters based on need analysis of stake holders. Under this scheme, 100 clusters will be benefited in respect of standardization of their business process, improvement in delivery time, reduction in inventory carrying cost, improvement in productivity and quality of production, controlling of cost & time, improved customer satisfaction etc., through need based ICT interventions. The total budget under the scheme is ₹ 105 crore including Government of India (GoI) contribution of ₹ 47.70 crore.

The main objective of the scheme is to carry out diagnostic mapping of potential clusters and motivate them to adopt the ICT tools and applications for their production & business processes, with a view to improve their competitiveness in national & international market.

The developmental outputs expected from the scheme will be:

- Large number of MSMEs across the country (about 5,000) will reap the benefits from the scheme.
- ICT interventions will improve competitiveness of MSME sector resulting in enhanced export of these MSMEs and increased share in domestic and international markets.
- The scheme will facilitate:
  - In extending the support of basic ICT infrastructure to MSMEs.
  - In sensitizing MSMEs with potential benefits of ICT tools and promote their adoption in the entire chain of business from procurement of raw material to after sales & service.
  - Encouragement of indigenous development of sector /cluster specific software solutions on need basis.
  - Standardization of the business processes / activities across the enterprise through ICT application.
  - Creation of knowledge networks amidst the clusters across the country to facilitate forward and backward linkages.
  - Awareness towards the adoption of business software such as ERPs, e-procurement, e-marketing, etc.



- Continuous HRD development in ICT related applications; and
- Incentivizing MSMEs and Software partners for long term partnership in ICT adoption.

### **National Commission for Enterprises in the Unorganized Sector**

The National Commission for Enterprises in the Unorganized Sector (NCEUS) had been set up as an advisory body for the informal sector to bring about improvement in the productivity of these enterprises for generation of large-scale employment opportunities on a sustainable basis, particularly in the rural areas. The Commission has recommended appropriate measures to enhance the competitiveness of the sector in the emerging global environment and link the sector with the institutional framework in areas such as credit, raw material, infrastructure, technology up gradation and marketing. Very valuable recommendation for Micro, Small and Medium Enterprises for the informal sector have also been made by the Commission, some of which have already been accepted and implemented. The Commission has since been wound up on April 30, 2009.

#### **► Policy Set-up**

##### **Reserve Bank of India (RBI)**

Reserve Bank of India is the central bank and monetary authority of India, which sets the monetary and credit policies. Its priority sector lending policy and guidelines with regard to rehabilitation of sick industries, viability norm, definition of sick industries, directly impacts the MSME sector. In numerous other ways, RBI indirectly and directly controls credit and finance issues relating to MSMEs. A Standing Advisory Committee of the RBI on MSME Sector constantly looks into the credit related problems of the MSME Sector.

##### **Ministry of MSME**

The President under Notification dated May 09, 2007 had amended the Government of India (Allocation of Business) Rules, 1961. Pursuant to this amendment, Ministry of Agro and Rural Industries and Ministry of Small Scale Industries were merged into a single Ministry, called the Ministry of Micro, Small and Medium Enterprise. This Ministry initiates appropriate policy measures, programmes and schemes for the promotion of MSMEs, which include the setting up of network of institution at the field level to render assistance and to provide a comprehensive range of services and common facilities for MSMEs. These are supported by a host of other central /state government departments, promotional agencies, non-governmental organization, autonomous organizations, etc. which provide support to MSMEs in different ways. The Ministry also coordinates with other ministries / departments and different organizations in the interest and welfare of the MSME sector.

The range of services covers techno-economic and managerial aspects, training, testing facilities and marketing assistance through the agencies created for the specified functions. These activities are carried out through attached offices /organizations, namely, Office of Development Commissioner, MSME [DC (MSME)], Khadi and Village Industries Commission (KVIC), Coir Board and National Small Industries

Corporation (NSIC). The objectives, role and functions of these departments/ organizations are given below:

The **Vision** of the Ministry is to have a vibrant Micro, Small and Medium Enterprises (MSME) sector in India. The Ministry envisions that the sector will have a healthy growth with a large number of enterprises being set up and their graduation by upscaling into small and medium enterprises. This would be accompanied by enhancement of their contribution to the GDP, manufacturing output, employment and exports. For those already established, their upward graduation to next higher levels of investments and market shares would be welcomed. On an organizational level, transition of the sector from a predominantly unorganized to the organized sector, would be endeavoured.

The **Mission** of the Ministry is to promote growth and development of Micro, Small and Medium Enterprises, including Khadi, Village and Coir industries, in cooperation with concerned Ministries / Departments, State Governments and other stakeholders by providing support to existing enterprises and encouraging creation of new enterprises.

The **objective** of the Ministry is to support and develop existing MSMEs; creation of new enterprises; support to Khadi, Village and Coir industries. The gamut of these objectives is a wide spectrum of support to entrepreneurship and skill development of MSMEs and such other ancillary objectives so as to create a complete promotional eco system.

The **functions** of the Ministry include inculcation of entrepreneurial culture amongst youths, facilitation of credit flow to MSMEs, improving competitiveness of MSME, promotion of MSMEs through cluster-based approach, marketing support to MSMEs, creation of new Micro Enterprises through Prime Minister's Employment Generation Programme (PMEGP), support to Khadi and Village Industries (KVI) sector, support to Coir Industry, entrepreneurship and skill development.

### **Office of the Development Commissioner (MSME)**

The Office of DC (MSME) was established as Small Industries Development Organization (SIDO) in 1954 on the basis of the recommendations of the Ford Foundation. Over the years, it has witnessed its role to evolve into an agency for advocacy, handholding and facilitation of the MSME sector. The organization provides economic information services and also advises Government in policy formulation for the promotion and development of MSME sector. Recognizing the dynamics of the new environment in which these units were operating, the Office of the DC (MSME) focuses on providing support in the fields of credit, marketing, technology and infrastructure. The emerging global trends and national developments have transformed the role of the organization into that of catalyst of growth of MSMEs in the country. The main services rendered are:

- Advising the Government in policy formulation for the promotion and development of MSME Sector.
- Providing techno-economic and managerial consultancy, common facilities and extension services to the MSME Sector.

- Making Available facilities for technology upgradation, modernization, quality improvement and infrastructure.
- Developing Human Resources through training and skill upgradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other organisations concerned with development of MSME Sector
- Evolving and coordinating Policies and Programmes for development of the Sector as ancillaries to large industries

The Office provides a comprehensive range of common facilities, technology support services, marketing assistance, etc. through its network of MSME Development Institutes (MSME - DIs); MSME Testing Centers (MSMETCs); Field Testing Stations (MSMETSs); Autonomous Bodies – which include MSME Tool Rooms (MSME-TRs); MSME Technology Development Centers (MSME-TDCs) and MSME Footwear Training Institutes (MSME-TDC-CFTIs). There are also two Departmental Training Institutes (MSME-TIs).

### **Schemes implemented by Ministry of MSME, GOI**

**Credit Linked Capital Subsidy Scheme for Technology Upgradation** - The MoMSME is operating a Scheme, namely, Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of Micro and Small Enterprises. The Scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises. The Scheme was launched in October, 2000 and revised w.e.f. 29.9.2005. The revised scheme provides for 15% Capital Subsidy (12% prior to 29.9.2005) on institutional finance availed by them for induction of well-established and improved technology in approved subsectors/ products. The maximum limit of eligible loan for calculation of capital subsidy under the scheme is ₹ 100 lakh with a maximum subsidy of ₹ 15 lakh. The admissible capital subsidy under revised scheme is calculated with reference to purchase price of the plant and machinery, instead of the term loan. Cumulatively till December 31, 2010, 11,114 units have been sanctioned subsidy amounted to ₹ 523 crore.

**Credit Guarantee Scheme** - The Government of India launched the Credit Guarantee Fund Scheme for Micro and Small Enterprises in August, 2000, with the objective of making available credit to micro and small enterprises (MSEs), particularly micro enterprises, for loans up to ₹ 100 lakh without collateral/third party guarantees. The Scheme is being operated through the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and Small Industries Development Bank of India (SIDBI). The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible member lending institutions (MLIs) to new and existing micro and small enterprises up to ₹ 100 lakh per borrowing unit. The guarantee cover provided is up to 75% of the credit facility up to ₹ 50 lakh with an incremental guarantee of 50% of the credit facility above ₹ 50 lakh and up to ₹ 100 lakh (85% for loans up to ₹ 5 lakh provided to micro enterprises, 80% for MSEs owned/ operated by women and all

loans to NER). One time guarantee fee of 1.5% of the credit facility sanctioned (0.75% for NER including Sikkim) and Annual Service Fee of 0.75% is collected from the MLIs. As on 31st December 2011, there were 125 eligible lending institutions registered as MLIs of the Trust comprising of Public Sector Banks, Private Sector Banks, Regional Rural Banks (RRBs), foreign banks and other Institutions viz., National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi), Delhi Financial Corporation, Kerala Financial Corporation, Tamilnadu Industrial Investment Corporation Ltd., Jammu & Kashmir Development Finance Corporation Ltd. (JKDFC), Export Import Bank of India (EXIM Bank) and Small Industries Development Bank of India (SIDBI). Cumulatively as on December 31, 2011, 7,15,458 proposals have been approved for guarantee cover for a total sanctioned loan amount of ₹ 32,941 crore.

(Reference: [http://www.cgtmse.com/About\\_us.aspx](http://www.cgtmse.com/About_us.aspx))

**ISO 9000/ISO 14001 Certification Reimbursement Scheme** - Incentive Scheme of reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 Certification /Environment Management (EMS) ISO 14001 Certification to the extent of 75% or ₹ 75,000 whichever is lower, for Small Scale /Ancillary /Tiny /Small Scale Service Business Enterprises (SSSBE) Units.

**MSME Marketing Development Assistance (MSME-MDA)** - The scheme offers funding up to 75% in respect of to and fro air fare for participation by MSME Entrepreneurs in overseas fairs/trade delegations. The scheme also provide for funding for producing publicity material (up to 25% of costs), sector specific studies (up to ₹ 2 lakh) and for contesting anti-dumping cases (50% up to ₹ 1 lakh) - for individual MSMEs & Associations.

- **Participation in the International Exhibitions /Fairs** - For registered Small & Micro manufacturing enterprises with DI/DIC.
- **Financial Assistance for using Global Standards (GS1) in Bar-coding** - Recognized the importance of bar-coding and avail financial assistance through Office of DC (MSME).
- **Purchase and Price Preference Policy** - This is administered through the Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases - for individual MSMEs.

(Reference: <http://www.dcmsme.gov.in/sido/SSIMDA.htm>)

**Mini Tool Rooms** - Assistance up to 90% or ₹ 9 crore, whichever is less for setting up new Mini Tool Rooms. For up-gradation of existing Tool Rooms, assistance is 75% or ₹ 7.5 crore - for State Governments.

Assistance for Strengthening of Training Infrastructure of existing and new Entrepreneurship Development Institutions - For strengthening training infrastructure in EDIs, assistance up to 50% or ₹ 50 lakh whichever is less - for State Governments.

(Reference: <http://dcmsme.gov.in/schemes/scminitool.htm>)

**Scheme of National Award** - The Micro, Small & Medium Enterprises (MSMEs) in India have seen a vast development in the last five decades. The MSMEs have registered tremendous growth as also progress in terms of quality production, exports, innovation, product development and import substitution, very much beyond the expected objectives of setting up MSMEs by the planners of industrial production base in the country. The Ministry of Micro, Small and Medium Enterprises, with a view to recognizing the efforts and contribution of MSMEs, gives National Award annually to selected entrepreneurs and enterprises under the scheme of National Award. The schemes functioning under DC (MSME), the Awards are provided under 4 Categories-Outstanding MSMEs (3 Sub-Categories), R&D Efforts in MSMEs (2 Sub-Categories), Quality Product & Entrepreneurship Services.

(Reference: [http://www.dcmsme.gov.in/schemes/award\\_scheme.htm](http://www.dcmsme.gov.in/schemes/award_scheme.htm))

**Scheme to Support 5 Selected University / Colleges** (to Run 1200 Entrepreneurship Clubs per Annum) - A package for the promotion of Micro and Small Enterprises, based on the Circular No. 2(6)/2006-MSME Policy dated the 7th November, 2006 has been approved by the Cabinet Committee for Economic Affairs (C.C.E.A.). The scheme is to support 5 universities (to run 240 clubs per year and each club may have a membership of 50 entrepreneurs) to run Entrepreneurship Clubs (one each from Northern, Western, Eastern, Southern and North East region). The scheme has been devised to encourage entrepreneurs to run self-employment ventures of MSEs. The scheme envisages to create a facilitation environment extending hard intervention in the form of technology and soft interventions like arranging workshops, seminars, guidelines to obtain ISO certification, ISI Marks, participation in Trade Fairs, implementation of Quality Management Tools, etc.

**MSME Development Institutes** - The MSME Development Institutes (MSME-DIs) all over the country mainly perform the following functions:

- Organizing Entrepreneurship, Management and Skill Development Programmes.
- Assistance / Consultancy to prospective and existing entrepreneurs.
- Preparing State and District Industrial Profiles.
- Formulating Project Profiles of Products / Industries suitable and feasible in the MSME Sector.
- Conducting Energy Conservation, Pollution Control, Quality Control & Upgradation.
- Assisting Ancillary Development.
- Making Available Common Facility Services in Workshop /Laboratories.

The MSME Development Institutes (MSME-DIs) also have Common Facility Workshops in various trades. MSME-DIs are, inter-alia, providing techno-managerial consultancy assistance to MSMEs through conducting different activities like Seminars, Industrial Campaigns, Preparation of Feasibility Reports & Area Survey Reports, In-plant Studies, EDPs, and Common Facility Workshop, etc. MSME-DIs also coordinate with the State Governments, Directorate of Industries (DICs), Industry Associations, etc. for the overall development of MSME Sector.

MSME-DIs are hosting various training programmes for first generation potential entrepreneurs, existing industrial workers and managers. The ultimate aim is to promote the MSME sector of the country by inculcating entrepreneurial culture in the respective area as well as to enhance productivity of the existing industries of that State/Area. Different types of training programmes conducted for entrepreneurship development and promotion are:

- ◆ **Industrial Motivation Campaigns (IMCs):** Industrial Motivation Campaigns (one day duration) are organized to identify and motivate traditional/nontraditional entrepreneurs having potential for setting up MSEs so as to lead them towards self-employment. Emphasis is being given to organize the maximum number of programmes in rural / remote areas, particularly for weaker sections of the society.
- ◆ **Entrepreneurship Development Programmes (EDPs):** Entrepreneurship Development Programmes are being organized as a regular training activity to cultivate the latent qualities of youth by enlightening them on various aspects that are necessary to be considered while setting up enterprises. The course contents of such Entrepreneurship Development Programmes are so designed as to provide useful information on product/process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments, project profile preparation, marketing avenues/techniques, product/service pricing, export opportunities, infrastructure facilities available, finance and financial institutions, cash flow, etc. No fees are charged from SC, ST, women and physically handicapped participants in the stipendiary programmes, rather they are eligible for a stipend of ₹125 per week.
- ◆ **Entrepreneurship Skill Development Programme (ESDPs):** Comprehensive training programmes are organized to upgrade existing skills and to create new skills in workers and technicians of existing units and educated unemployed youth by organizing various technical training courses for them. The basic objective has been to provide training to unskilled/semi-skilled workers engaged in MSE sector and to equip them with better and improved techno-managerial skills of production. Emphasis is being made to organize the maximum programmes in rural areas particularly for weaker sections of the society. Specific tailor-made programmes are organized for the skill development of the socially disadvantage groups (OBC, SC, ST, Minorities and Women) in remote regions /pockets of the States. These programmes are also called 'Out- Reach Programmes' as these are conducted in rural/less developed areas.

- ◆ **Management Development Programmes (MDPs):** The basic objective of imparting training in management subjects is to improve the MSMEs in the decision-making and in enhancing productivity/profitability. Potential entrepreneurs are trained so that they can set up and run their own enterprises.
- ◆ **Business Skill Development Programme (Tailor made Course):** Tailor made courses namely Business Skill Development Programme (BSDP) have been introduced for new entrepreneurs through select Business schools/Technical institutions etc. The programmes have been devised to encourage educated unemployed youth/students basically from Business Schools/Technical Institutes to start self-employment ventures.
- ◆ **Entrepreneur - cum-Skill Development Programme (ESDP) on Biotechnology:** Biotechnology is playing an important role in diverse sectors such as human and animal health care, plant and agriculture sciences, food and nutrition, environment etc. The areas of tissue cultures, bio-fertilizers, bio-pesticides, mushroom cultivation, solid waste management etc. are given priority for ESDPs.
- ◆ **WTO Sensitization Workshop:** A separate WTO Cell had been created in 1999 for co-ordinating the latest developments in regard to its different Agreements affecting the functioning of MSEs. The broad objectives of the Cell, inter-alia, include:
  - To keep abreast with the recent developments in WTO;
  - To disseminate information to MSME Associations and MSMEs units about the various provisions of the WTO;
  - To coordinate with other Ministries and Departments of the Gol on issues pertaining to the likely impact of WTO for the MSME sector;
  - To fine-tune the existing policy and programmes for MSMEs in line with the WTO Agreements; and
  - To organize WTO awareness/workshops/ seminars for MSMEs.
- ◆ **Vendor Development Programme (VDP) for Ancillarisation -** Vendor Development Programmes (VDPs) are being organized by MSME-DIs in the country to provide common platform for MSEs as well as large public sector enterprises to interact with each other with a view to identifying emerging demands of the buyer organizations simultaneously providing an opportunity for displaying the capabilities of the MSMEs and their industrial ventures. Such programmes have proved to be of immense use in locating suitable entrepreneurs by a number of buying organizations including the Public Sector Enterprises, various wings of Defence, Railways and others in indigenising a number of products which hitherto have been imported at a colossal cost.

## **MSME Testing Centers and MSME Testing Stations**

The Office of the DC (MSME) is operating four MSME Testing Centers located at New Delhi, Mumbai, Chennai and Kolkata. These Testing Centers provide testing and calibration facilities to industries in general and MSMEs in particular for raw materials; semi finished and finished products, manufactured by them. These Centers are equipped with the state-of-the art indigenous and imported equipments in the disciplines of Chemical, Mechanical, Metallurgical and Electrical Engineering for undertaking Performance Test, Type Test and Acceptance Test of semi-finished, finished products, etc. The Centers also undertake calibration works for Measuring Instruments and Equipment conforming to international standards. These Centers are accredited by internationally recognized National Accreditation Board of Testing & Calibration Laboratories (NABL) Certification as per ISO 17025.

These Centres also provide consultancy services in testing and quality management and in process quality system to MSMEs. Besides, in order to adequately cope up with the emerging manpower requirements in the industry. These Testing Centers organize training in testing of the products for young person's so as to enable them secure gainful employment in Quality Control Laboratories of various industries, and also assist different Government Departments in testing the materials procured by them.

## **MSME Tool Rooms (MSME-TR)**

The 10 MSME-TRs have been set up as a result of Indo-German and Indo-Danish collaborations to assist MSMEs in technical upgradation and provide good quality tooling through designing and producing tools, moulds, jigs & fixtures, components, etc. These also provide training and consultancy for tool and die makers. These are located at:

- MSME-Tool Room (Central Tool Room), Ludhiana;
- MSME-Tool Room (Indo German Tool Room), Ahmadabad;
- MSME-Tool Room (Indo German Tool Room), Indore;
- MSME-Tool Room (Indo German Tool Room), Aurangabad;
- MSME-Tool Room (Central Tool Room & Training Centre), Kolkata;
- MSME-Tool Room (Central Tool Room & Training Centre), Bhubaneswar
- MSME-Tool Room (Indo Danish Tool Room), Jamshedpur;
- MSME-Tool Room (Tool Room & Training Centre), Jalandhar;
- MSME-Tool Room (Central Institute of Tool Design), Hyderabad and
- MSME-Tool Room (Tool Room & Training Centre), Guwahati

These Tool Rooms are providing services in the area of tool design and manufacture; precision machining; heat treatment; technical training and consultancy to metal working industry; in general and micro & small



enterprises in particular so as to improve the quality and productivity of such units. These Tool Rooms were set up for fulfilling the tooling and training requirements of the MSMEs in the fields of tool design and manufacture and training of technical personnel in these fields.

These institutions organize different long-term 'Postgraduate Diploma in Tool Design and CAD CAM' Course and Vocational Training Programmes for school dropouts.

### **MSME Technology Development Centers (MSME TDCs)**

MSME Technology Development Centers (MSME TDCs) are product specific Centers for looking into their specific problems and rendering technical services, developing and upgrading technologies and manpower development & training in specific product groups like Foundry & Forging; Electronics; Fragrance & Flavour; Sport Shoes; Electrical Measuring Instruments and Glass. MSME TDCs include the Electronics Service & Training Centre (ESTC), Ramanagar; Institute for Design of Electrical Measuring Instruments (IDEMI), Mumbai; Fragrance & Flavour Development Centre (FFDC), Kannauj; Centre for Development of Glass Industry (CDGI), Firozabad; Central Institute of Tool Design (CITD), Hyderabad; Process-cum-Product Development Centre (PPDC), Agra and Process-cum-Product Development Centre (PPDC), Meerut. The main objective of these TDCs are to develop human resources for meeting the requirements for transfer of technology in different fields, viz. electronic items, instrumentation industries, sport goods; to promote and modernize the glass industry, foundry and forge industries and technological upgradation of essential oils, aroma chemicals, fragrance and flavour industry in the country.

These Centers are also running training courses on repair and maintenance of CNC machines; addition of fiber optics testing facilities; tailor-made training modules designed as per the requirements of the industry with emphasis on hands-on training. The CDGI, Firozabad provides technical support to MSME sector glass units through promoting installation of energy efficient glass melting furnaces, auxiliary furnaces, introduction of new types of glasses & their standardization, introduction of developed techniques for the decoration of glassware's, etc.

### **MSME Training Centers - Details of some of the Centers are :**

MSME Training Institutes (Central Footwear Training Institutes, MSME-TICFTI) at Agra and Chennai are engaged in developing designs for accelerating exports and providing training for manpower in footwear industry. The basic objective of these institutes is to develop human resources for footwear and allied industries through various training programmes on footwear technology and allied services. These institutes conduct long term, short term and part time training courses on different subjects of footwear technology. Besides, these institutes provide technical support services to the user industry through making their facilities available to them. The institutes also provide services for development of new products and patterns as per given sample or concept.

## **National Small Industries Corporation**

National Small Industries Corporation (NSIC) Ltd., an ISO 9001 certified Company, was established by the Government of India in 1955. The strategic objectives, for which the Corporation was established, include “to aid, counsel, assist, finance, protect and promote the interest of small industries in India.” With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, medium enterprises also came into its ambit. To enhance the competitiveness of micro, small & medium enterprises, NSIC provides integrated support services in the areas of Marketing, Technology, Finance, etc. NSIC is implementing the schemes of Marketing Assistance and Performance & Credit Rating on behalf of the MoMSME.

## **National Institute for MSME (NI-MSME)**

NI-MSME was originally set up as Central Industrial Extension Training Institute (CIETI) in New Delhi in 1960 as a Department under the Ministry of Industry and Commerce, Government of India. The Institute was renamed as Small Industry Extension Training (SIET) Institute. SIET is managed by Governing Council, appointed by the Government of India.

## **Centers of Excellence**

SIET was conferred the status of national institute by the Government of India with the charter of assisting in the promotion of Small Enterprises mainly by creating a pro-business environment. In 1984, the UNIDO had recognized SIET as an institute of meritorious performance under its Centers of Excellence Scheme. Subsequently, it was also accorded the national status in the same year and SIET Institute became NISIET. Since then, the institute has come a long way, carving a place of distinction for itself in the domain of entrepreneurship promotion, achieving recognition both at the national level and in the international arena. The Institute, in order to reflect the expanded focus of its objectives was rechristened as Ni-MSME from 11th April 2007 and re-designed its structure and organization.

The primary objective is to be the trainer of trainers. Today, with the technological development and ever-changing market scenario, the involvement has undergone changes too. From being merely trainers the institute widened its scope of activities to consultancy, research, extension and information services.

## **National Institute for Entrepreneurship and Small Business Development (NIESBUD)**

NIESBUD is an apex body for coordinating and overseeing the activities of various institutions/ agencies engaged in entrepreneurship development, particularly in the area of small industry and small business. Key activities are:

- Evolving effective training strategies and methodology.
- Standardising model syllabi for training various target groups.
- Formulating scientific selection procedure.

- Developing training aids, manuals and tools.
- Facilitating and supporting Central / State / Other agencies in organising entrepreneurship development programmes.
- Conducting training programmes for promoters, trainers and entrepreneurs.
- Undertaking research and exchange experiences globally in development and growth of entrepreneurship. The Institute is actively involved in creating a climate conducive emergence of entrepreneurship.

### **Indian Institute of Entrepreneurship**

With the aim to undertake training, research and consultancy activities in MSME sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 in Guwahati by the Ministry of Micro, Small and Medium Enterprises, Government of India as an autonomous national institute. The institute began operating from April 1994 with the North East Council (NEC), Governments of Assam, Arunachal Pradesh and Nagaland and SIDBI as its other stakeholders.

The policy direction and guidance to the institute is provided by its Board of Management whose Chairman is the Secretary to Government of India, Ministry of Micro, Small and Medium Enterprises (MSME). The Governing Council of the institute is headed by Chairman, NEC and the Executive Committee is headed by the Secretary, Ministry of MSME, and Government of India.

The objectives are:

- To organize and conduct training for entrepreneurship development.
- To evolve strategies & methodologies for different target groups & locations & conduct field tests.
- To identify training needs and offer training programmers to Government and non-Government organizations engaged in promoting and supporting entrepreneurship.
- To document and disseminate information needed for policy formulation and implementation related to self-employment.
- To identify, design and conduct training programmes for existing entrepreneurs.
- To prepare and publish literature related to entrepreneurship and industrial development.
- To organize seminars, workshops and confer conferences for providing a forum for interaction and exchange of views by various agencies and entrepreneurs.
- To conduct research for generating knowledge to accelerate the process of entrepreneurship development.
- To act as a catalyst for development of elf-employment /entrepreneurship, industry/business.
- To evolve, design and help in the utilization of various media for creating entrepreneurship.

The activities of the Institute include identification of training needs, designing and organizing programmes both for development functionaries and entrepreneurs; evolving effective training strategies and methodologies for different target groups and locations; organize seminars, workshops and conferences for providing forum for interaction and exchange of views by various agencies and entrepreneurs; undertaking research on entrepreneurship development, documenting and disseminating information needed for policy formulation and implementation on self-employment and entrepreneurship.

The Institute acts as a catalyst for entrepreneurship development by creating an environment for entrepreneurship in the support system, developing new entrepreneurship, helping in the growth of existing entrepreneurs and propagation of entrepreneurial education.

### **Khadi and Village Industries Commission**

The Khadi & Village Industries Commission (KVIC), established under the Khadi and Village Industries Commission Act, 1956, is a statutory organization engaged in promoting and developing khadi and village industries for providing employment opportunities in rural areas, thereby strengthening the rural economy. The KVIC has been identified as one of the major organizations in the decentralized sector for generating sustainable rural nonfarm employment opportunities at low per capital investment. This also helps in checking migration of rural population to urban areas in search of the employment opportunities.

### **Coir Board**

Coir Board is a statutory body established by the Government of India under a legislation enacted by the Parliament, viz. Coir Industry Act, 1953 (45 of 1953) for the promotion and development of Coir Industry in India as a whole. The main functions of the Board as laid down in Section-10 of the Coir Industry Act are given below:

- It shall be the duty of the Board to promote by such measures as it thinks fit the development, under the control of the Central Government, of the Coir Industry.
- Without prejudice to the generality of the provisions of Sub-Section (I) the measures referred to therein may relate to.
- Promoting exports of coir yarn and coir products and carrying on propaganda for that purpose;
- Regulating under the supervision of the Central Government the production of husks, coir yarn and coir products by registering coir spindles and looms for manufacturing coir products as also manufacturers of coir products, licensing exporters of coir yarn and coir products and taking such other appropriate steps as may be prescribed;
- Undertaking, assisting or encouraging scientific, technological and economic research and maintaining and assisting in the maintenance of one or more research institutes;

- Collecting statistics from manufacturers of, and dealers in, coir products and from such other persons as may be prescribed, on any matter relating to the coir industry, the publication of statistics so collected or portions thereof or extracts there from;
- Fixing grade standards and arranging when necessary for inspection of coir fiber, coir yarn and coir products;
- Improving the marketing of coconut husk, coir fiber, coir yarn and coir products in India and elsewhere and preventing unfair competition;
- Setting up or assisting in the setting up of factories for the producers of coir products with the aid of power;
- Promoting cooperative organization among producers of husks, coir fiber and coir yarn and manufacturers of coir products;
- Ensuring remunerative returns to producers of husks, coir fiber and coir yarn and manufacturers of coir products;
- Licensing of retting places and warehouses and otherwise regulating the stocking and sale of coir fiber, coir yarn and coir products both for the internal market and for exports;
- Advising on all matters relating to the development of the coir industry;
- Such other matters as may be prescribed.

Main activities of the Coir Board are in the areas of:

- Research and development in coir technology
- Modernization of extraction and processing of coir fiber
- Product development and diversification
- Testing and service facility

### **Mahatma Gandhi Institute for Rural Industrialization (MGIRI)**

Mahatma Gandhi Institute of Rural Industrialization at Wardha has been developed during the past 6 years by the collaborative efforts of KVIC and IIT Delhi. It was decided to set up this National Institute at the historical premises of Maganwadi, Wardha. The Institute is oriented to :

- Create a science and technology hub for KVI sector by developing strong linkages and interface with other Institutions in the field of rural industrialization.
- Build a database of technologies available in KVI sector.
- Facilitate setting up of rural industrial estates and clusters with necessary infrastructural facilities like power, specialized tool rooms, testing and marketing facilities.

- Undertake and sponsor projects capable of giving substantial fillip to larger and increased market penetration to selected products of village industry.
- Promote innovation through pilot studies and field trials through research, extension, education and training.
- Conduct specialized human resource development programmes in generic areas such as Total Quality Management, creativity and innovation besides, rural entrepreneurship development.
- Provide Training to Trainers of the Centers of KVIC and Khadi & Village Industries Boards of state governments.

MGIRI, Wardha consists of six major divisions catering to the generic areas of rural industrialization as given below:

- Khadi & Textile Industries division
- Bio-processing and Herbal based Industries division
- Chemical Industries division
- Rural Crafts and Engineering division
- Rural Infrastructure and Energy division
- Management and Systems division

## **Ministry of Textiles**

The Ministry of Textiles is responsible for policy formulation, planning, development, export promotion and trade regulation of the Textiles Industry.

### **Objectives**

- To make available adequate raw material to all sectors of Textiles Industry.
- To augment the production of fabrics at reasonable prices from the organized and decentralized sectors.
- To lay down guidelines for a planned and harmonious growth of various sectors with special emphasis on the development of the handlooms sector due to its large employment potential.
- To monitor the techno-economic status of the industry and to provide the requisite policy framework for modernization and rehabilitation.

The developmental activities of the Ministry are oriented towards making adequate quantities of raw material available to all sectors of the textile industry and augmenting the production of fabrics at reasonable prices from the organized and decentralized sectors of the industry. Towards this objective, the Ministry lays down guidelines for a planned and harmonious growth of various sectors of the industry. Special emphasis is

given to the development of handlooms in view of its large employment potential. The Ministry monitors the techno-economic status of the industry and provides the requisite policy framework for modernization and rehabilitation. The Ministry coordinates the activities of Textiles Research Associations and lends financial support to them for undertaking research and development.

Some schemes of the Ministry are:

- Technology Upgradation Fund Scheme (details of the scheme in chapter of credit dispensation to MSME sector).
- Modified Group Workshed Scheme.
- Development of Mega Power looms, Handlooms and Handicrafts Clusters Scheme (details of the scheme in chapter on cluster development).
- Integrated Scheme for Power loom Cluster Development (details of the scheme in chapter on cluster development).
- Textile Workers' Rehabilitation Fund Scheme (TWRFS) - The Textile Workers' Rehabilitation Fund Scheme came into force with the objective to provide interim relief to textile workers rendered unemployed as a consequence of permanent closure of any particular portion or entire textile unit. Assistance under the Scheme is payable to eligible workers only for the purpose of enabling them to settle in another employment.

### **Ministry of Food Processing Industries**

The Ministry of Food Processing Industries, set up in July 1988, is the main central agency of the Government responsible for developing a strong and vibrant food processing sector; with a view to create increased job opportunities in rural areas, enable the farmers to reap benefit from modern technology, create surplus for exports and stimulating demand for processed food. Its main focus areas include -- development of infrastructure, technological up gradation, development of backward linkages, enforcement of quality standards and expanding domestic as well as export markets for processed food products.

The functions of the Ministry can be broadly classified as follows:

- Policy Support
  - Formulation and implementation of policies for food processing industries within overall national priorities and objectives.
  - Facilitating the creation of a conducive policy environment for healthy growth of the food processing sector.
  - Promoting rationalization of tariffs and duties relating to food processing sector.

**■ Developmental Support**

- Assistance under various plan schemes
- Widening the R&D base in food processing by involvement of various R&D institutes and support to various R&D activities relating to development of product, process and packaging with special emphasis on traditional technologies.
- Human resource development both for entrepreneurs as well as workers engaged in the food processing industry by up gradation of their skills.
- Assistance for setting up analytical and testing laboratories, active participation in the laying down of food standards as well as their harmonization with international standards.

**■ Promotional Support**

- Assistance for organization of workshops, seminars, exhibitions and fairs etc.
- Assistance for studies / surveys etc.
- Publications and films.

**■ Regulatory Support**

- Implementation of Fruit Products Order (FPO).

**Ministry of Commerce and Industry**

The Department of Industrial Policy & Promotion (DIPP) was established in 1995 under the Ministry of Commerce is responsible for formulation and implementation of promotional and developmental measures for growth of the industrial sector, keeping in view the national priorities and socio-economic objectives. The major roles and functions of the Department of Industrial Policy and Promotion include:

- Formulation and implementation of industrial policy and strategies for industrial development in conformity with the development needs and national objectives;
- Monitoring the industrial growth, in general, and performance of industries specifically assigned to it, in particular, including advice on all industrial and technical matters;
- Formulation of Foreign Direct Investment (FDI) Policy and promotion, approval and facilitation of FDI;
- Encouragement to foreign technology collaborations at enterprise level and formulating policy parameters for the same;
- Formulation of policies relating to Intellectual Property Rights in the fields of Patents, Trademarks, Industrial Designs and Geographical Indications of Goods and administration of regulations, rules made there under;
- Administration of Industries (Development & Regulation) Act, 1951



- Promoting industrial development of industrially backward areas and the North Eastern Region including International Cooperation for industrial partnerships and
- Promotion of productivity, quality and technical cooperation

Industrial Policy: Objectives of the Industrial Policy of the Government are:

- To maintain a sustained growth in productivity;
- To enhance gainful employment;
- To achieve optimal utilization of human resources;
- To attain international competitiveness and
- To transform India into a major partner and player in the global arena.

The focus is on:

- Deregulating Indian industry;
- Allowing the industry freedom and flexibility in responding to market forces and
- Providing a policy regime that facilitates and fosters growth of Indian industry

## **Other Policy Changes for the MSME Sector**

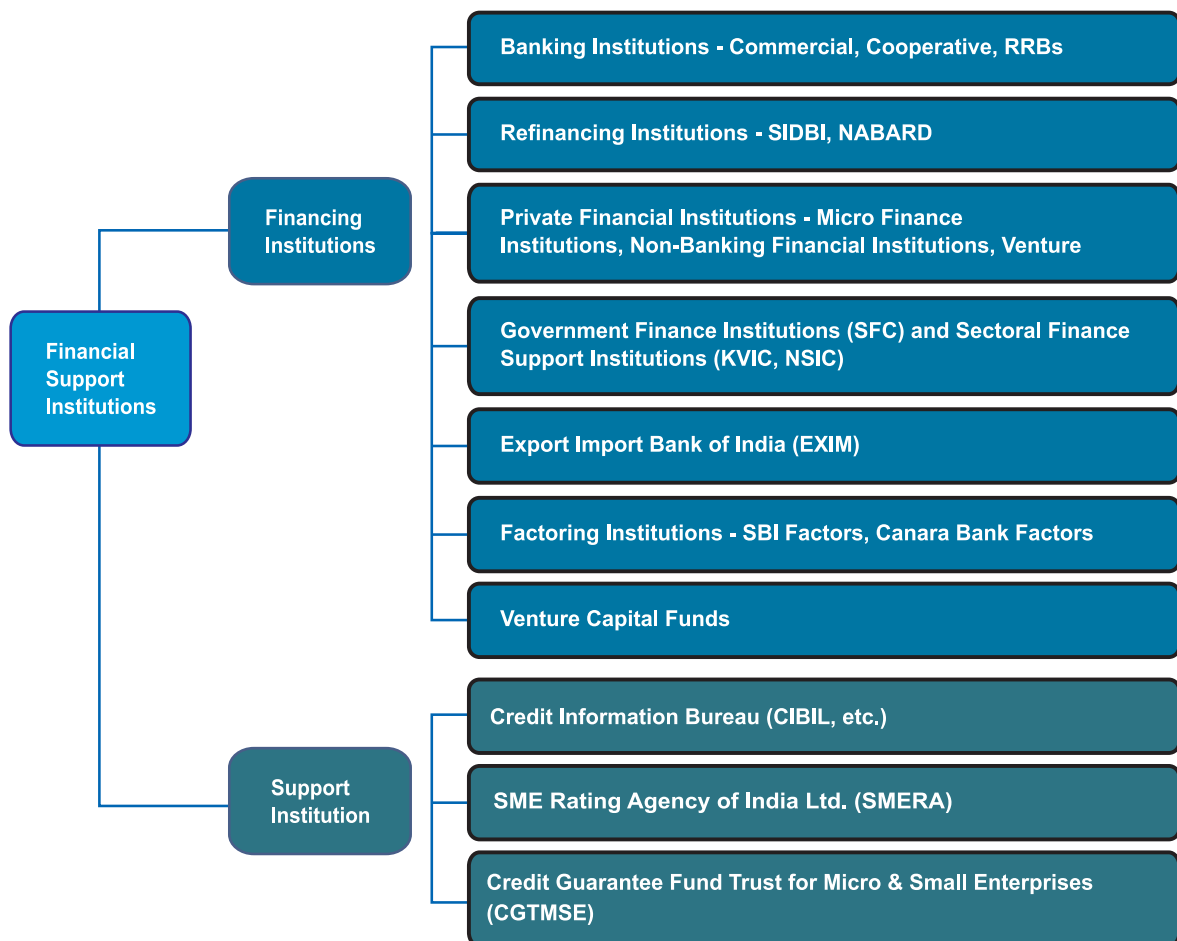
### **National Manufacturing Policy**

The Government of India has announced a national manufacturing policy with the objective of enhancing the share of manufacturing in GDP to 25% by 2022 and creating 10 crore jobs. It also seeks to empower rural youth by imparting necessary skill sets to make them employable. Sustainable development is integral to the spirit of the policy and technological value addition in manufacturing has received special focus. The share of manufacturing in India's GDP has stagnated at 15-16%, while the share in comparable economies in Asia is much higher at 25% to 34%. Recognizing that the manufacturing sector has a multiplier effect on the creation of jobs, even in allied sectors, the Government has brought out this policy which is based on the principle of industrial growth in partnership with the States. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy. The proposals in the policy are generally sector neutral, location neutral and technology neutral except incentivization of green technology. While the National Investment and Manufacturing Zones (NIMZs) are an important instrumentality, the proposals contained in the Policy apply to manufacturing industry throughout the country including wherever industry is able to organize itself into clusters and adopt a model of self-regulation.

## National Skill Development Corporation (NSDC)

NSDC is a first-of-its-kind Public Private Partnership (PPP) in India set up to facilitate the development and upgrading of the skills of the growing Indian workforce through skill training programs. A large part of the organization's efforts are directed at the private sector and towards developing the skills in the unorganized sector in India. NSDC supports skill development efforts, especially in the unorganized sector in India by funding skill training and development programmes. It is also engaged in advocacy and training programmes, in-depth research to discover skill gaps in the Indian workforce, and developing accreditation norms. The objective of NSDC is to contribute significantly (about 30%) to the overall target of skilling / upskilling 50 crore people in India by 2022, mainly by fostering private sector initiatives in skill development programmes and providing viability gap funding.

### 2.3.2 Financial Support Institutions



India has a vast formal network of institutions consisting of Scheduled Commercial Banks (Public Sector Banks, Private Sector Banks and Foreign Banks) including Regional Rural Banks, Cooperative Banks (Particularly Urban Cooperative Banks), State Financial Corporations, Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) to provide Financial support to Micro, Small and Medium Enterprises (MSME) and other Non-farm sector enterprises. The

overall regulation of the monetary policy which includes credit to MSME sector is in the hands of the Reserve Bank of India (RBI).

## ► Financing Institutions

### National Level Banking Institutions

#### Commercial Banks

The commercial banks with about 87,000 branches have been playing an important role in financing the working capital and term loan requirements of micro, small and medium enterprise sector. Besides providing short-term and long-term assistance to MSM enterprises, these banks also support non-farm enterprises, through loans for Industrial estates, small road and water transport operators, Retail trade, Small business, Housing loans, Advances to self-help groups, etc. under their priority sector lending programme.

#### Regional Rural Banks (RRBs)

RRBs were created jointly by a group of public sector commercial banks, to promote agriculture, trade, commerce and industry in rural areas and thereby to improve the rural economy. With around 15000 branches, they also support micro / tiny, and artisan-based units and village industries located in the rural areas. Most of the NABARD's schemes for nonfarm unorganized enterprises are operated through RRBs. These banks function like local banks and there is a strong case to strengthen them and increase their number in many parts of the country.

#### Urban Cooperative Banks

The Urban Cooperative Banks (UCBs) finance, apart from agriculture and related primary sector activities handlooms, power looms, coir and village industries as many of them function on a cooperative basis. There are 1,853 branches of UCBs which play an important role in meeting the working capital needs of the cottage and tiny industries.

#### Small Industries Development Bank of India

Small Industries Development Bank of India (SIDBI) started functioning from April 02, 1990 as the principal financial institution for the promotion, financing and development of the MSME sector and to coordinate the functions of other institutions engaged in similar activities. The details of SIDBI and its operations have been given in a separate chapter.

#### National Bank for Agriculture and Rural Development

Established on July 12, 1982, National Bank for Agriculture and Rural Development (NABARD) is an apex institution accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas. It provides investment and production credit for promoting the various developmental activities in rural areas.

## **Private Financial Institutions**

### **Micro Finance Institutions**

Micro Finance Institutions (MFIs) have emerged as important players in the microfinance space in India. MFIs differ from one another in terms of lending model, loan repayment structure, mode of interest rate calculation, product offerings, and legal structure. MFIs are dependent on borrowings from banks and FIs and do not raise debt from the capital market. Banks categorize their lending to MFIs as priority sector advances which has helped MFIs raise timely resources. The large and mid-sized MFIs and NBFCs primarily borrow from public, private and foreign banks, while the smaller MFIs borrow mainly from private banks and apex lenders.

### **Non-Banking Financial Companies**

In India, there are two broad categories of Non-Banking Financial Companies (NBFCs), viz., Non-Banking Financial Company – Deposit Taking (NBFC-D) and Non-Banking Financial Company – Non-Deposit Taking (NBFC-ND). The NBFCs provide lending to MSMEs and also provide them training, advisory and other ancillary services. NBFCs have strong channels, efficient recovery, good risk management systems, dedicated infrastructure and fast collection systems. They also work in clusters.

## **Government Finance Institutions**

### **KVIC and NSIC**

Already covered in above sections

### **State Financial Corporations**

The State Financial Corporation's (SFCs), set up under the SFC Act 1951, have the main objective of promoting regional growth in the country through the development of MSMEs. The 18 SFCs across the country provide financial assistance by way of term loans to MSMEs at reasonable rates for their capital expenditure. The working and operations details and support from SIDBI is covered in separate chapter on Credit dispensation to MSME sector.

### **State Industrial Development Corporations**

State Industrial Development Corporations (SIDCs) were set up under the Companies Act, 1956 as wholly owned undertakings of the State Governments to act as catalyst for industrial development in their respective States. At present, there are 28 SIDCs in the country, of which 11 also function as Twin-Function IDCs which also act as SFCs in their respective State and are, therefore, termed as Twin-Function IDCs. SIDCs develop land and provide the entire necessary industrial infrastructure, with roads, power, water supply, drainage and other amenities. Set up primarily for assistance to medium and large industries, SIDCs also extend assistance to the Micro and Small Enterprises by way of term loans, bridge loans, equipment loans, etc.

## ► Support Institutions

### **Credit Information Companies (CICs)**

CICs are repository of information which has been pooled in by all Banks and lending Institutions operating in India. With focus on the need of Credit Information to facilitate access to credit, GoI has taken steps - RBI has given license to other Credit Information Companies (CICs) viz. Experian, Equifax and Highmark besides CIBIL. However, CIBIL which is considered to be the first Credit Bureau in India has become generic to Credit Information Company. Presently CIBIL have a database size of over 17 crore consumer records and 75.9 lakh company records contributed by our over 500 Members. CIBIL's aim is to fulfill the need of credit granting institutions for comprehensive credit information by collecting, collating and disseminating credit information pertaining to both commercial and consumer borrowers, to a closed user group of Members. Banks, Financial Institutions, NBFCs, PFIs, Housing Finance Companies and Credit Card Companies use CIBIL's services. Data sharing is based on the Principle of Reciprocity, which means that only Members who have submitted all their credit data, may access Credit Information Reports from CIBIL. The relationship between CIBIL and its Members is that of close interdependence. The establishment of CIBIL is an effort made by the Government of India and the Reserve Bank of India to improve the functionality and stability of the Indian financial system by containing Non Performing Assets (NPAs) while improving credit grantors' portfolio quality. CIBIL provides a vital service, which allows its Members to make informed, objective and faster credit decisions.

### **SME Rating Agency of India Ltd. (SMERA)**

SME Rating Agency of India Limited (SMERA) was incorporated on August 26, 2005 with the objective of providing independent professional and comprehensive Risk Rating exclusively of the MSME sector so as to provide credit decision support system for the bankers. SMERA is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and certain public, private and foreign sector banks. The details of the SMERA are given in Chapter on SIDBI.

### **Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)**

CGTMSE operates the Credit Guarantee Scheme (CGS) for Micro and Small Enterprises (MSEs) which guarantees credit facilities upto ₹ 100 lakh extended by Member Lending Institutions (MLIs) to those loans, which are not backed by collateral security and / or third party guarantees. Ministry of Micro, Small and Medium Enterprises (MSME), Government of India and SIDBI contributed to the corpus of CGTMSE and taken the present corpus level to ₹ 2,156.57 crore.

The details of the Credit Guarantee Scheme have already covered in previous section.

### **Private Sector Providers**

These are institutions and individuals who provide services on a fee basis operating at various levels, usually called the business development service (BDS) providers. The type of services range includes marketing, accounting, audit and technology sourcing, etc.

### Civil Society Institutions

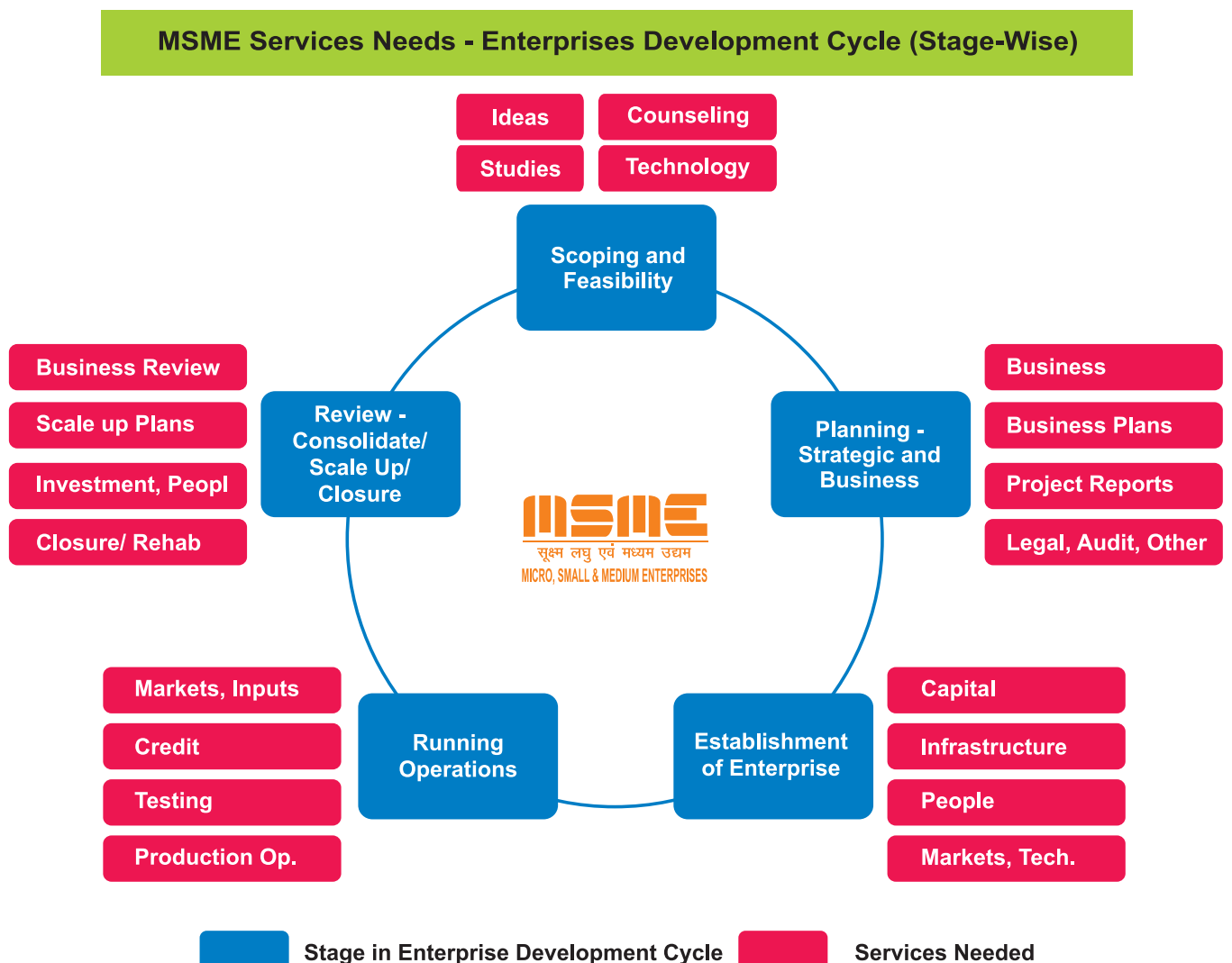
Civil Society Institutions, of the MSMEs at the Cluster, State and National levels. These are primary stakeholder (MSMEs) owned and managed organizations. Most of these are associations with membership by various MSMEs in a particular cluster or sector.

### Donor Support Institutions

Donor Institutions, mainly bilateral and multilateral agencies, who provide funding and technical support for the development of MSME in the country. These include the World Bank, German Technical Cooperation, UNIDO, etc.

## 2.4 Institutional Support System from the MSME Entrepreneurs' Lens

Flowing from the previous section, an attempt is made here to look at the institutional support system existing in the country from the point of view of the MSME entrepreneur. Need for various services for MSMEs are captured through the 'Enterprise Development Cycle', with the services needed for each stage. Post this, the type of institutions available in the country for accessing that service is given in the following Chart.



Enterprises typically go through stages of scoping, feasibility, planning, establishment, operations and review for scale up or consolidation. At each stage, various types of services are required to establish efficient, competitive and viable enterprises. Every entrepreneur has many questions for which support is required. The following table captures these questions, the solutions/ services that are required to answer these questions, and the kind of institutional support available. Private BDS providers at various levels (and therefore not repeated for each question) provide facilitation and support services through various engagement models.

NO.	QUESTION	SERVICES	PROVIDER
1.	WANT TO KNOW WHAT I CAN DO?	<ul style="list-style-type: none"> <li>▶ COUNSELING SERVICES TO BUDDING ENTREPRENEURS.</li> <li>▶ ASSISTANCE / CONSULTANCY TO PROSPECTIVE AND EXISTING ENTREPRENEURS</li> </ul>	<ul style="list-style-type: none"> <li>▶ NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)</li> <li>▶ INDIAN INSTITUTE OF ENTREPRENEURSHIP</li> <li>▶ MSME DEVELOPMENT INSTITUTES</li> </ul>
2.	I WANT EDP TRAINING	<ul style="list-style-type: none"> <li>▶ EDP TRAINING PROGRAMS</li> </ul>	<ul style="list-style-type: none"> <li>▶ NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT</li> <li>▶ INDIAN INSTITUTE OF ENTREPRENEURSHIP</li> <li>▶ MSME DEVELOPMENT INSTITUTES</li> </ul>
3.	I WANT SKILL TRAINING	<ul style="list-style-type: none"> <li>▶ TO IDENTIFY , DESIGN AND CONDUCT TRAINING PROGRAMMERS FOR EXISTING ENTREPRENEURS</li> <li>▶ ORGANIZING ENTREPRENEURSHIP, MANAGEMENT AND SKILL DEVELOPMENT PROGRAMMES</li> </ul>	<ul style="list-style-type: none"> <li>▶ INDIAN INSTITUTE OF ENTREPRENEURSHIP</li> <li>▶ MSME DEVELOPMENT INSTITUTES</li> </ul>
4.	I WANT TO KNOW WHERE TO SET UP THE UNIT?	<ul style="list-style-type: none"> <li>▶ TO EVOLVE STRATEGIES &amp; METHODOLOGIES FOR DIFFERENT TARGET GROUPS &amp; LOCATIONS &amp; CONDUCT FIELD TESTS.</li> <li>▶ SIDCS DEVELOP LAND AND PROVIDE THE ENTIRE NECESSARY INDUSTRIAL INFRASTRUCTURE, WITH ROADS, POWER, WATER SUPPLY, DRAINAGE AND OTHER AMENITIES</li> </ul>	<ul style="list-style-type: none"> <li>▶ INDIAN INSTITUTE OF ENTREPRENEURSHIP</li> <li>▶ STATE INDUSTRIAL DEVELOPMENT CORPORATIONS</li> </ul>
5.	I WANT A BUSINESS PLAN	<ul style="list-style-type: none"> <li>▶ FORMULATING PROJECT PROFILES OF PRODUCTS / INDUSTRIES SUITABLE AND FEASIBLE IN THE MSME SECTOR</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME DEVELOPMENT INSTITUTES</li> </ul>
6.	I WANT TECHNOLOGY SUPPORT	<ul style="list-style-type: none"> <li>▶ INFORMATION AND FEASIBILITY ASSESSMENT OF TECHNOLOGIES</li> <li>▶ FACILITATING BUYING</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME DEVELOPMENT INSTITUTES</li> <li>▶ PRIVATE CONSULTANTS/ BDS PROVIDERS</li> </ul>

NO.	QUESTION	SERVICES	PROVIDER
7.	I WANT RAW MATERIAL SUPPORT	<ul style="list-style-type: none"> <li>▶ INFORMATION AND NEGOTIATION SERVICES</li> <li>▶ FACILITATING LINKAGES</li> <li>▶ BULK PURCHASES IF POSSIBLE</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME TECH DEVELOPMENT CENTERS (MSME TDCS)</li> <li>▶ ASSOCIATIONS</li> </ul>
8.	I WANT HUMAN RESOURCES	<ul style="list-style-type: none"> <li>▶ IDENTIFYING, RECRUITMENT</li> </ul>	<ul style="list-style-type: none"> <li>▶ LOCAL BDS PROVIDERS/ PLACEMENT SERVICES</li> </ul>
9.	I NEED MANAGERIAL SUPPORT	<ul style="list-style-type: none"> <li>▶ MANAGEMENT TRAINING PROGRAMS</li> <li>▶ CONSULTING SERVICES</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME DEVELOPMENT INSTITUTES</li> <li>▶ PRIVATE SERVICE PROVIDERS, WHO PROVIDE SERVICES ON A FEE BASIS OPERATING AT VARIOUS LEVELS, USUALLY CALLED THE BUSINESS DEVELOPMENT SERVICE (BDS) PROVIDERS. THE TYPE OF SERVICES RANGE FROM MARKETING, ACCOUNTING, AUDIT, TECHNOLOGY SOURCING, ETC.</li> </ul>
10.	I WANT MENTOR SUPPORT	<ul style="list-style-type: none"> <li>▶ MENTORING AND ADVISORY SUPPORT</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME ASSOCIATIONS</li> <li>▶ PRIVATE BDS PROVIDE</li> </ul>
11.	I NEED VENTURE CAPITAL	<ul style="list-style-type: none"> <li>▶ INFORMATION ON VCS</li> <li>▶ BUSINESS PLANS</li> <li>▶ FACILITATING VC SERVICES</li> </ul>	<ul style="list-style-type: none"> <li>▶ SIDBI</li> <li>▶ PRIVATE VENTURE CAPITAL INSTITUTIONS</li> </ul>
12.	I NEED CREDIT - CAPITAL, WORKING CAPITAL	<ul style="list-style-type: none"> <li>▶ INFORMATION ON VARIOUS CREDIT INSTITUTIONS</li> <li>▶ BUSINESS PLANS</li> <li>▶ FACILITATING CREDIT SERVICES</li> </ul>	<ul style="list-style-type: none"> <li>▶ BANKS – COMMERCIAL BANKS, REGIONAL RURAL BANKS URBAN COOPERATIVE BANKS</li> <li>▶ PRIVATE FINANCIAL INSTITUTIONS, SUCH AS MICRO FINANCE INSTITUTIONS, NON-BANKING FINANCIAL COMPANIES, VENTURE CAPITALS, ETC.</li> <li>▶ CREDIT BUREAU</li> <li>▶ CREDIT RATING AGENCIES</li> <li>▶ STATE FINANCE CORPORATIONS</li> </ul>
13.	DO I GET SUBSIDY?	<ul style="list-style-type: none"> <li>▶ INFORMATION ON SUBSIDIES</li> <li>▶ FACILITATION SERVICES FOR SUBSIDY</li> </ul>	<ul style="list-style-type: none"> <li>▶ GOVERNMENT SECTORAL FINANCIAL SUPPORT INSTITUTIONS SUCH AS KVIC, NSC</li> </ul>
14.	I WANT TO TEST MY PRODUCT	<ul style="list-style-type: none"> <li>▶ MAKING AVAILABLE COMMON FACILITY SERVICES IN WORKSHOP/ LABORATORIES</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME DEVELOPMENT INSTITUTES</li> <li>▶ MSME TESTING CENTERS AND MSME TESTING STATIONS</li> </ul>
15.	I WANT MARKETING SUPPORT	<ul style="list-style-type: none"> <li>▶ MARKET INFORMATION</li> <li>▶ MARKET LINKAGES – DOMESTIC/ EXPORT</li> <li>▶ EXHIBITION/ EXCHANGES</li> </ul>	<ul style="list-style-type: none"> <li>▶ EXPORT PROMOTION COUNCILS</li> <li>▶ BDS PROVIDERS</li> </ul>



NO.	QUESTION	SERVICES	PROVIDER
16.	I NEED SUPPORT TO UPGRADE TECHNOLOGY?	<ul style="list-style-type: none"> <li>▶ TECH DEVELOPMENT CENTERS (TDCS) TO DEVELOP HUMAN RESOURCES FOR MEETING THE REQUIREMENTS FOR TRANSFER OF TECHNOLOGY IN DIFFERENT FIELDS, VIZ. ELECTRONIC ITEMS, INSTRUMENTATION INDUSTRIES, SPORT GOODS; TO PROMOTE AND MODERNIZE THE GLASS INDUSTRY, FOUNDRY AND FORGE INDUSTRIES AND TECHNOLOGICAL UPGRADATION OF ESSENTIAL OILS, AROMA CHEMICALS, FRAGRANCE AND FLAVOUR INDUSTRY IN THE COUNTRY.</li> <li>▶ MSME-TRS ASSIST MSMEs IN TECHNICAL UPGRADATION AND PROVIDE GOOD QUALITY TOOLING THROUGH DESIGNING AND PRODUCING TOOLS, MOULDS, JIGS &amp; FIXTURES, COMPONENTS, ETC.</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME TECH DEVELOPMENT CENTERS (MSME TDCS)</li> <li>▶ MSME TOOL ROOMS (MSME-TR)</li> </ul>
17.	I WANT MY HUMAN RESOURCES TO BE TRAINED?	<ul style="list-style-type: none"> <li>▶ CONDUCT SPECIALIZED HUMAN RESOURCE DEVELOPMENT PROGRAMMES IN GENERIC AREAS SUCH AS TOTAL QUALITY MANAGEMENT, CREATIVITY AND INNOVATION BESIDES, RURAL ENTREPRENEURSHIP DEVELOPMENT.</li> <li>▶ FOR MANPOWER IN FOOTWEAR INDUSTRY</li> </ul>	<ul style="list-style-type: none"> <li>▶ MAHATMA GANDHI INSTITUTE FOR RURAL INDUSTRIALIZATION (MGIRI):</li> <li>▶ CENTRAL FOOTWEAR TRAINING INSTITUTES, MSME-TICFTI</li> </ul>
18.	I WANT TO GET ABREAST WITH LATEST IN MY FIELD	<ul style="list-style-type: none"> <li>▶ UNDERTAKING RESEARCH AND EXCHANGE EXPERIENCES GLOBALLY IN DEVELOPMENT AND GROWTH OF ENTREPRENEURSHIP.</li> <li>▶ TO ORGANIZE SEMINARS, WORKSHOPS AND CONFERENCES FOR PROVIDING A FORUM FOR INTERACTION AND EXCHANGE OF VIEWS BY VARIOUS AGENCIES AND ENTREPRENEURS</li> </ul>	<ul style="list-style-type: none"> <li>▶ NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT</li> <li>▶ INDIAN INSTITUTE OF ENTREPRENEURSHIP</li> <li>▶ MEME ASSOCIATIONS</li> </ul>
19.	I WANT TO PARTICIPATE IN EXHIBITIONS	<ul style="list-style-type: none"> <li>▶ INFORMATION</li> <li>▶ FINANCIAL SUPPORT</li> <li>▶ COUNSELING SERVICES ON PROMOTING PRODUCTS</li> <li>▶ DEVELOPING PROMOTIONAL MATERIALS</li> </ul>	<ul style="list-style-type: none"> <li>▶ PRIVATE SERVICE PROVIDERS</li> <li>▶ CONCERNED DEPARTMENTS</li> </ul>
20.	I WANT TO START ANCILLARY INDUSTRIES	<ul style="list-style-type: none"> <li>▶ ASSISTING ANCILLARY DEVELOPMENT</li> </ul>	<ul style="list-style-type: none"> <li>▶ MSME DEVELOPMENT INSTITUTES</li> </ul>

NO.	QUESTION	SERVICES	PROVIDER
21.	I WANT TO GO PUBLIC	<ul style="list-style-type: none"> <li>▶ INFORMATION, PROCEDURES</li> <li>▶ PLANS DEVELOPMENT</li> <li>▶ FACILITATING SERVICES</li> </ul>	▶ PRIVATE SERVICE PROVIDERS
22.	MY VENTURE IS SICK AND IS THERE A WAY OUT?	<ul style="list-style-type: none"> <li>▶ INFORMATION, PROCEDURES</li> <li>▶ PLANS DEVELOPMENT</li> <li>▶ FACILITATING SERVICES</li> <li>▶ LAW, AUDIT</li> </ul>	▶ PRIVATE SERVICE PROVIDERS

As can be seen, every MSME needs multiple services and the providers are multi-disciplinary and in different locations, it is important to provide a mechanism in which these are facilitated and integrated so that MSME entrepreneurs can access these easily. Cluster development interventions are one of the initiatives which work with all institutions.

## CLUSTER DEVELOPMENT INITIATIVES

MSMEs largely depend on local resources for their operation. MSME operations are generally family run enterprises with limited capital, instead of large-scale, factory production.

Business clusters have the potential to effect competition in three ways:

- By increasing the productivity of the enterprises in the cluster.
- By driving innovation in various fields.
- By stimulating new businesses in the field.

Worldwide creation of MSME clusters (focused cluster approach) has helped the sector in big way through:

- Promoting linkages among inter-firms and intra-firms (forward and backward linkages).
- Fostering the implementation of socially and environmentally responsible business practices.
- Developing Public-Private Partnership.
- Infrastructure Development.
- Access to larger market.
- Emerging clusters attract more firms for input.
- Helps in negotiation with lenders and agencies.
- Sustained competitiveness and co-operation among MSMEs in cluster.
- Cluster of same industry can attract large export order and achieve economies of scale and Scope.
- Attract Government, non-Government, international agencies to organize several workshops, awareness campaign, introduction of new schemes, etc.
- Clusters of same products can market their products through same agency to reduce transaction cost.

- Clusters requiring similar technology can rent each other's machineries on idle time to enhance productivity and efficiency and thus reduces cost of operations.

MSME clustering is common in many developed countries, such as, Italy, Germany, the USA, and Japan. It has been practiced also in some developing countries, such as, India, China, Brazil, Korea, Indonesia, Malaysia, Mexico, etc.

- Success of any cluster depends upon involvement of individual MSMEs, Government, Association, Institutional support, linkages between all stakeholders, through linkages between educational institutions and entrepreneurs for promotion of innovation and technology, etc.
- Through focused cluster approach, MSMEs can integrate themselves and their counterparts in other clusters in national as well as international level to adopt each other's best practices.
- Various Governments have been increasingly adopting cluster based approach in policy making, providing adequate infrastructure facilities to cluster, create enabling macroeconomic environment through facilitating the competitiveness and co-operation in sync, decentralization of policy making, strengthen tangible and non-tangible location advantages of the respective clusters, etc.
- Associations have shown initialization to provide the cohesiveness of MSMEs and communicate them the advantages of being in cluster instead of individual approach.
- Institutions working for the development of the sector are attempting to promote the linkages between each other to achieve the better results, such as, lending agencies-association linkages, international development agencies-lenders linkages, educational institutions (developing technologies and new generation entrepreneurs), incubators, innovation centers linkages, etc.
- These linkages will surely results in the followings:
  - ▶ New technologies flow from incubates to testing centers to entrepreneurs.
  - ▶ Information about global best practices (viz. Energy Efficiency, Corporate Social Responsibility, ISO standards, Collateral free lending, Ratings, new technologies, innovative financing model, any new development in supply or value chain or any other new concept developed anywhere in the world) will flow to the cluster through international developing agency.
  - ▶ Setting up of common facilities (viz. testing facilities, tool rooms, technology parks, innovation centers etc.), which otherwise not possible individually.
  - ▶ Favourable trade terms while exporting products and services and importing machineries, etc.
  - ▶ Negotiate favourable lending terms with lenders.
  - ▶ Attract exhibitions, trade fairs in the location, etc.

### 3.1 MSME Cluster Development in India

Indian MSME sector is highly diversified in terms of industry segments and geographical terrain. A large segment of MSMEs operates in clusters which have developed at certain geographical locations due to various factors like historical availability of certain skill craftsmanship in the location, proximity to raw material or customer, etc. MSMEs located in clusters have similar characteristics and face similar challenges.

The problems faced by MSMEs (access to bank credit, access to capital, technology, skill, market, etc.) are quite unique to the nature of the sector /clusters. These are the concerns of several institutions and departments of the Government. The concentration of largely homogenous enterprises within a relatively limited geographical area facilitates the intervention because of their similarity of needs and support requirements, speeds up the dissemination of best practices because of the pervasiveness of demonstration effects, and allows for a distribution of the fixed costs of interventions among a large number of beneficiaries. Around 650 SME (industrial) and 6,000 Artisan /Micro Enterprises clusters are estimated to exist in India.

Cluster approach is one of the key drivers of economic growth. Various Ministries under Government of India, institutions like NABARD, SIDBI, etc., international organizations like UNIDO, ILO have adopted cluster based approach for development of MSMEs.

The Ministry of MSME, Government of India initiated selected interventions in industrial clusters first in 1998, later on, it has broadbased its MSE Cluster Development Programme through interventions, such as, capacity building, marketing development, export promotion, skill development, technology upgradation, exposure visits and setting up of common facilities centers, etc. The Ministry is also promoting new innovative technologies for lean manufacturing process (include Total Productive Maintenance (TPM), 5S, Visual Control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke), usage of energy efficient technologies to reduce emissions of Green House Gases, adoption of other technologies mandated as per the global standards to improve their quality and reduce cost of production, awareness campaign about IPRs and ICTs, setting up of testing centers and tool rooms, etc. in select clusters to make them globally competitive.

#### Objectives of the cluster based approach

- ◆ To support the sustainability and growth of MSMEs by addressing common issues, such as, improvement of technology, skills and quality, market access, access to capital, etc.
- ◆ To build capacity of MSEs for common supportive action through formation of self-help groups, consortia, upgradation of associations, etc.
- ◆ To create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSMEs.
- ◆ To set up common facility centers (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc).
- ◆ Network Development among cluster stakeholders.
- ◆ Development of Service Ecosystem in the clusters.

## Broad Expectations of Clusters

- ◆ Diagnostic Study - Map pressure points and attending them.
- ◆ Soft and Hard Infrastructure support.
- ◆ Resourcing of Technology.
- ◆ Facilitating the transfer of technology from producer to end-user.
- ◆ Setting up of Common Facility Centers (CFCs).
- ◆ R&D needs.
- ◆ Organizing workshops, Seminars, Training and Study visits for quicker diffusion of technology across the cluster of small enterprises.

## Infrastructure Development

For setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services, etc., for MSMEs, the Integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers rural as well as urban areas with a provision of 50% reservation for rural areas and 50% industrial plots are to be reserved for the Micro Enterprises. The scheme also provides for upgradation / strengthening of the infrastructural facilities in the existing industrial estates. Central Government provides 40% in case of general States and up to 80% for North East Region (including Sikkim), J&K, H.P. and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State Funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Program (MSECDP). All the features of the IID Scheme have been retained and will be covered as “New Clusters” under MSECDP.

## Micro and Small Enterprises Cluster Development Programme (MSECDP)

Ministry of MSME has adopted the concept of cluster development to enhance the productivity and competitiveness of the micro and small enterprises situated in clusters and designed a special programme named Micro and Small Enterprises Cluster Development Programme. The objective of the programme is to support the sustainability and growth of MSEs by addressing common issues, such as, improvement of technology, skills and quality, market access, access to capital etc., to create/upgrade infrastructural facilities in the new/existing industrial areas/clusters of MSEs, to set up Common Facility Centers (CFC) etc.

The programme provides assistance for soft and hard interventions. Soft interventions pertain to activities aimed at capacity building of the enterprises, whereas hard interventions are primarily aimed at creating permanent assets, such as, Common Facility Centers (CFCs) for various purposes.

The modified guidelines of the programme are as follows:

- **Soft interventions** - Under the soft intervention, the maximum limit for project cost would be ₹ 25 lakh per cluster. Gol grant will be 75% if the project cost (90% in case of micro/ village, women

owned, SC/ST units etc.). Soft Intervention may inter-alia include:

1. Seminars/Workshop/Study tours
  2. External consultants
  3. Publications
  4. Trainings
  5. Costs of implementing agency
  6. Technical equipments for demonstration
- **Hard Interventions (setting up of common facility centers)** - Under the hard interventions, financial assistance is provided upto 70% of the Project cost (90% for North Eastern Region/ Micro/ women owned /SC, STs etc.) with a ceiling of ₹ 15 crore per project, depending upon the category of the CFC. The grant is restricted to 60% of the cost of the project of ₹ 10 crore (80% for North Eastern Region/ Micro/Women owned /SC/STs etc.) in case of infrastructure development.
    - a) Cost of land, building and other physical infrastructure, equipments, preliminary and pre-operative expenses are included in the project cost.
    - b) Dovetailing of funds from other Schemes of the Ministry of MSME and of other Ministries/ Departments or State Governments is permissible. However, beneficiaries must contribute at least 10% of the Project cost.
    - c) Though Government assistance is provided as percentage of the Project cost, Government assistance is only to be utilized towards the exact cost of plant & machinery only.
    - d) Land and building is to be provided by beneficiary/State Government.

### 3.2 Scheme by Ministry of Textiles, GOI

- ◆ **The Integrated Handlooms Development Scheme (IHDS)** - has been launched with a view to develop holistically and comprehensively the weavers' clusters throughout the country. Under this scheme, Handloom clusters have been given the financial assistance for the various components like skill upgradation, awareness programme, formation of consortium, etc.
- ◆ **Scheme for Integrated Textile Parks (SITP)** - The 'Scheme for Integrated Textile Parks (SITP)' is being implemented to facilitate setting up of textile units with appropriate support infrastructure. Industry Associations / Group of Entrepreneurs are the main promoters of the Integrated Textiles Park (ITP). 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 ITP. The Scheme provides financial support to the tune of 40% (not exceeding ₹ 40 crore) of the project cost for development of the common infrastructure in a green field textile park to the implementing SPVs.

- ◆ **Apparel Park for Exports Scheme (APES)** - With the objective of imparting a focused thrust to set up apparel units of international standards and to give a fillip to exports, the Government had launched the Apparel Park for Exports Scheme (APES), a centrally sponsored scheme.
- ◆ **Integrated Skill Development Scheme for the Textiles & Apparel Sector, Including Jute & Handicrafts** - The Scheme would work on the basic principle of leveraging on existing resources and infrastructure as advised by the Planning Commission. Further, private sector participation would also be encouraged.
  - The Scheme would target to train approximately 2.56 lakh persons during 2010-11 and 2011-12.
  - It would cover all segments under the ambit of the Ministry, viz. i) Textiles and Apparel ii) Handicrafts iii) Handlooms iv) Jute v) Sericulture vi) Technical Textiles.
  - All facets of skill development will be covered viz. Basic Training, Skill upgradation, Advanced Training in emerging technologies, Training of Trainers, orientation towards modern technology, retraining, skill upgradation, managerial skill, entrepreneurship development etc.
- ◆ **Integrated Scheme for Powerloom Sector Development** - In order to achieve the overall development of the powerloom sector, Govt. has announced the Integrated Scheme for Powerloom Sector Development during 2007-08. The scheme has got the following components :
  - 1) Marketing Development programme for Powerloom Sector
  - 2) Exposure visit of Powerloom Weavers to other Clusters
  - 3) Survey of the Powerloom Sector
  - 4) Powerloom Cluster Development
- ◆ **National Program for Capacity Building of Textile MSMEs through Cluster based Approach** (Reference: <http://textilescommittee.nic.in/npcapacity.htm>) - The objective of this program is capacity building of MSMEs, through a cluster based approach, by way of fostering the collective efficiency of MSMEs and improving the support systems, so that the emerging opportunities on account of globalization and liberalization are exploited. Under the programme, 23 major clusters having concentration of MSMEs and where the Textiles Committee has presence has been identified for intervention. A Diagnostic Study will be conducted in these clusters to identify the gaps and support initiatives required to be provided by various organizations including Central /State Governments, Industry Associations and the MSMEs. An Action Plan will be drawn up based on such Diagnostic Study, to fill the identified gaps, for 3 year period from 2002-03 to 2004-05 which include the actions to be taken by the MSMEs, their enterprise partners, the associations and the support service institutions with the objective of improving business processes like modernization of technology, quality up-gradation, product innovation and diversification, marketing, skill acquisition, infrastructure



etc. Textiles Committee, which has transformed itself from regulation to facilitation, will act as coordination agency in implementation of this program. The services of various support institutions will be roped in to implement the plan. While the regional offices of the Textiles Committee will act as nodal offices for the concerned clusters, an experienced officer within the concerned office is designated as Cluster Development Agent (CDA) exclusively, for implementation of the program. The CDAs will be provided adequate training by UNIDO and other institutions of repute. The local industry and the Support Service Institutions will be involved in the form of networking through Cluster Co-ordination Development Group (CCDG). The entire program is envisaged to be financially self-sustaining without dependence on any funding from the Government. The impact of the program will be assessed periodically by adopting scientific methodology.

- ◆ **National Resource Centre under Integrated Handloom Cluster Development Program** - To co-ordinate, monitor and handhold support of cluster development interventions at 20 locations in the country with the following objectives:
  - Co-ordinate cluster development activities all across the 20 clusters identified by the ministry at National Level.
  - Provide monitoring and support services to ensure holistic development of Handloom clusters.
  - Facilitate cluster activity network by dissemination of information on various aspects of cluster development.
  - Establish a documentation centre in order to facilitate mutual learning. The documentation of 'best practices' in one cluster can foster demonstration effect in others.
  - Provide an interactive forum for CDEs, Govt. organizations, implementing agencies by organizing meetings/ workshops whenever required.
  - Enable clusters to take advantage of globalization by providing customized intervention in critical business areas.
  - Sensitize policy makers about the requirements of Handloom clusters.

### **3.3 Schemes implemented by Department for Industrial Policy and Promotion (DIPP), Ministry of Commerce, GOI**

- ◆ **Industrial Infrastructure Upgradation Scheme (IIUS)** - This scheme was launched in December, 2003 as a Central Sector Scheme. The objective of the scheme is to enhance competitiveness of the industry by providing quality infrastructure to existing industrial clusters through Public-Private Partnership mode (PPP). Under the schemes, a cluster is identified by a product or similar products manufactured mostly by a large number of Small and Medium Enterprises that are located in specific geographical region. The Scheme targets existing industrial clusters with high growth potential requiring assistance for upgradation of infrastructure to world class standards. The eligible activities under the scheme includes 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 and Common Facilities Centre. (Such as: Tool Room, Display Centre, Testing Centre, Training Centre etc.), Quality Certification & Benchmarking Centre and R&D Infrastructure. The central grant Up to 75% of the project cost with a ceiling of ₹ 60 crore with a condition of 15% contribution by industries.

- ◆ **Integrated Development of Leather Sector (IDLS)** - The scheme is aimed at enabling existing tanneries, footwear, footwear components and leather products units to upgrade leading to productivity gains, right-sizing of capacity, cost cutting, design and development, simultaneously encouraging entrepreneurs to diversify and set up new units in the areas. The scheme targets creation of positive ambience for technology upgradation, modernization and capacity creation for attaining global competitiveness through productivity gains, minimization of wastages, right sizing of capacity, cost cutting, design and development, etc. The financial assistance under the Scheme will be investment grant to the extent of 30% of cost of plant and machinery for SSI and 20% of cost of plant and machinery for other units (i.e. non small scale units) subject to ceiling of ₹ 50 lakh for technology up gradation /modernization and/or expansion and setting up a new unit. The rate of assistance would be @ 20% for all units (both SSI and Non-SSI) above ₹ 50 lakh subject to ceiling of ₹ 2 crore. The disbursement above ₹ 25 lakh would be released in four equal annual installments. Investment grant would also be available to units investing their own resources. For the purpose of this Scheme, the definition of small-scale industry would be the same as notified by the Government on the date of sanction of the project.

### 3.4 Schemes Implemented by Ministry of Food Processing Industries

#### Scheme for Infrastructure Development by Ministry of Food Processing Industries

The Scheme for Infrastructure Development to be implemented during 11th Five Year Plan period comprises four components, namely, (1) setting up of Mega Food Parks, (2) Cold Chain and Preservation Infrastructure, Strategic Distribution Centers and (3) Modernization of Abattoirs.

#### ◆ **Mega Food Parks**

The scheme is project oriented and aims to provide a mechanism to bring together farmers, processors and retailers and link agricultural production to the market so as to ensure maximization of value addition, minimization of wastages and improving farmers' income. Mega Food Park envisages a well-defined agriculture /horticultural processing zone containing state-of-the-art processing facilities with support infrastructure and well established supply chain. The primary objective of the scheme is to facilitate establishment of an integrated value chain, with processing at the core and supported by requisite forward and backward linkages. Under the scheme, financial assistance in the form of

grant-in-aid up to 50% of the project cost in general areas and up to 75% of the project cost in special category states subject to a maximum of ₹ 50 crore or the cost of approved facilities, whichever is lower, has been envisaged for all implementing agencies.

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, centralized infrastructure to take care of processing activities, which require cutting edge technologies, testing facilities, besides the basic infrastructure of 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 centre cum cold chain and Reefer van transportation net works. The scheme is proposed to be entrepreneur driven to be implemented on a PPP basis.

The scheme envisages technical and managerial assistance to the potential stakeholders, through a professional Project Management Agency (PMA) which would assist the Ministry as well as the industry from concept to commissioning. The (PMA) is an independent professional agency with multi disciplinary skill set and is positioned for developing the projects under the scheme and hand-holding them through the entire life cycle, i.e. from “concept to commissioning”. The primary role of PMA is to assist the MFPI in effective implementation of the scheme.

◆ **Integrated Cold Chain and Preservation Infrastructure, Strategic Distribution Centers**

The components of the integrated cold chain facilities proposed to be assisted are: a) Minimal Processing Centers, b) Reefer Vans etc, and c) Strategic Distribution Centers with CA cold storage, IQF and Irradiation Facilities. Proposed level of assistance is 50% the total cost of plant and machinery and technical civil works in General areas and 75% for NE region and difficult areas subject to a maximum of ₹ 10 crore.

◆ **Modernization of existing Abattoirs/ Setting up of Modern Abattoirs**

The scheme aims at modernization of abattoirs in the country by providing facilities for scientific and less painful slaughtering, chilling, effluent treatment plant, drainage, by-product utilization, water and power with required Sanitary /Phyto sanitary conditions for modernization of abattoirs. Modernization of abattoirs will also augment essential supply base of hygienic raw material to the meat processing industry, both for domestic consumption and exports, besides discouraging unauthorized slaughtering. Projects based on sound and viable Business Models for Setting-up/Modernization of Abattoirs are proposed to be identified with definite measurable outputs. The level of assistance proposed under this component is 50% of the total cost of plant & Machineries & TCW subject to a maximum of ₹ 15 crore (75% in NE and difficult areas).

### 3.5 State Govt. initiatives on MSMEs

State Governments also take interest in the cluster development, to showcase the same; few illustrative examples are placed below:

#### Gujarat

##### ◆ Cluster Development in PPP Mode

Anchor units, nodal institutions and /or industry associations will be associated in PPP mode in a program of cluster development. Comprehensive support extended to strengthen cluster units in a program covering product design and technology, quality improvement, energy & water conservation, common branding and marketing facilities, hiring of an expert /cluster development agent, setting up of demonstration plant, common facilities, incubation centre, CFC, ITI extension centre and other need based facilities.

Assistance @ 80% (including assistance from GoI) in the proposed cost of programme with a ceiling of ₹ 10 crore per cluster for a period of 3 to 5 years.

Clusters will be eligible for partial financial assistance as available under the Scheme of Critical Infrastructure. Assistance will be subject to preparation, by the project owners, of a Comprehensive Development Plan of the cluster for 5 years.

#### Kerala

##### ◆ Margin Money Loan (MML) for Cluster Development Activities

Cluster Development involves the creation of Common Corporate entities, which serve the needs of cluster and are owned by them. Such entities can take up activities like sourcing of raw material, mutual credit guarantee for sourcing loans, common brand creation, marketing, setting of common Facility Service Centers, Quality testing facilities etc. For these activities, fixed assets and working capital are required. Margin money loan @ 20% as applicable under this scheme for cluster development activities subject to a maximum of ₹ 5 lakh.

#### Madhya Pradesh

##### ◆ Integrated Cluster Development Program (Traditional products of Khadi & Village Industries, sericulture and crafts & handloom products)

The Department of Rural Industry, Government of Madhya Pradesh, under this scheme, aims to conserve and develop the traditional, non-traditional and heritage art and crafts of the State providing sustainable employment opportunities to rural communities, especially the disadvantaged sections comprising scheduled castes & tribes, backward & minority sections and women. It comprises departments, directorates and federations of handloom and handicrafts, sericulture, Khadi and Village Industries, and state industrial federation. The Department of Rural Industries has devised cutting edge programme for integrated cluster development, support to SMEs, SHGs, voluntary organizations, marketing support and partnership strategies. It has formal systems for marketing assessment, training and evaluation. The Department welcomes fresh initiatives to supplement

its design development, technology transfer, skill-upgradation, networking with stakeholders, and marketing strategies, both domestic and export-oriented. Training programmes drawing upon management techniques, best practices and awareness of global issues impacting the Sector underpin the Department's efforts to refine and strengthen its delivery system towards the pursuit of Millennium Development Goals (MDG) in the rural livelihoods sector.

(Reference: <http://www.mpruralindustries.gov.in/RuralIndustry/aboutus.aspx>)

## Rajasthan

### ◆ **The Rajasthan MSME Development Assistance Scheme, 2008**

With a view to strengthening the institutional framework, improving quality of MSME's products through research and development and compatibility with the environmental bottlenecks, this scheme was introduced. Concessions provided in this scheme are – 50% of the capital cost for establishment of Common Effluent Treatment Plant/ Facilities by industries associations; 50% of the capital cost for establishment of Common Effluent Treatment Plant/ Facilities by MSMEs if they use 80% of recycled water; reimbursement of expenses related to obtaining patent or ISO certification to an extent of ₹ 2 lakh or 10 times the fee whichever is lower; part of the capital for setting up regional offices or branch of national laboratories; or testing laboratories; or training institutes. It also provides exemption of 75% from electricity duty for MSMEs.

(Reference: <http://rajcluster.com/Pdf/Msme.pdf>)

## Other Institutions

### ◆ **State Bank of India 'Uptech' Program**

Project Uptech is a State Bank of India (SBI) and United Nations Industrial Development Organization (UNIDO) facilitated project to form clusters within the small and tiny sector coir industry. The theme of Project Uptech is 'co-optition'. All members of the cluster were given training in management systems and practices and educated about the concept of 'co-optition'. A common management centre is set up for each consortium with the entrepreneurs themselves taking up marketing and financial managerial roles. One of the great advantages of the cluster is the setting up of a common raw material bank. According to the needs of each consortium, all the members are required to contribute an equal amount varying from ₹ 1,000 to ₹ 3,300. The rest of the amount required is raised by loans from Small Industries Development Bank of India (SIDBI) and Khadi and Village Industries Corporation (KVIC).

### ◆ **National Bank for Agriculture and Rural Development (NABARD)**

- **Uttarakhand Regional Economic Development (RED) Programme** - RED is a joint venture of GIZ, Germany & NABARD for the economic development of Uttarakhand state through development of certain pre-selected value chains in agro based sectors, improvement in business and investment opportunities for the private sector and promotion of rural MSMEs in the state in Specific Agro-Based Industries.

- **The National Programme for Rural Industrialisation (NPRI)** - was proposed by the Union Finance Minister in his budget speech for the financial year 1999-2000, with a mission to set up 100 rural clusters every year for the next five years to, give a boost to rural industrialization. NABARD follows two models of cluster development:
  - **Participatory model of cluster development:** Under participatory cluster, the approach would be to coordinate the efforts of all the agencies involved in carrying out the action plan prepared for the cluster development. NABARD would be the main promoter and involve its resources wherever assistance is not forthcoming from other agencies/ the other agencies do not have provision for support. In this mode of Cluster Development, the intervention budget would be limited to ₹ 15 lakh per cluster over a period of 3 years.
  - **Intensive Development model of cluster development:** Under Intensive Development, NABARD would primarily be the source for meeting the resource requirements to fund the planned promotional interventions. Support from other agencies wherever forthcoming would be utilized. The implementation period for the intensive cluster development would be a maximum of 5 years with an outlay not exceeding ₹ 1 crore. The objectives of the scheme is to strengthen the existing clusters, and development of new clusters in exceptional cases, and towards sustainable competitive advantage through technology upgradation & transfer, raw material access, skill development, managerial inputs, credit support and marketing assistance. As on 30 June 2011, 116 clusters have been adopted by NABARD for implementation. Purpose wise classification is - 57 Handloom; 39 handicraft ; 7 Food Processing ; 6 Rural Tourism; 1 Bee Keeping ; 2 Leather Work ; 2 Black-smithy; 1 Marketing; and 1 Rural Tourism cum handicraft cluster.
- ◆ **Khadi and Village Industries Corporation (KVIC)**
  - **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)** – Implemented by Coir Board & KVIC under Ministry of MSME. The objective of SFURTI is to establish a regenerated, holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in KVI and coir sectors. This primarily means:
    - More competitive traditional industries which are market-driven, productive, profitable and provide sustained employment for the participants;
    - Strengthened local socio-economic governance system of the industry clusters, with the active participation by the local stakeholders that can help continuous undertaking of development initiatives by themselves;
    - Building up innovative and traditional skills, improved technologies, advanced processes, market intelligence and new models of public-private partnerships, so as to gradually replicate elsewhere similar models of cluster-based regenerated traditional industries.

The following support measures are planned to be taken up in the selected clusters:

- Replacement of charkhas and looms in Khadi sector.
- Setting up of Common Facility Centers (CFCs).

- Development of new products, new designs for various Khadi and village industry (VI) products, new/improved packaging, etc.
- Market promotion activities.
- Capacity building activities, such as, exposure visits to other clusters and institutions, need-based training, support for establishment of cluster level networks (industry associations) and other need based support.

(Reference: [http://msme.gov.in/Chapter%2010-Eng\\_200708.pdf](http://msme.gov.in/Chapter%2010-Eng_200708.pdf) and <http://www.kvic.org.in/kv/sfurti.pdf>)

### **Programme for promotion of V.I Cluster- Rural Industry Service Centre (RISC) for Khadi and V.I. Activity Program**

The objective of the programme is to provide backward and forward linkages to Khadi & Village industries activities in a cluster, and to provide services like raw material support, skill up-gradation, training, Quality Control, Testing facilities, marketing promotion, design & product development in order to strengthen the rural clusters.

Various other institutions like Bureau of Energy Efficiency (BEE), PCRA and other ministries also adopt clustering approach to reach to targeted audience.

(Reference: [http://www.kvic.org.in/index.php?option=com\\_content&view=article&id=302&Itemid=32](http://www.kvic.org.in/index.php?option=com_content&view=article&id=302&Itemid=32))

### **3.6 Cluster based approach in MSME lending**

Cluster based approach for financing MSMEs is expected to result in less transaction costs, and risk mitigation, besides providing an appropriate scale for improvement in infrastructure. RBI has advised banks that a full-service approach to cater to the diverse needs of the MSE sector may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk. A cluster based approach to lending may be more beneficial:

- In dealing with well-defined and recognized groups.
- Availability of appropriate information for risk assessment.
- Monitoring by the lending institutions.

The recently constituted PM's Task Force for MSME has also recommended that "Each lead bank of a district may adopt at least one MSE cluster and banks should open more MSE focused branch offices at different MSE clusters which can also act as Counselling Centers for MSEs." The benefits by banks to offer cluster based financing approach include lower transaction and monitoring costs through reduction in costs of data, standardization and reduction of documentation; identification of common risk elements and their mitigation; better inter-firm comparison; improved outreach; and design of cluster specific products/interventions. Unlike the conventional financial based lending model, the cluster approach captures a 360 degree view of the MSME, bringing out the strengths in terms of its manufacturing capabilities, marketing strengths, position vis-à-vis competitors and other strengths. This gives a true understanding of the

MSMEs potential and the banks are in a better position to take credit views beyond just financial parameters.

### **3.7 SIDBI – Cluster Approach in MSME Sector Development**

SIDBI, being the Principal Financial Institution for the MSMEs in India, looks at Promotion (entrepreneurship promotion), Financing for entire value chain and Development (facilitating growth) of the MSME sector. The Bank is committed to provide solutions to MSMEs through constant innovation leading to robust framework for access to financial and non - financial services. SIDBI provides financial and non-financial support to MSMEs through indirect and direct finance, which is channelized through 103 branches all over India catering to more than 600 MSME clusters. In fact, SIDBI has always incorporated cluster based approach in its opening of the branches. SIDBI's credit linked interventions involve providing financial assistance to MSME units in clusters through special dispensations using customized products and processes keeping in view their needs and requirements.

- ◆ SIDBI has made developmental intervention in about 300 clusters, both by way of financial and promotional support:
  - In the area of Energy Efficiency financing and promotion, SIDBI is intervening in 75 clusters.
  - In association with Ministry of MSME and BEE (70 Clusters).
  - Under WB-GEF (5 Clusters) - Foundry cluster at Kolhapur, Forging at Pune, Limekilns at Tirunelveli, gas / electricity at Chemical at Ankleshwar and mixed at Faridabad.
- ◆ In the area of promotional and developmental non-credit intervention, SIDBI has supported:
  - Micro Enterprise Promotion Programme (MEPP) (in 120 rural clusters / districts) - The MEPP aims at creation of employment through enterprise promotion in rural and semi-urban areas and addressing problems such as rural unemployment, urban migration, under-utilization of know-how and latent rural resources.
  - Cluster Development Programmes - 75 in the areas marketing linkages, skill upgradation, etc.
  - Cluster development by promoting private sector Business development Services (BDS) providers in 25 clusters in the areas new technologies, use of IT, skill development, energy efficiency, marketing, etc. under the World Bank-led MSME Financing & Development project (MSMEFDP).

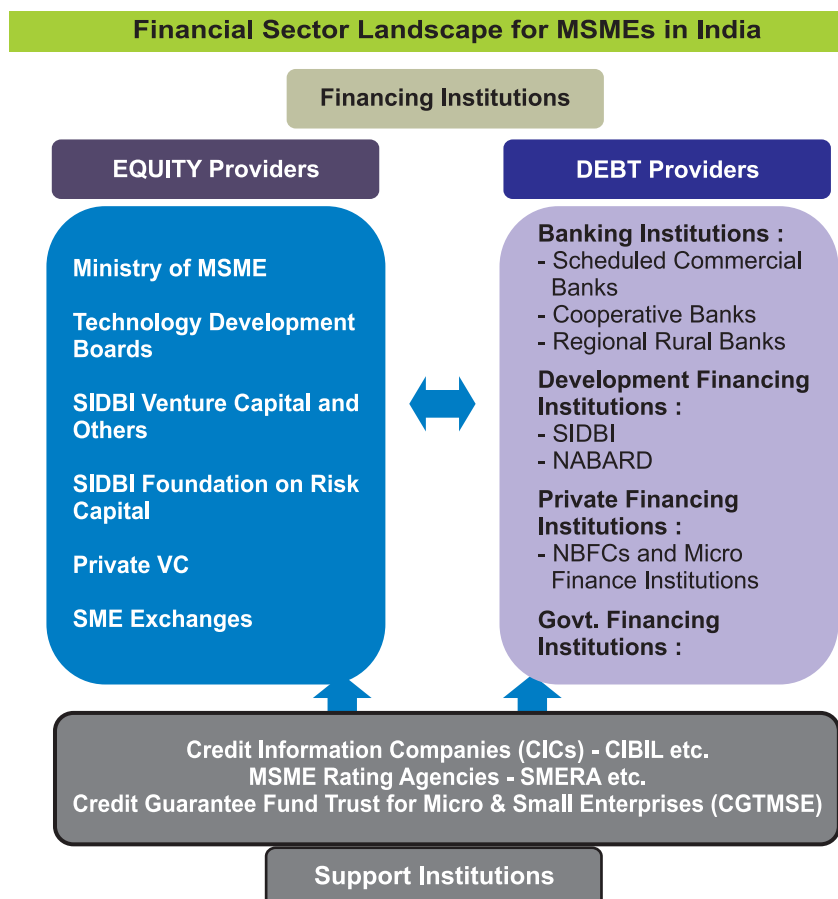
SIDBI and its associate concerns have adopted cluster based approach for providing credit and non-credit support to the MSME sector which includes, rendering technical services for technology transfer, providing financial support including promotion of clean production, energy efficiency measures, organizing cluster development programme under its Promotional and Development activities, etc. SIDBI has also taken some measures to address the issues and concern of climate change in MSME clusters by reducing Green House Gases from the MSMEs and ultimately, improving their productivity including Growth. In so many ways, SIDBI endeavours to address the gaps in MSME eco-system at cluster level.



## CREDIT DISPENSATION TO MSMEs IN INDIA

Finance is one of the critical inputs to ensure growth, competitiveness and viability of the MSMEs. MSMEs depend primarily on the bank finance to address various financial needs of their enterprises, i.e. purchase of land, building, plant and machinery and working capital. New instruments of finance have been introduced to help MSMEs, such as, credit guarantee, credit rating, risk capital, venture capital, micro finance, etc. The following diagram tries to bring together the financial sector landscape for MSME in India.

As can be seen from the diagram, there are many stakeholders who provide various services relate to credit dispensation for MSMEs in the country. There are equity and debt providers operating at various levels, in different legal forms and with varying sizes and scales; and also supporting institutions that provide key services, such as, information, rating and guarantee to facilitate easy flow of credit to MSMEs. Details of these institutions have been provided under the Section – Institutional Framework for MSMEs in the country.



## 4.1 Credit Gap in MSME sector

- ◆ As per the 4th Census on MSMEs for reference year 2006-07, only 5.2% (13.5 lakh units) of total enterprises (261 lakh units) availed credit from banks, financial institutions, NBFCs, etc.
- ◆ According to the Report on Creation of a National Fund for the Unorganized Sector by National Commission on Enterprises in the Unorganised Sector (NCEUS) (November 2007), the credit gap for the micro enterprises in the unorganised sector was estimated at ₹ 6.01 lakh crore (75%) as at end March 2011, with the caveat that the number of such unorganized micro enterprises was estimated at 6.8 crore with an average credit off take of ₹ 1.18 lakh per enterprise.
- ◆ The Sub-Group Report on Flow of Private Sector Investments for SME and Agriculture Sector for the 12th Plan\* has estimated credit supply for the MSME sector, separately for term loans and working capital through various methodologies. The results for total MSME credit Supply are given in the Table.

**Table No. 4.1: Estimated Outstanding Credit Supply of MSMEs** (₹ Crore)

As at end	Projected Supply of Credit Flow to MSME Sector		
	Working Capital	Term Loan	Total Supply
2010-11	504492	232669	737161
2011-12	600255	274227	874482
2012-13	716139	322810	1038948
2013-14	856783	380756	1237539
2014-15	1028000	449928	1477928
2015-16	1237094	532566	1769659
2016-17	1493278	631365	2124644

- ◆ The Sub-Group explored the possibility of further enhancing the credit supply to MSME sector by enhancing the credit growth to MSE sector and Medium Enterprises by SCBs and all other sources by minimum 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17 and found that the credit supply would further increase to ₹ 25,42,145 crore as at end March 2017.

**Table No. 4.2: Estimated increase in credit supply with 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17** (₹ Crore)

As at end	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Credit Supply</b>	737161	874482	1066868	1301578	1626973	2033716	2542145

\*prepared by SIDBI and NABARD and submitted to Dr. Subir Gokarn, Deputy Governor, RBI, Chairman of Working Group on Saving

## 4.2 Status of Credit Flow to the MSME sector

The MSMEs primarily rely on bank finance for their operations and as such ensuring timely and adequate flow of credit to the sector has been an overriding public policy objective. It is observed that the credit to MSE sector from Scheduled Commercial Banks (SCBs) has been showing a healthy growth rate in the last three years. The credit flow to MSEs by SCBs has increased from ₹ 2.14 lakh crore in March 2008 to ₹ 4.79 lakh crore in March, 2011. The details of MSE credit outstanding for the Scheduled Commercial Banks from FY 2008 onwards are given in Table below.

### Outstanding MSE Credit by SCBs

(No. of A/cs in Lakh) (Amount ₹ in Crore)

Year	Public Sector Banks		Private Sector Banks		Foreign Banks		All Scheduled Commercial Banks	
	No: Of A/Cs	Amt. O/s	No: Of A/Cs	Amt. O/s	No: Of A/Cs	Amt. O/s	No: Of A/Cs	Amt. O/s
<b>March 2008*</b>	39.67	151137.48	8.19	46911.87	0.65	15489.25	48.51	213538.61
<b>March 2009</b>	41.15 (3.73%)	191408.32 (26.64%)	6.78 (-17.21%)	46656.33 (0.54%)	0.58 (-10.78%)	18063.42 (16.61%)	48.51 (No change)	256128.07 (19.94%)
<b>March 2010#</b>	72.17 (75.38%)	276318.97 (44.36%)	11.31 (66.81%)	64824.72 (38.94%)	1.57 (170.69%)	21147.05 (17.07%)	85.05 (75.32%)	362290.74 (41.44%)
<b>March 2011 (Provisional)</b>	73.98 (2.51%)	369430 (33.7%)	17.18 (51.9%)	88116 (35.9%)	1.86 (18.47%)	20981 (-0.78%)	93.02 (9.37%)	478527 (32.08%)

\* Change in definition of the sector as per the MSMED Act 2006 advised to banks in 2007

# Retail trade included in service sector

Note: Figures in parentheses indicates Y-o-Y % growth/decline

Source: Reserve Bank of India

In the recent past, Reserve Bank of India has announced some important credit related policy measures for MSME sector as given below:

- All scheduled commercial banks should achieve a 20% year-on-year growth in credit to micro and small enterprises to ensure enhanced credit flow;
  - The outstanding credit to MSEs as at end March 2011 increased by 32.08% to ₹ 4,78,527 crore.
- The allocation of 60% of the micro and small enterprises (MSEs) advances to the micro enterprises to be achieved in stages, viz., 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13.
- All scheduled commercial banks should achieve a 10% annual growth in the number of micro enterprise accounts.

- Enhancement of the collateral-free loan limit for MSEs from ₹ 5 lakh to ₹ 10 lakh.
  - Based on this recommendation, RBI has mandated banks not to accept collateral security in the case of loans upto ₹ 10 lakh extended to units in the MSE sector. Banks, in turn, can take cover for the collateral free credit facilities under CGS.

Government of India operates various subsidy schemes to promote investment in technological modernization in the MSME sector, which among others include:

- ◆ **Credit Linked Capital Subsidy Scheme (CLCSS) [Ministry of MSME]** - Capital subsidy of 15% is being provided to the units going for capital expansion with a ceiling of sanction of loan upto ₹ 100 lakh. As at end December 2010, cumulative subsidy of ₹ 523 crore has been sanctioned to 11,114 units.
- ◆ **Technology Upgradation Fund Scheme for Textile Industry (TUFS) [Ministry of Textiles]** - Subsidy under the Scheme is being given in form of 5% interest reimbursement (4% i/r/o Spinning Machinery on standalone basis) OR Foreign exchange rate fluctuations up to 5% p.a. (4% i/r/o Spinning Machinery on standalone basis). OR 15% Margin Money subsidy for SSI units. OR 20% Margin Money subsidy for power looms & independent preparatory units. OR 25% Margin Money subsidy for new machinery for pre-looms and post-looms operations, handlooms, testing and quality control equipments for handloom units including silk sector. OR 10% Capital subsidy + 5% interest reimbursement for specified processing, garmenting and technical textiles machineries, and new shuttle less looms. Cumulative subsidy of ₹ 850 crore has been sanctioned to 28,302 units.
- ◆ **Integrated Development of Leather Sector Scheme (IDLSS) [Ministry of Commerce & Industry]** - The Scheme provides investment subsidy to the extent of 30% of cost of plant & machinery for MSE and 20% of cost of plant & machinery for other units (i.e. non-MSE units), subject to a ceiling of subsidy of ₹ 50 lakh for technology upgradation /modernization and/or expansion and setting up a new unit. The subsidy amount would be @ 20% for all units (both SSI and non-SSI) for subsidy above ₹ 50 lakh, subject to a ceiling of ₹ 2 crore. Investment subsidy would also be available to units investing their own resources. Cumulative subsidy of ₹ 170 crore has been released to 1283 units.
- ◆ **Scheme of Technology Upgradation / Setting up / Modernization / Expansion of Food Processing Industries (FPTUFS) [Ministry of Food Processing Industries]** - The Scheme provides 25% of the cost of plant & machinery and technical civil works subject to a maximum of ₹ 50 lakh in general areas and 33% up to ₹ 75 lakh in difficult areas (Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Sikkim, North-Eastern States, Andaman & Nicobar Islands, Lakshadweep and Integrated Tribal Development Project (ITDP) areas). Only new Plant & Machinery are eligible.

- ◆ **Scheme for Technology and Quality Upgradation Programme (TEQUP) of Ministry of MSME** - This scheme is one of the ten components of the National Manufacturing Competitiveness Programme (NMCP). The objective of the scheme is for capacity building of MSME Clusters for Energy Efficiency/Clean Development Interventions, implementation of Energy Efficient Technologies (EET) in MSME units, etc. Under the scheme, MSMEs will be assisted in implementation of the projects through loans from SIDBI/banks/financial institutions for which subsidy upto 25% of the cost of the project. This subsidy will be subject to a certificate from competent agency/Energy Auditor certifying that the new machinery and equipment installed are capable of giving 15% energy savings.

### 4.3 Emerging Sources of Finance for MSMEs

Faced with increased competition on account of globalization, MSMEs are beginning to move from bank credit to a variety of other specialized financial services and options. In recent years, the sector has witnessed increased flow of capital in the form of primary/ secondary securities market, venture capital and private equity, external commercial borrowings, factoring services etc. More advanced MSMEs have started realizing the importance of these alternative sources of funding to raise resources and the need for adopting better governance norms to take advantage of these funding sources.

#### Factoring in MSME sector

Factoring has started gaining ground in the Indian system in the recent years. As per the data available for the year 2008, factoring turnover reached ₹ 48,500 crore which constituted about 2% of total bank credit. Indian factoring companies have specialized products catering to the needs of clients offering a host of choices including with recourse/ without recourse factoring, domestic/ international factoring and disclosed/undisclosed factoring.

Domestic transactions constitute more than 90% of the factoring done in India. Textiles, Iron & Steel, Chemicals, Pharmaceuticals and Electrical Engineering are amongst the key industries that are active in factoring business in India. Factoring organizations not only provide MSMEs with finance, but also offer other services, among other, like Sales Ledger Administration, Debt collection and Credit insurance.

The share of Indian Factoring is less than 1% of the total volumes generated in the world. The reasons for the slow growth are several like inadequacies in the legal framework and ad valorem stamp duty on the assignment of debts. A comprehensive legislation to address the legal hurdles affecting the growth of the factoring industry has been passed by Government of India and is in the process of implementation. In the recent years, factoring products have gained popularity with the SMEs, more particularly auto ancillary industry, component manufacturers for engineering companies, etc. A number of such units are dealing satisfactorily with us and with revival of economy and auto industries, in particular, the factoring can record a good growth in near future.

## **Securitization**

Securitization of debt by MSMEs makes the debt instruments more liquid and brings down the cost of lending. As per the data available, total securitization market through asset backed, residential mortgage backed and collateralized loan obligations structured financial market stood at ₹ 42,590 crore as on March 31, 2010, out of which ₹ 20.970 crore securitization were done through Asset Backed Securitization, which also includes around 4% for MSMEs i.e., approx ₹ 500 crore.

## **Venture Capital**

Venture capital is the money provided by investors to start-up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns. SIDBI Venture Capital Limited (SVCL) is a wholly owned subsidiary of SIDBI, incorporated in July 1999 to provide venture capital to emerging sectors, such as, life sciences, biotechnology, pharmaceuticals, engineering and information technology. As on date, SVCL has committed ₹ 550 crore to these innovative enterprises. SIDBI is in the process of setting up of two Venture Funds - India Opportunity Fund and Social Venture Fund. The details functions of SVCL are given in the SIDBI chapter.

## **Risk Capital**

In order to help MSMEs to grow by increasing their equity base, there is a need to provide risk capital to the sector. Risk capital is provided on the backing of cash flows from the business rather than asset cover/ collateral security as against normal bank advances. Risk capital is offered in a flexible manner with respect to the structuring of returns and repayments to the risk capital provider, thereby ensuring greater chances of success of the ventures. MSMEs can avail risk capital for multiple requirements including bridging the gap in the means of finance for a project, margin money for working capital, non-asset creating investments viz marketing, brand building, creating distribution network, technical know-how, software purchase, investment in energy efficiency and quality improvement equipments, R&D, etc. There are various delivery channels like Banks, VC Funds etc. which are used for providing risk capital to MSMEs.

Besides, world over MSMEs are seen as crucibles for innovation where most of technologies and products for future are born and see commercial reality for first time. Besides needing appropriate risk capital in the form of angel funding or risk capital at such stage, they also require quick infusion of further capital to mature the product and upscale when the idea succeeds and business rushes in, failing which the opportunity may be lost forever.

Internationally, it is proven that geographies where eco-system of risk capital (involving technology and business incubators, seed-stage funding, venture capital, angel funding, business mentoring, private equity and various other structures around these) has developed well, such as, in the US and Israel, large base of innovation led businesses have flourished, giving the countries lead in technology-led and new business areas. The business of risk capital is generally founded on high-risk high-returns assumption as against normal banking dictum of limiting the risk in individual business to low levels.

## ROLE OF SIDBI

### MISSION STATEMENT

*“To empower the Micro, Small and Medium Enterprises (MSMEs) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.”*

### VISION STATEMENT

*“To emerge as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI brand as the preferred and customer friendly institution and for enhancement of shareholder wealth and highest corporate values through modern technology platform”.*

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. Financial support is provided by way of (a) refinance to eligible Primary Lending Institutions (PLIs), such as, banks, State Financial Corporations (SFCs), Micro Finance Institutions (MFIs) for onward lending to MSMEs and (b) direct assistance to MSMEs. Highlights are given in Box 5.1.

### Box 5.1 : SIDBI - Highlights

- ◆ Established on April 02, 1990.
- ◆ Subsequent to the amendment in SIDBI Act., delinked from IDBI w.e.f. March 27, 2000.
- ◆ Authorised Capital ₹ 1,000 crore.
- ◆ Paid-up capital ₹ 450 crore held by 33 financial institutions/public sector banks / insurance companies owned or controlled by Government of India.
- ◆ Serves as Principal Financial Institution for
  - Promotion
  - Financing
  - Development of Industries in Micro, Small and Medium Enterprises sector, and
  - Co-ordinating the functions of institutions engaged in similar activities.

Since its inception, SIDBI has made a historical journey of 21 years, which are replete with many milestones. In its continual strive towards meeting the diverse and developmental needs of the MSME sector, the Bank has been offering services on emergent thematic aspects. SIDBI, apart from attending various financial and non-financial services, has also institutionalized various concerns and expectations through its subsidiaries / associate concerns, viz. SIDBI Venture Capital Ltd. (for venture capital), Credit Guarantee Fund Trust for Micro and Small Enterprises (for credit guarantee), SME Rating Agency of India Ltd. (for credit rating), India SME Technology Services Ltd. (for technology transfer) and India SME Asset Reconstruction Ltd. (for asset reconstruction).

SIDBI is committed to the overall development of the MSME Sector by meeting the various credit and non-credit needs of the sector. SIDBI has cumulatively disbursed ₹ 2,03,126 crore to the MSME sector, as on March 31, 2011, benefitting more than 320 lakh persons, mostly women. Some of the noteworthy initiatives / achievements of SIDBI are given in Box 5.2.

<b>Box 5.2 : SIDBI's Journey of 21 Years</b>	
<b>Financial Year</b>	<b>Major Milestone</b>
FY 1991	<ul style="list-style-type: none"> <li>• Small Industries Development Bank of India (SIDBI), set up on April 2, 1990.</li> </ul>
FY 1992	<ul style="list-style-type: none"> <li>• Introduced (Bills Discounting) of MSE Vendors</li> <li>• Co-promoted two national level factoring companies viz. SBI factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd.</li> </ul>
FY 1993	<ul style="list-style-type: none"> <li>• Initiated measures to boost the process of Ancillarisation.</li> </ul>
FY 1994	<ul style="list-style-type: none"> <li>• Started providing foreign currency and equity support schemes.</li> </ul>
FY 1995	<ul style="list-style-type: none"> <li>• Launched Micro Credit Scheme.</li> <li>• Set up Technology Bureau for Small Enterprises to encourage transfer of technologies to MSME sector.</li> </ul>
FY 1996	<ul style="list-style-type: none"> <li>• Outstanding portfolio crossed ₹ 10,000 crore for the first time.</li> <li>• Introduced Technology Development and Marketing support schemes.</li> </ul>
FY 1997	<ul style="list-style-type: none"> <li>• Initiated Vendor Development support.</li> </ul>
FY 1998	<ul style="list-style-type: none"> <li>• Undertaken major modifications / expansion of Schemes.</li> </ul>
FY 1999	<ul style="list-style-type: none"> <li>• SIDBI Foundation for Micro Credit launched in January 1999.</li> <li>• SIDBI received the coveted 'Asian Banking Awards 1999' by ADFIAP for its Micro Credit Scheme.</li> </ul>
FY 2000	<ul style="list-style-type: none"> <li>• SIDBI attains autonomy through amendment of SIDBI Act.</li> <li>• SIDBI Venture Capital Limited – Set up in July 1999 to provide venture capital support to MSMEs.</li> <li>• Authorised capital increased from ₹ 500 crore to ₹ 1000 crore.</li> <li>• Govt's Technology Upgradation Fund Scheme for Textile Industry launched in April 1999 with SIDBI as the Nodal Agency.</li> </ul>
FY 2001	<ul style="list-style-type: none"> <li>• Set up Credit Guarantee Fund Trust for Small Industries in July, 2000 to provide guarantee for collateral-free loans to MSMEs since restructured as Credit Guarantee Fund Trust for Micro and Small Enterprises.</li> <li>• SIDBI designated as Nodal Agency for Government of India scheme Credit Linked Capital Subsidy Scheme.</li> </ul>



FY 2002	<ul style="list-style-type: none"> <li>• Launching of Fast Track Financing Scheme and customised products for financing services sector.</li> </ul>
FY 2003	<ul style="list-style-type: none"> <li>• Rural Industries Programme bagged “ADFIAP Development Award 2003”.</li> </ul>
FY 2004	<ul style="list-style-type: none"> <li>• SME Fund of ₹ 10,000 crore launched to provide assistance to the MSME sector.</li> </ul>
FY 2005	<ul style="list-style-type: none"> <li>• MoUs with select SFCs for transformation.</li> <li>• Launched one of the world’s largest MSME sector development project (MSMEFDP) in partnership with World Bank, DFID, UK; KfW and GIZ, Germany. Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency of the Project.</li> </ul>
FY 2006	<ul style="list-style-type: none"> <li>• Set up SME Rating Agency of India Ltd. in September 2005, as an exclusive MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable rating agency and risk profiling.</li> <li>• Set up India SME Technology Services Limited in November 2005 to function as a technology bank for MSMEs in India.</li> <li>• SIDBI designated as Nodal Agency for Government of India scheme Integrated Development of Leather Sector Scheme (IDLSS).</li> </ul>
FY 2007	<ul style="list-style-type: none"> <li>• Started direct working capital facility through IDBI Bank technology platform.</li> <li>• Bagged ADFIAP Award for project on “SME Rating” under ADFIAP’s Institutional Outstanding Development Project Category on SMEs – 2007.</li> </ul>
FY 2008	<ul style="list-style-type: none"> <li>• Set up Cell for Development of North-Eastern Region (Doner Cell).</li> <li>• Outstanding portfolio crossed ₹ 20,000 crore mark for the first time.</li> <li>• Received the “Plaque of Merit” for “Establishment of Role Model Fund for Equity Assistance to SMEs in the area of Software and Information Technology by ADFIAP.</li> </ul>
FY 2009	<ul style="list-style-type: none"> <li>• Set up in April 2008, Indian SME Asset Reconstruction Company Ltd. as the country’s first MSME focused Asset Reconstruction Company.</li> <li>• Received ADFIAP award for Best Website -2009.</li> <li>• SIDBI’s initiative towards setting up of India SME Asset Reconstruction Company Limited - 2009.</li> <li>• Established “SIDBI Foundation for Risk Capital”.</li> </ul>
FY 2010	<ul style="list-style-type: none"> <li>• Set up Micro &amp; Small Enterprises Rural Self Employment Training Institute at Jangipur, West Bengal.</li> <li>• Announced commitment to sustainability and Corporate Social Responsibility by framing for the first time a CSR Policy and Publishing its first CSR Report.</li> <li>• Launched an e-discounting platform of bills of exchange called ‘NTREES’ (NSE Trade Receivables Engine for E-discounting in association with SIDBI).</li> </ul>
FY 2010	<ul style="list-style-type: none"> <li>• Merit Award on “MSME Financing &amp; Development Project” (MSMEFDP) and Special Award in the category of “Best in Membership Recruitment” by ADFIAP.</li> </ul>
FY 2011	<ul style="list-style-type: none"> <li>• Setting up of TIFAC (Technology Information, Forecasting and Assessment Council)-SIDBI Revolving Fund for Technology Innovation (Fund) of ₹ 30 crore for demonstrating and scaling up (commercialization) of technology innovations in products and process by MSMEs and launching new scheme ‘SRIJAN’ under the Fund.</li> <li>• Launching of www.indiaventureboard.com in collaboration with National Stock Exchange, Indian Private Equity and India Venture Capital Association and leading angel networks in India for primary / secondary venture capital and private equity deal flow in unlisted companies in India.</li> <li>• Launching of Energy Efficiency in MSME clusters under World Bank-Global Environment Facility Project.</li> <li>• ADFIAP Award for “MSME Financing &amp; Development Project (MSMEFDP)” under Local Economic Development Category for “Making Markets Work for MSMEs”.</li> </ul>

## 5.1 REFINANCE

Through Refinance, SIDBI reaches out to the MSME sector by working with and through the banks/FIs leveraging their vast banking infrastructure of more than 87,000 branches. In order to help the MSME sector to tide over the liquidity crunch which emanated from the global economic crisis in 2008, Government of India has provided refinance support of ₹23,600 crore to SIDBI during FY 2009 to FY 2012, to be given to banks/FIs, wherein SIDBI acts as the pass-through institution. A large part of this refinance support to banks is for the micro enterprises at concessional rates.

## 5.2 DIRECT FINANCE

SIDBI started providing direct credit to MSMEs to fill the credit gaps and for supplementing and complementing lending by banks, SIDBI developed niche financial products to meet varied fund and non-fund based credit needs of the MSME sector, viz. financial products for promoting energy efficiency, risk capital products (equity, optionally convertible preference capital / debentures / debt, subordinated debt etc.), receivable finance scheme to address the issue of delayed payment to MSMEs by large corporates, structured finance products through MSME associations for MSME clusters, specialized schemes, viz. Micro Enterprises Loans for 'Missing Middle', Flexible Assistance for Capital Expenditure (FACE), Growth Capital and Equity Assistance Scheme for MSMEs (GEMs), credit delivery models for faster credit delivery viz. Credit Appraisal and Rating Tool (CART which helps in appraising and rating the proposal in 3 to 4 days) etc. Over the years, SIDBI has evolved itself to meet the various types of credit requirements of the MSME sector by offering bouquet of tailor-made fund and non-fund based financial products and services. Some of the major schemes of SIDBI under Direct Finance are:

- ◆ **Term Lending:** Term loans are provided for i) Setting up of new projects and for technology upgradation / modernisation, diversification, expansion, rehabilitation, energy efficiency, adoption of clean production technologies, etc. of existing MSMEs, (ii) Service sector entities and (iii) Infrastructure development and upgradation.
- ◆ **Sustainable Finance:** As a part of its 'Greening MSME' agenda, SIDBI has formulated certain specialized loan schemes to promote energy efficiency, environment protection and improving social standards in the MSME sector. With a view to promoting energy saving and facilitate adoption of clean production technologies in MSMEs, SIDBI has devised special schemes for providing assistance for investment in Energy Efficiency Projects and Cleaner Production Options to MSMEs, under which assistance is provided at concessional terms.

- ◆ **Addressing Delayed Payments:** In order to help the MSMEs for quicker realization of their receivables, SIDBI fixes limits to well-performing purchaser companies and discounts usance bills of MSMEs / eligible service sector units supplying components, parts, sub-assemblies, services, etc. so that the MSME / service sector units realise their sale proceeds quickly. SIDBI also offers invoice discounting facilities to the MSME suppliers of purchaser companies.

**NTREES:** SIDBI, along with National Stock Exchange, took the initiative to set up an electronic platform for discounting of trade receivables. The e-platform is named as NTREES (NSE Trade Receivables Engine for E-discounting in association with SIDBI). Operations on the platform are on Real Time Gross Settlement (RTGS) basis, which helps MSMEs to realize their receivables quickly as against the earlier paper-based payments system which used to take 3 or 4 days for sales realization. This is unique price discovery mechanism which after successful pilot testing in SIDBI, shall be opened up for other players.

- ◆ **Working Capital Assistance:** SIDBI has been utilizing the IT platform of IDBI Bank and offering working capital facilities to SIDBI customers.
- ◆ **Venture Capital:** SIDBI's wholly owned subsidiary SIDBI Venture Capital Ltd (SVCL) is providing venture capital to emerging sectors, such as, life sciences, biotechnology, pharmaceuticals, engineering and information technology.
- ◆ **Growth Capital and Equity Assistance Scheme for MSMEs (GEMs):** Under the scheme, SIDBI offers special financial assistance to bridge the gap between the two chief sources of finance, viz. bank loans (senior debt) and promoter's capital. SIDBI offers this assistance in the form of mezzanine/convertible instruments, subordinated debt and equity (in deserving cases). This quasi-assistance is collateral free, has higher moratorium on repayment and a flexible structuring.
- ◆ **Flexible Assistance for Capital Expenditure [FACE]:** Under the scheme, SIDBI provides need-based assistance to eligible borrowers in both manufacturing and service sectors to meet their project specific investment plans with varying terms for creation of different types of assets, viz. land & building (immovable assets), plant & machinery and other assets for which separate term loans would be extended respectively. While the term loan for land & building would have longer moratorium and repayment period, the component for plant & machinery and other assets would have normal moratorium and repayment period under the scheme.

**Box 7.3 : Evolution of Various Schemes of Assistance**

1990-91	<ul style="list-style-type: none"> <li>Marketing Infrastructure Scheme</li> <li>Direct Discounting of Bills (Equipment) Scheme</li> <li>Direct Discounting of Bills (Component) Scheme</li> <li>Infrastructure Development</li> </ul>	2004-05	<ul style="list-style-type: none"> <li>Scheme of "Incentive to Accommodation Infrastructure"</li> <li>Scheme for Small Enterprises Financial Centres</li> <li>Cluster Development</li> <li>Channel Arrangements</li> <li>Integrated Development of Leather Sector Scheme</li> <li>MSME Financing and Development Project</li> </ul>
1991-92	<ul style="list-style-type: none"> <li>Scheme for Ancillarisation</li> <li>Resource Support to Factoring Companies</li> </ul>		
1992-93	<ul style="list-style-type: none"> <li>Equipment Finance Scheme</li> <li>Project Finance Scheme</li> <li>Venture Capital Scheme</li> </ul>	2005-06	<ul style="list-style-type: none"> <li>Short term Resource Support to SME intermediaries</li> <li>Inland Letter of Credit Scheme</li> <li>Vendor Development Scheme</li> <li>Privileged Customer Scheme</li> <li>Small Loans in North East Region</li> <li>SME IT Loans</li> <li>Working Capital Arrangement with IDBI</li> <li>Scheme for Small Enterprises Financial Centres</li> <li>Cluster Development</li> <li>Channel Arrangements</li> <li>Integrated Development of Leather Sector Scheme</li> <li>Assistance under World Bank Line of Credit (MSEs adhering to Environmental &amp; Social Standards)</li> </ul>
1993-94	<ul style="list-style-type: none"> <li>Integrated Infrastructural Development Scheme</li> <li>Foreign Currency Term Loan</li> <li>Direct Equity</li> </ul>		
1994-95	<ul style="list-style-type: none"> <li>Pre-shipment Credit in Foreign Currency (PCFC) Scheme</li> <li>Equity Assistance Scheme</li> <li>ISO-9000 Certification Scheme</li> <li>Micro Credit Scheme</li> </ul>		
1995-96	<ul style="list-style-type: none"> <li>Marketing Scheme</li> <li>TDMF Scheme</li> </ul>	2006-07	<ul style="list-style-type: none"> <li>Invoice Discounting Scheme</li> <li>Equity Support</li> <li>Customised products relating to franchisee assistance, rental/cash flow discounting and pre-shipment fundings</li> <li>Co-branding arrangements with NBFCs</li> </ul>
1996-97	<ul style="list-style-type: none"> <li>Vendor Development Scheme</li> <li>Credit Rating for SSIs</li> </ul>		
1997-98	<ul style="list-style-type: none"> <li>Direct Factoring Services</li> <li>Line of Credit for Marketing</li> <li>Export Bills Financing</li> <li>Pre and Post-shipment Credit in Rupees</li> <li>Bills Rediscounting against Inland Supply bills of SSIs</li> </ul>	2007-08	<ul style="list-style-type: none"> <li>Fostering Risk Capital by setting up of SIDBI Foundation for Risk Capital for MSMEs</li> </ul>
1998-99	<ul style="list-style-type: none"> <li>Financial Support (Short Term Loan) to Banks</li> </ul>	2008-09	<ul style="list-style-type: none"> <li>Ad-hoc assistance Scheme for existing MSME customers.</li> <li>One-time liquidity support</li> <li>Additional limit under Receivable Finance Scheme</li> <li>Restructuring</li> <li>DG Set Financing Scheme</li> <li>Scheme for Energy Saving Projects in MSME Sector</li> <li>Structured Credit arrangements – Industry Association, Mumbai Taxi Associations</li> <li>Credit delivery arrangement with OEMs</li> </ul>
1999-2000	<ul style="list-style-type: none"> <li>Technology Upgradation Fund Scheme for Textile Industries</li> <li>Scheme of Short Term Loans to State Electricity Board and Power Sector Corporations/ Companies.</li> <li>Tannery Modernisation Scheme</li> </ul>		
2000-01	<ul style="list-style-type: none"> <li>Credit Linked Capital Subsidy Scheme for Technology Upgradation of SSIs.</li> <li>Refinance Scheme for term loans granted by State Financial Corporations / State Industrial Development Corporations to industrial concerns other than in the small scale sector</li> </ul>	FY 2009-10	<ul style="list-style-type: none"> <li>Assistance for Clean Production Options</li> <li>Assistance to Mumbai Taxi</li> <li>Auto Rickshaw Financing</li> <li>Assistance to micro entrepreneurs in Manipur and other North Eastern States for purchasing Solar Lanterns.</li> </ul>
2001-02	<ul style="list-style-type: none"> <li>Fast Track Financing Scheme</li> <li>Financing Service Sector</li> </ul>		
2002-03	<ul style="list-style-type: none"> <li>Micro Ventures Innovation Fund</li> </ul>	FY 2010-11	<ul style="list-style-type: none"> <li>SRIJAN – Scheme for supporting technology innovations</li> <li>Refinance Scheme for Energy Efficiency</li> <li>Structured Financing</li> </ul>
2003-04	<ul style="list-style-type: none"> <li>Small and Medium Enterprises Fund</li> <li>SIDBI Growth Fund</li> <li>Portfolio Risk Fund</li> <li>Portfolio Purchase Scheme</li> </ul>		

## Greening MSMEs

Realising the fact of rising environmental issues all over the globe, Small Industries Development Bank of India (SIDBI), the principal financial institution for lending Micro Small & Medium Scale Enterprises (MSMEs) in India has undertaken several initiatives, both financial and non-financial, to promote lending for clean, green and energy efficient technologies in the MSME sector. In fact Greening MSMEs is now an avowed agenda. SIDBI is partnering with various national and international agencies to implement the agenda of greening Indian MSMEs.

### FINANCIAL

- ◆ On the demand side, SIDBI contracted Lines of Credit (LoC) with World Bank for Environment and Social (E&S) Risk framework-aligned lending which also tracks the procurement practices of MSMEs, Japan International Cooperation Agency (JICA); Kreditanstalt für Wiederaufbau (KfW), Germany; and Agence Francaise De Development (AFD), France for promoting thematic agenda of environment and Energy Efficiency [EE] projects in MSME sector. These focused schemes have two pronged approach, i.e. concessional lending to encourage investment in green, energy efficient technologies and launching of cluster specific information dissemination.
- ◆ JICA credit line was launched during the FY 2008-09 with an objective to reduce energy consumption, enhance energy efficiency, reduce CO<sub>2</sub> emissions and improve the profitability of the Indian MSMEs in their long run. More than 2700 projects have been assisted under the said line aggregating to an estimated reduction of 3,13,600 tons of CO<sub>2</sub>.
- ◆ Under the KfW EE-LoC which is operational at present, SIDBI aims to reduce atleast 80,000 tons of CO<sub>2</sub> emission/annum by the way of investment in the EE equipments. SIDBI has also been running KfW Environmental/Cleaner production LoC wherein the investment under this credit line mainly focuses on the clean/green investment in the MSME sector.
- ◆ Under AFD LoC, a total of 661 cases have been sanctioned. The total loan amount of ₹ 436 crore disbursed till date carry ultimate objective to reduce the fossil fuel energy consumption of the MSME sector and to reinforce its resilience to a new energy context, characterized by increasing energy prices and higher constraints on CO<sub>2</sub> emissions..
- ◆ SIDBI has provided collateral free loans to 950 taxi drivers in Mumbai to phase out their old taxis which were running in petrol and to procure new Compressed Natural gas (CNG) taxis. SIDBI has also provided assistance 600 CNG fitted auto rickshaws in Chandigarh through Delhi Finance Corporation (DFC). SIDBI assisted 50,000 solar lanterns in Manipur by the way of micro loan to the end beneficiaries.
- ◆ It has launched SRIJAN (in association with TIFAC) for assisting commercialisation of innovations.

### NON FINANCIAL

- ◆ Bank has also taken up promotional activities to showcase the advantages of EE investments in the high energy intensive MSME sector. On the supply side [under BDS Programme of MSME Financing and Development Project (MSMEFDP)], SIDBI has organized several awareness programmes, workshops, brought out sectoral EE booklets, etc., which have motivated MSMEs on the aspect of energy efficiency and cleaner production, while going for technological advancement.
- ◆ SIDBI alongwith Bureau of Energy Efficiency (BEE) is implementing a World Bank-GEF (WB-GEF) project on Financing Energy Efficiency for MSMEs in five clusters in India with an objective to increase EE awareness, Capacity Building of Industry Associations and knowledge management activities in the MSME clusters.
- ◆ SIDBI is also implementing a project focusing Environmental and Energy Efficiency improvements in MSME units in Steel Re-rolling clusters under Programmatic Clean Development Mechanism (pCDM) with a view to enhance the sustainable development and additional benefit of carbon credits to these MSMEs in future.
- ◆ Bank with the help of technical experts mapped high energy intensive MSME clusters, prepared cluster profiles, suggested EE investments suitable to the clusters, conducted several awareness campaigns and focused group meetings in various MSME clusters across the country for information dissemination. A list of over 600 energy efficient equipments in various industrial segments was circulated to MSME industry associations for information dissemination.
- ◆ It has strengthened its internal cadre as also MSMEs and fellow bankers. Bank has also provided training to credit officers of SIDBI and SFCs to improve their skills to assess E&S (140 credit officers), national / international compliances energy efficiency lending proposals.
- ◆ Under its international partnership project, it has handholded its associate SMERA to launch (first time in India) green ratings. Its e-initiatives called NTREES has brought in a paperless solution towards discounting of MSME bills.
- ◆ It has worked extensively on developing a cadre of business development services in 19 clusters aimed at energy efficiency/ environment, and so on. In adopted clusters, it has built the capacity of industry associations so that they attend the environmental agenda on sustainable basis.
- ◆ As a responsive institution, even in Micro finance and ME funding, SIDBI has structured a LoC from ADB wherein the E&S framework has been adopted.
- ◆ SIDBI has set up a dedicated Energy Efficiency Centre (EEC) in New Delhi to coordinate and collaborate with like minded players and take forward the agenda.
- ◆ SIDBI piloted Environment and Social (E&S) Risk Management based credit to MSMEs (8000 MSMEs covered through direct and Indirect lendings) which accepted the same. Now Banks/Other FIs/ NBFCs started taking refinance on E&S LoC which could not happen earlier. Later project adopted tracking of Procurement Practices of MSMEs and instilling best practices.
- ◆ All these endeavours are founded on the belief that clean and energy efficient processes will make Indian MSMEs more competitive and resilient to shifts in policy changes arising out of environment action plans.

### 5.3 NODAL / IMPLEMENTING AGENCY FOR GOVERNMENT SCHEMES

SIDBI is the Nodal Agency for implementation of some of the schemes of the Government of India (GoI) for encouraging implementation of technology upgradation and modernisation in the MSME sector. SIDBI provides Nodal Agency services for implementation of Credit Linked Capital Subsidy Scheme (Ministry of MSME), Technology Upgradation Fund Scheme for Textile Industry (TUFS) (Ministry of Textiles), Integrated Development of Leather Sector Scheme (IDLSS) (Ministry of Commerce & Industry) and Scheme of Technology Upgradation of Food Processing Industries (Ministry of Food Processing Industries).

### 5.4 RESPONSIBLE MICRO FINANCE

SIDBI's micro finance serves as a potent tool of inclusive growth and attainment of Millennium Development Goals as also national priorities of poverty alleviation, employment generation and so on. In that respect, SIDBI works with and through a large number of Micro Finance Institutions (MFIs) who have been nurtured, incubated and strengthened through a comprehensive range of financial and non-financial assistance. SIDBI is committed to attain the national goal of a broad-based equitable and inclusive growth by providing micro credit through MFIs for on-lending to the bottom-of-the-pyramid segment of the society, with special thrust on unserved and under-served regions of the country. Responsible lending has been one of the top priorities of the Bank. As part of its responsible micro finance initiative, SIDBI has created a Lenders' Forum comprising key MFI Funders with a view to promote cooperation among MFI lenders for leveraging support to MFIs. SIDBI has been actively involved in development of a Code of Conduct Assessment Tool, which applies to providing credit services, recovery of credit, collection of thrift etc, for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct formulated by the MFIs. SIDBI is in the process of developing the India Microfinance Platform (IMFP) - to provide and disseminate valuable information on the Indian MFIs. SIDBI has partnered with ACCION International and is supporting the Smart Campaign, which is a global effort to embed a set of Client Protection Principles (CPPs) amongst MFIs. The cumulative assistance disbursed under SIDBI's micro finance initiatives upto August 31, 2011 aggregated ₹ 6,700 crore which has benefited more than 30 Million disadvantaged people, mostly women.

**Addressing the Missing Middle:** In order to address the credit needs of very small micro enterprises which constitute the '**Missing Middle**' segment [loan assistance between ₹ 50,000 to ₹10 lakh], SIDBI has opened experimental branches to finance micro enterprises. It has also structured a LoC and TA from ADB and Japanese Fund for Poverty Reduction (JFPR) to attend to missing middle segment in underserved states.

### 5.5 PROMOTIONAL & DEVELOPMENTAL SUPPORT

The Promotional & Developmental (P&D) activities of SIDBI are designed to achieve the twin objectives of national importance, viz. (a) Promotional - enterprise promotion resulting in setting up new units and creation of additional employment through its select programmes, such as, Micro Enterprises Promotion Programme (MEPP) (formerly called Rural Industries Programme), Entrepreneurship Development Programme (EDP) and Vocational Training Programme, etc. and (b) Developmental - enterprise strengthening to enable MSMEs to face the emerging challenges of globalization and growing competition through select interventions, such as, Skill-cum-Technology Upgradation Programme (STUP), Small

Industries Management Programme (SIMAP), Cluster Development Programme (CDP) and Marketing Assistance. Highlights of key programmes are given below:

**Micro Enterprises Promotion Programme** aims at promoting viable rural enterprises leading to employment generation in rural areas and use of local resources. The programme addresses problems of rural unemployment, urban migration, under-utilization of know-how and latent rural resources and marketing of rural products. The MEPP has been implemented in more than 120 districts in 24 States over the years. More than 37,000 enterprises have been grounded so far, with investments of over ₹ 100 crore, apart from employment generation of more than 1 lakh persons. Modified-RIP (MRIP) as aligned to BDS was piloted in 2 states (Orissa & Rajasthan). This aimed at instilling sustainability by promoting service markets (to come up at local / rural level) and grounding rural enterprises and setting up of PPP to ensure sustainability.

**Entrepreneurship Development:** Entrepreneurship Development Programme (EDP) aims at promotion of self-employed ventures capable of generating employment opportunities, especially targeting less privileged sections of the society like women, Scheduled Castes / Scheduled Tribes, minorities and rural poor. The total number of EDPs supported by the Bank since inception for various target groups was 2,830 benefiting about 70,000 participants.

**Skill-cum-Technology Upgradation:** With a view to strengthening the technical and managerial capacities of the MSME entrepreneurs, the Bank supports reputed management / technology institutions to offer certain structured management / skill development programmes, viz. Skill-cum-Technology Upgradation Programme [STUP] and Small Industries Management Programme [SIMAP]. STUP aims at enhancing technology profile of MSME units and SIMAP targets qualified unemployed as well as industry-sponsored candidates, with the overall objective of providing competent managers to the MSME sector. The total number of STUPs and SIMAPs reached 1,490 and 290 benefiting more than 39,000 participants.

**MSME Financing and Development Project:** SIDBI is implementing a multi-agency/multi-activity MSME Financing and Development Project (MSMEFDP). The Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency for the Project. The World Bank; Department for International Development (DFID), UK; KfW and GIZ, Germany are the international partners in the Project. The primary objective of the Project is to meet both the demand and supply side concerns of MSMEs through a judicious blend of financial and non-financial services. The project has contributed to the emergence of enabling eco-system through systemic change. It has so far reached out to around 1 lakh beneficiaries comprising MSMEs, bankers and other stakeholders. The Project has received Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Award in 2011 for “Making Markets Work” for Indian MSMEs. In year 2011, it had fetched ADFIAP award for “Local Economic Development”.

**SIDBI'S SUPPORT TO NORTH EASTERN REGION (NER):** The Bank accords special and focused attention to the development of North Eastern Region (NER) in terms of micro finance, rural Industrialization, handicraft cluster development, entrepreneurship development, marketing support, etc. Total disbursement of ₹ 440 crore was extended under various schemes for the North Eastern Region. The Bank has supported 39 clusters under Cluster Development Programme in different States of NER covering activities like bamboo mat weaving, carpet weaving, handicrafts, handloom weaving, etc. These cluster development initiatives benefitted about 5,600 artisans. 22 districts in NER are covered under MEPP. A Counseling

Centre for micro & small enterprises was set up in FY 2010 jointly by SIDBI and United Bank of India for providing counseling services to potential entrepreneurs. The Counseling Centre has provided counseling services to more than 1200 prospective entrepreneurs till December 31, 2011.

## 5.6 ASSOCIATES /SUBSIDIARIES

**Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** The Ministry of Micro, Small and Medium Enterprises, Govt. of India, and Small Industries Development Bank of India (SIDBI), set up CGTMSE to implement the Credit Guarantee Scheme (CGS) and launched the scheme formally on August 2000. Under the scheme, credit facilities upto ₹ 100 lakh, extended by eligible lending banks/ Financial Institutions without collaterals or third party guarantee, are covered under the CGS.

**SIDBI Venture Capital Limited :** SIDBI Venture Capital Ltd. (SVCL), a subsidiary of SIDBI set up in July, 1999, is an asset management company, presently managing two venture capital funds, viz. the National Venture Fund for Software and Information Technology Industry (NFSIT) and the SME Growth Fund (SGF) for providing venture capital assistance to knowledge based MSMEs, especially in the areas of life sciences, clean technologies, information technology, bio-technology, etc. Till December 31, 2011, a total of ₹ 551 crore has been disbursed under the two funds.

SVCL has launched its third fund viz., “India Opportunities Fund” (IOF) in 2010. IOF has so far received aggregate commitments of around ₹ 625 crore. In spite of highly competitive fund raising environment, SVCL with SIDBI as an anchor investor, has been able to mobilise commitments from major domestic institutional investors, viz. LIC of India, State Bank of India, Canara Bank, IDBI Bank, Bank of Baroda, Syndicate Bank, Punjab National Bank and Technology Development Board. The first closure of IOF is expected shortly and thereafter it would commence operations. IOF shall be sector agnostic and shall focus on making early and growth stage investments.

**SME Rating Agency of India Ltd. (SMERA):** SIDBI, along with Dun & Bradstreet (D&B) and several Public and Private Sector banks, set up SME Rating Agency of India Ltd. (SMERA) in September 2005, as an MSME dedicated third-party rating agency to provide comprehensive, transparent ratings to MSMEs. SMERA has achieved market leadership position in MSME ratings and as on December 31, 2011 has rated more than 14,000 MSMEs out of which micro and small enterprises constitute 98%. SMERA has also launched variants, such as; Green Field & Brown Field Ratings, Micro Finance Institutions’ Ratings, Maritime Institutions Grading, Educational Institutes Grading and Risk Model Mapping / Validation. To promote green rating in MSME sector, SIDBI, in association with SME Rating Agency of India Limited (SMERA), launched a pilot scheme called Green Rating for the first time in the country, to encourage MSMEs to get their manufacturing facilities rated on environmentally sustainable parameters.

**India SME Technology Services Ltd. (ISTSL):** ISTSL, set up in November 2005, provides a platform for MSMEs to tap opportunities at the global level for acquisition of modern technologies. ISTSL continues to pursue its strategy of rendering technical services for technology transfer and promotion of energy efficient, environment friendly technologies in the MSME sector. ISTSL has identified Clean Development Mechanism and carbon credits as its thrust areas and has been working actively in MSME clusters by organizing awareness campaigns, seminars and guiding MSMEs to take advantage of the opportunities existing in the carbon credit market.



**India SME Asset Reconstruction Company Ltd. (ISARC):** ISARC is the country's first MSME focused Asset Reconstruction Company striving for speedier resolution of non-performing assets (NPA) by unlocking the idle NPAs for productive purposes which would facilitate greater flow of credit from the banking sector to the MSMEs. Set up in April 2008, ISARC's objective is to acquire non-performing assets (NPAs) and to resolve them, through its innovative mechanisms, with a special focus on the NPAs of MSME sector. As on December 31, 2011, ISARC undertook due diligence in respect of 201 accounts and has assets under management of approx. ₹ 350 crore.

## 5.7 CO-ORDINATION ROLE

With the objective of all-round development of the MSME sector, SIDBI coordinates with a number of accredited technical and management institutions to synergise their services with MSME sector. Under its P&D initiatives, SIDBI has on-going collaborations with NGOs, Consultancy Organizations, Industry Associations and other national level organizations. The Bank also co-ordinates with various Ministries of Government of India, Government Committees, Planning Commission, Reserve Bank of India, Industry Associations, etc. for the promotion and development of the MSME sector in India. At the international level, SIDBI has entered into partnership with World Bank Group, Asian Development Bank, Japan International Cooperation Agency (JICA), Japan; Department for International Development (DFID), U.K; International Fund for Agriculture Development (IFAD), Rome; Kreditanstalt fur Wiederaufbau (KfW), Germany, GIZ, Germany, AFD France and soon, for increasing its financial and promotional support to the sector.

## 5.8 POLICY ADVOCACY ROLE

SIDBI plays a significant role in attending the key policy issues that are critical in establishing a facilitating framework for the holistic development of the Indian MSME sector. The Policy role under the MSMEFDP covers various issues and concerns of the MSME sector in the areas of credit, sustainability, infrastructure/technology/skill development, etc. SIDBI endeavors to attend to macro level policy issues through synergy and coordination with various Ministries of Government of India, Planning Commission, Reserve Bank of India, and other institutions including International Organizations like World Bank; ADB; JICA, Japan; IFAD, Rome; KfW and GIZ, Germany; AFD, France, etc.

## Overall Operations

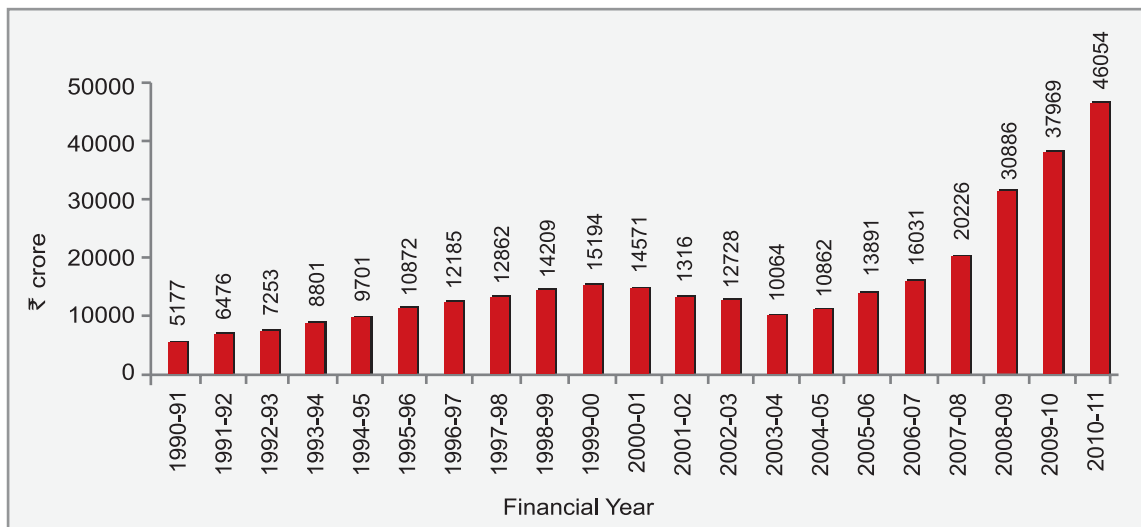
The details of the Bank's operational and financial performance are given in the Table 5.1 and Graph 5.1 and 5.2.

**Table 5.1 : SIDBI – Financials (₹ crore)**

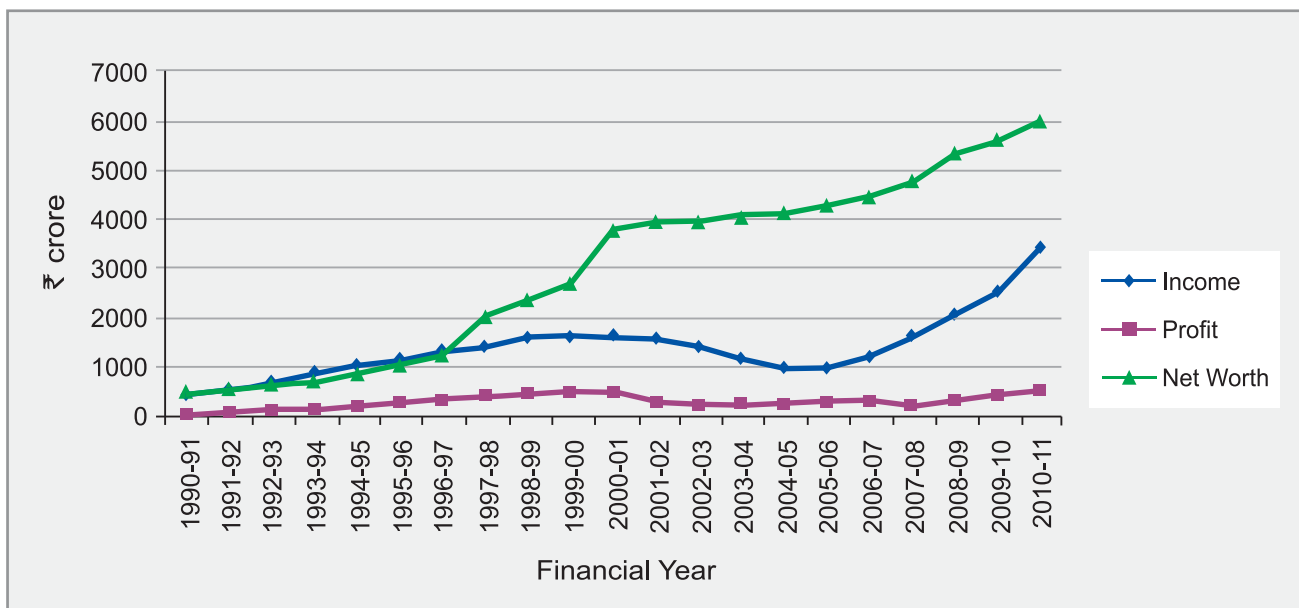
FY	Income	Profit	Net Worth
1990-91	426	36	480
1991-92	506	72	540
1992-93	675	108	611
1993-94	852	135	703
1994-95	1000	191	846
1995-96	1135	261	1026
1996-97	1291	316	1249
1997-98	1409	405	2029
1998-99	1579	450	2359
1999-00	1598	459	2686

FY	Income	Profit	Net Worth
2000-01	1619	477	3771
2001-02	1560	282	3951
2002-03	1405	207	3934
2003-04	1151	243	4071
2004-05	948	225	4119
2005-06	964	270	4268
2006-07	1187	298	4436
2007-08	1638	198	4713
2008-09	2082	299	5342
2009-10	2540	421	5612
2010-11	3433	514	5979

**Graph 5.1 : SIDBI - Outstanding Portfolio (as at end - March)**



**Graph 5.2 : SIDBI Financials**



## MSME FINANCING AND DEVELOPMENT PROJECT

SIDBI is the Implementing Agency for the “MSME Financing and Development Project (MSME - FDP)” involving the World Bank, DFID, UK and KFW & GIZ, Germany as partners. The Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency for the Project. The Project attends to demand and supply side needs of MSMEs through judicious provision of financial and non-financial services. Project has adopted an innovative approach (caters to target population which spans across stakeholders of MSME domain) to attend to poverty alleviation through enterprise development in MSME domain. The grounding of enterprises and instilling competitiveness in them contributes to National development as also the Millennium Development Goals.

The Project objective was to “improve MSME access to finance (including term finance) and business development services, thereby fostering MSME growth, competitiveness and employment creation”. This was to be achieved by focusing on:

- ▶ Enabling framework for MSME financing by banks.
- ▶ Helping banks to gain better access to longer term financing for lending to the MSME sector.
- ▶ Mitigating banks risks related to MSME lending and reducing transactions costs of such lending while, at the same time, ensuring the banks enhance quality of their MSME loan portfolios.
- ▶ Strengthening Business Development Services (BDS) and market linkage programs for MSMEs.
- ▶ Other ‘ENABLERS’ of MSME eco-system.

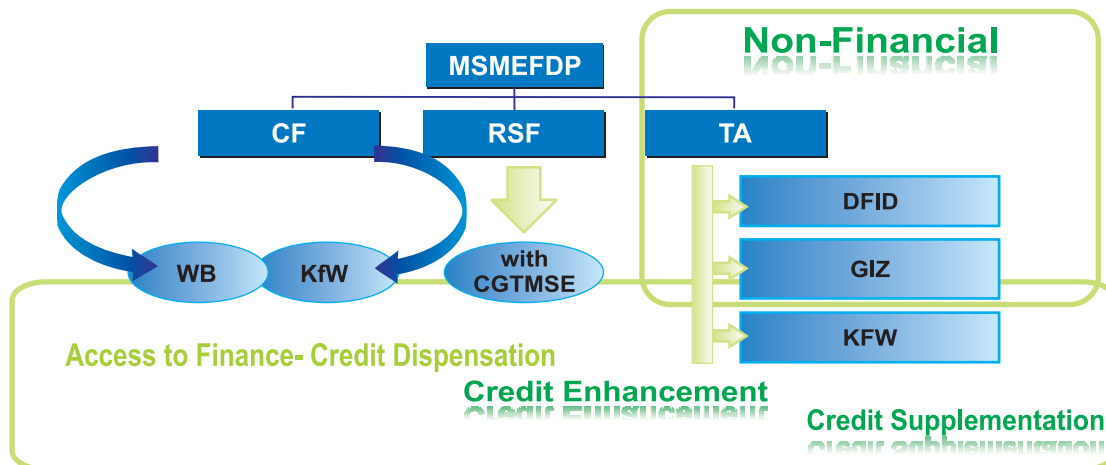
### 6.1 Project Framework and Theory of Change

In order to achieve its aims, the Project, besides upgrading direct flow of credit to MSMEs, addresses demand side issues of credit and streamlining access to qualitative financial and non-financial enterprise oriented services. This is being done with support of Technical Assistance utilized for strengthening the credit information system, credit rating, credit scoring, structuring of innovative products, capacity building of the participating banks, policy and regulatory issues and promotion of market oriented business development services for the sector.

## Components

The Project has three major components:

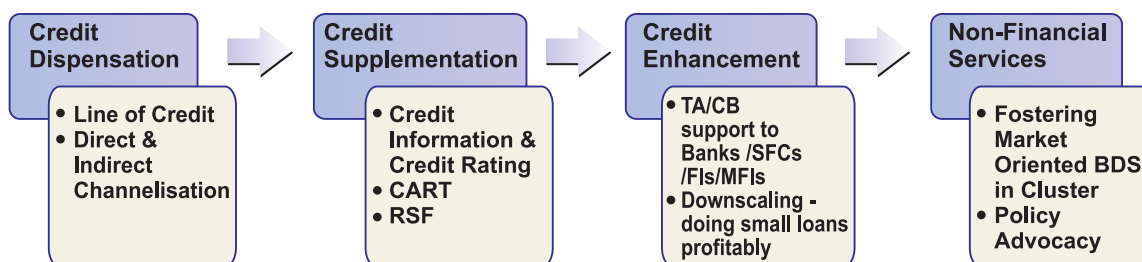
- Credit facility (CF) from the World Bank (WB) and KfW Germany
- Risk Sharing Facility (RSF)
- Technical Assistance from DFID, UK, KfW & GIZ, Germany



Lending Partner	Purpose	Tenor / Utilization Period
International Bank for Reconstruction and Development (IBRD)	Credit Facility I	15 Years
	Addl. Credit Facility	15 years (utilisation period is up to June 2012)
Kreditanstalt fur Wiederaufbau (KfW), Germany	Credit Facility	12 Years
Kreditanstalt fur Wiederaufbau (KfW), Germany	Technical Assistance (TA)	5 years
Department for International Development (DFID), UK	Technical Assistance (TA)	7 Years*
Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ), GmbH	Technical Assistance (TA)	Phase I (3 Years - till March, 2010) Phase II (April 2010-March 2014)

\*Effective 6 Years

### 6.1.1 FRAMEWORK



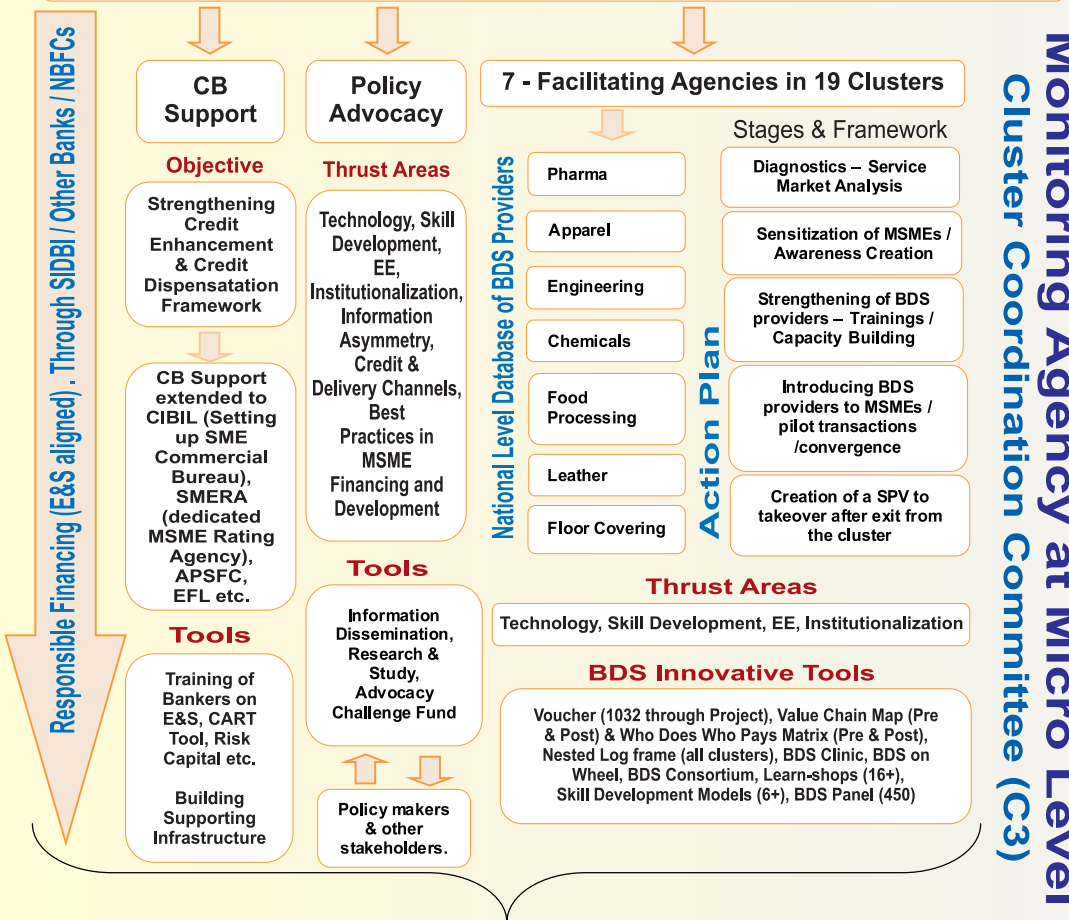
# MSME Financing and Development Project



Nodal Agency- DFS, MOF,GOI

IA- SIDBI

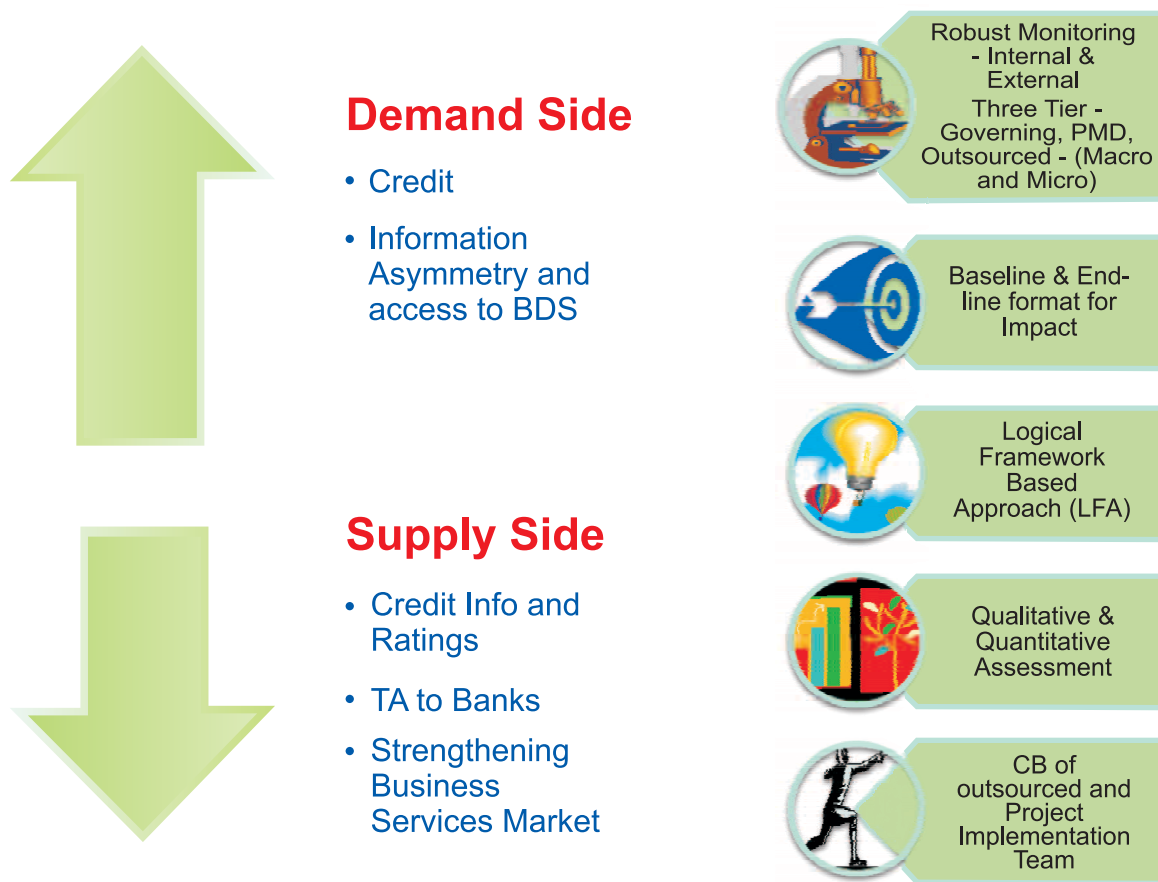
Dedicated Department- Project Management Division (PMD)



**Governing Body – PRC**  
**Monitoring Agency at Macro Level**  
**Log frame Based Monitoring Framework**  
**Monitoring Agency at Micro Level**  
**Cluster Coordination Committee (C3)**

**Competitive MSMEs**

## 6.1.2 FULCRUM



Along with attending to soft infrastructural (non financial aspects) as also some pilot attendance to the financial aspects in clusters, the project kept its focus on access to financial services, based on three pillars: Credit Dispensation, Credit Supplementation & Credit Enhancement. For Credit Dispensation, it has channelized over USD 444 Million to 7500 plus MSMEs through Environment and Social Risk (E&S) aligned facilities for which 140 plus Credit Officials, Internal /External Auditors, etc. have been trained. For Credit Supplementation, Project has supported piloting of Risk Sharing Facility (aimed at mitigating risks of moral hazard and adverse selection, sharing risks on 50:50 basis for loans between ₹ 50 lakh to ₹ 100 lakh through CGTMSE, which has since been institutionalised and scaled up version in offering), setting up of SME Commercial Bureau in CIBIL (by establishing database of entities more so of MSMEs at lower segment which has increased their bankability - database has grown from 6.7 lakh to 75.9 lakh with more than 5 lakh reports accessed till Oct 2011), setting up of SME Rating Agency of India Ltd. (SMERA) - Capacity Building support towards its establishment and making it sustainable, evolve efficient independent rating mechanism (it has established its efficacy through 14000 plus ratings), launch variants as per emergent market conditions viz. Green Ratings, MFI Ratings, etc. and Launching an innovative tool - Credit Appraisal and Rating Tool - CART (a system driven robust and validated tool which has led to reduced Turn Around Time in credit availability). For Credit Enhancement, the project built-up the capacity of several bankers, Micro Finance Institutions (MFIs), Non-Banking Finance Companies (NBFCs) & State Financial Corporations (soft infrastructure and training). Supporting strategic institutions dealing

with thematic issues of Risk Capital (for enabling the evolving of robust Risk Capital eco-system thus enabling MSMEs access equity and quasi equity easily), Technology Access, Unlocking Capital etc. were its mainstays.

MICRO, SMALL AND MEDIUM ENTERPRISES FINANCING AND DEVELOPMENT - PROJECT FRAMEWORK			
<b>Destination Statement -2011</b>	To increase income and employment by catalysing growth, profitability and competitiveness of Micro, Small and Medium Enterprises		
<b>Strategies and Actions underway...</b>	<b>ACCESS TO FINANCE</b> <ul style="list-style-type: none"> <li>- Improving commitment and knowledge to MSME finance of participating banks.</li> <li>- Improving efficiencies of participating banks through credit scoring, automation, risk grading, IT diagnostics, MSME deptts etc.</li> </ul>	<b>SECTOR DEVELOPMENT</b> <ul style="list-style-type: none"> <li>- Improving MSME operations, technology, management systems</li> <li>- Improving provision of market linked BDS</li> <li>- Improving capacities of Participating Banks, intermediary institutions</li> </ul>	<b>ENABLING ENVIRONMENT</b> <ul style="list-style-type: none"> <li>- Investment climate</li> <li>- NTBs, trade financing issues</li> <li>- Policy and regulatory framework</li> <li>- Knowledge centres</li> <li>- Gender development</li> <li>- Environmentally and Socially Responsible Business</li> </ul>
	<b>...for Addressing Key bottlenecks &amp; Constraints</b> <ul style="list-style-type: none"> <li>- Difficult access to financial and non-financial services</li> <li>- Unfavourable structural and regulatory, leading to increased transaction cost of MSME lending</li> <li>- Low institutional capacities</li> <li>- Lack of capital formation</li> </ul>	<ul style="list-style-type: none"> <li>- Low capacities of MSMEs, information asymmetry</li> <li>- Low capacities of BMOs or industry associations</li> <li>- Skill deficit,</li> <li>- Deficient credit information and ratings</li> <li>- Low capacities of BDS providers</li> <li>- Medium capacities of SIDBI / PMD</li> <li>- No exploration of advance and traditional technology options</li> </ul>	<ul style="list-style-type: none"> <li>- Policies and institutions not fully aligned with markets requirements</li> <li>- Market forces sometimes creating anomalies</li> </ul>
<b>...And the roles being performed, by different actors in the initiative</b>	<p><b>SIDBI:</b> SME Development - Project Management, M&amp;E, Knowledge Management, Policy Advocacy, convergence and leveraging with other Govt and private sector initiatives</p> <p><b>Facilitating Agencies:</b> Cluster Development, Developing Market for BDS</p> <p><b>WB:</b> Resource Provision - Line of credit of USD 120 Million and USD 400 Million</p> <p><b>KfW:</b> Resource Provision - Line of Credit of \$ 55 Million, Strengthening retail lending capacity of SIDBI</p> <p><b>GIZ:</b> Capacity building of Partner Banks, Financial services support using established MFI /SIDBI /Financial consultants, Policy advocacy, BDS Market models development</p> <p><b>DFID:</b> Credit information flow, credit scoring /rating mechanism, building institutional capacity for participating banks, Business development services for MSMEs in select clusters /sectors, capacity building of PMD, Monitoring and Evaluation, Strengthening the policy /legal/ regulatory framework</p> <p>Participating Financial Institutions: Being part of the Initiative, Improving their transaction cost of lending to MSMEs</p> <p><b>MSMEs:</b> Entrepreneurs and employment providers, Contribution to the initiative, Cluster Development</p> <p><b>CGTMSE:</b> Risk Sharing Fund</p> <p><b>Ministry of MSME:</b> Regulation and enabling policy environment, leveraging with SIDBI project</p> <p>Business Member Organisations: Facilitation of industry wide initiatives, PPP, BDS, credit linkages, etc. with support from CAs</p>		

Under Non Financial Services, project developed and implemented a new way of cluster development which has evolved as 'Making Market Work for MSMEs' (MMWM) which is rendering new dimensions to cluster development. The Business Development Services (BDS) interventions in 19 clusters (targeted at 7 sub sectors - Leather, Engineering, Pharma, Knitted Apparel, Fruit and Vegetable Processing, Floor Covering and Dyes & Chemicals) were focused towards market development such that the tools and models continue on sustainable basis as also these as 'role models'. By piloting launch in 3 clusters in 2006 and imbibing the learnings, it integrated the experiences and scaled it up in total 19 clusters. The Project has acted as a catalyst by developing sustainable and technically competent - locally relevant experts (450 empanelled BDS - both Individual/ Institutional - in area of Skill Development, Technology, Quality, Marketing, Finance and so on), enabled National /International compliances by over 1950 MSMEs in

clusters - achieved through 1100 activities - cumulatively from 2007, over 2,100 transactions (with /without voucher support), Credit Linkages (Reference over ₹ 435 crore), MSME Mentoring ([www.msmememor.in](http://www.msmememor.in)), BDS aligned Rural Industrialization Programme in 2 pilot locations (in underserved regions), foster entrepreneurship within Micro Enterprises (MEs) of underserved regions (developing a cadre of BDS providers for counseling /handholding of MEs in NE region - more than 1200 prospective entrepreneurs counseled).

Simultaneously, project worked for contributing to enabling eco system through Policy Advocacy component which attended to information asymmetry by creating a robust knowledge bank ([www.msme FDP.net](http://www.msme FDP.net)), series of policy papers / publications / knowledge documents / tool kits (more than 20 nos.). These have been widely disseminated and appreciated by the stakeholders and policy makers. For private sector advocacy, the project launched "Advocacy Challenge Fund". It is understood to be the first such enterprise oriented fund in India. The project developed a single source information channel for new and existing enterprises which is being launched soon. Project, through SIDBI, advocates MSME policies and conveys the best practices through various committees, meetings, discussions etc.

### Differentiators

The project has led to **market functionality now visible** in the 19 clusters, which is a **systemic change as against earlier transaction led actions**. The project which took off in 2006 has so far reached out to around 1 lakh beneficiaries (MSMEs and stakeholders with multiplier possibilities) as against about 13,000 beneficiaries in March 2010 indicating substantial jump in scale. The beneficiaries include:

- MSMEs through LoCs – 8117 (Direct Finance + through Refinance)
- Clusters (Both Direct and Indirect) - Approx. 46954
- Bank Officials - 2200
- Service Providers - Approx. 1000
- Capacity Building of Bank Officials (Indirect through CIBIL) – 17000+
- Sensitization / Awareness through workshops & events (Direct - 500+ & Indirect – 3230+)
- MSMEs rated by SMERA - 14,000+
- Government, MSMEs & Stakeholders (under information dissemination)
  - a) Project gets visible through more than 300 media coverage in over 19 clusters (newspaper, magazine etc.), more than 25 lakh website hits (through 20 websites).
  - b) As per the records the project website ([www.msme FDP.net](http://www.msme FDP.net)) has registered average 1508 unique visitors during last six months (total 9050 unique visitors and 11396 hits during May-Oct, 2011) which indicate its receptivity. Besides India, the visitor's are from countries such as: Germany, Russian Federation, China Finland etc.
  - c) Project has created a knowledge respository on [www.msme FDP.net](http://www.msme FDP.net) & [www.sidbi.in](http://www.sidbi.in). The various publications and research reports developed under the project are freely accessible.
  - d) More than 30 reports / booklets/ policy series developed directly under the project (besides developed by cluster agencies, GiZ etc.) are widely disseminated among MSMEs, Govt. and concerning stakeholders.
  - e) Under GiZ TA - 15,000+ (MSMEs, stakeholders, Bank Official, etc.)

Note:

Direct : Undertaken by project team

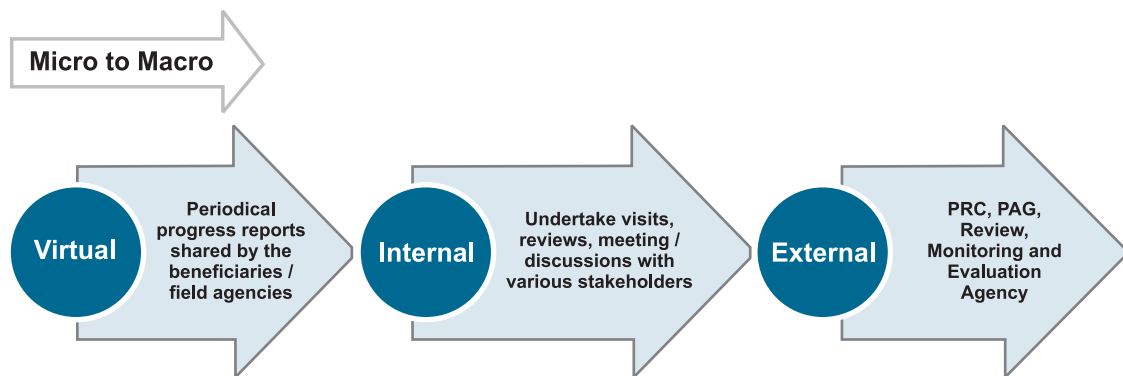
Indirect : Through outsourced agency, beneficiary etc.

**MSMEFDP received several recognition and awards at international level. In the year 2010 it won award on 'Local Economic Development' and in 2011 it won the international ADFIAP Award 2011 with the agenda of "Making Markets Work for Indian MSMEs"**



### 6.1.3 Monitoring and Evaluation (M&E)

- ◆ The project laid down a robust system of regular monitoring and evaluation of progress and followed it diligently. A Logical Framework (LFA) for each component under the project has been established tracking the Goal, Purpose, Outputs and Impact through Objectively Verifiable Indicators (OVIs).
- ◆ The project emphasized on the LFA to ensure project implementation followed the right track. Also Project Management Division (PMD) helped the other project beneficiaries (received funding from the project) to draft their own LF - these were nested LFs (branching out of project's LF). This helped PMD as well to be able to monitor and report progress back to the donors. Besides Logical Framework Assessment (LFA) system the overall framework had three tier systems:



- ▶ Project Review Committee (PRC) is the overall Governing and monitoring body for the project – Apex level monitoring and review committee that offered guidance and suggested corrective actions.
- ▶ Policy Advisory Group (PAG) committee provided guidance on Policy Advocacy.
- ▶ Project Management Division (PMD): Implementation Team acted as an SPV within the organization which had its own delegation for decisions, procurement guidelines based on international best practices, staff from SIDBI as well as on contracts. This structure has resulted in lower implementation costs on salaries, establishment expenditure and at the same time enabled continuous availability of support from senior management of SIDBI Partners. This structure has brought in project management skills and managing consultants from demand side. Project Advisory Committees (PAC) and PRC guided the implementation of the project, advised PMD on innovativeness of new concepts / approaches and take mid-course correction, wherever felt necessary.
- ▶ Review Missions (generally annually) with external experts forming the team.
- ▶ PAC for assessing, advising and guiding the various Capacity Building support initiatives extended to Banks, Credit Information & Credit Rating, Policy Advocacy etc.

- ▶ Cluster Coordination Committee to instill ownership among key cluster actors from very beginning and devising/ revisiting action plans as per their demand and expectations.
- ▶ Regular meeting and discussions, Monthly /Quarterly Progress Reporting System and Roping in External Agencies on M&E at Macro Level, for BDS at Micro Level, Auditors (internal and external) and procurement audit made the system more robust.
- ▶ Time to time management audit was undertaken from a specialised SIDBI division which tracked the quality aspects and adherence to standards, procedures and interaction with partners. This led to more effectiveness in project handling.

#### 6.1.4 Key Enablers To Eco System

##### ▶ Attending to Information Asymmetry

**IT based Platform** - Under MSMEFDP 19 Cluster websites (providing sectoral information including database of strategic service providers), 16 websites of MSME Association, 25 Websites of MSMEs (facilitating their brand promotion and marketing niche, E-Marketing etc.) and around 46 MSMEs for acquiring customized ERP solutions have been supported.

**Micro Enterprises Business Information Counsellors (MEBIC)** - In order to foster entrepreneurship and remove information asymmetry within micro enterprises of underserved regions, the Project took an initiative for developing a cadre of BDS providers for counselling, initial handholding and development of micro enterprises in North-Eastern region as Micro Enterprise Business Information Counsellors (MEBIC). More than 1200 prospective entrepreneurs have been provided counselling services which included mentoring / handholding till March, 2011.

##### ▶ Innovative Tools

The Project has adopted many International Best Practices which have demonstrated scalability and replicability attributes. These are:

- ◆ Adoption & replication of Environment and Social (E&S) Risk Framework in Lending and tracking of procurement practices of MSMEs
- ◆ Risk Sharing Facility (through CGTMSE) which has since been institutionalized & scaling up is in offing.
- ◆ Advocacy Challenge Fund (a first time enterprise oriented fund support mechanism in India which had action research grant as also in-built incentive mechanism enabling NGOs /BMOs to concretise their ideas into action research project (Challenge was to implement their own ideas for which project supported it) .

- ◆ **Making Market Work for MSMEs** (through BDS market development in 19 Indian clusters). Key innovative tools/ model for BDS delivery viz.
- Voucher Support - Subsidizing by the project towards initial payout by MSMEs to BDS on tapering basis through a tripartite arrangement between BDS, MSME and Facilitating Agency (FAs) - where FAs role has been to oversee successful transaction completion.
  - BDS Clinic - A one point solution and matchmaking platform bringing MSMEs/ BDS together for on the spot viable solutions.
  - BDS on Wheels - A vehicle carrying BDS to cater to MSMEs service requirements at the place of MSMEs (with thrust on MEs)
  - BDS Panel - Created Panel of > 450 empanelled BDS who have successfully rendered services to MSMEs thus giving the needed trust (it includes a pool of FAs - with more than 110 personnel in team), BDS Consortia (pooling BDS of different specialization under one umbrella to offer advantages of collaboration), nineteen virtual BDS (each cluster has a website which have acted as knowledge repository), benchmarking of costs leads to reduction in fee etc.
  - Value chain mapping - Every cluster underwent Diagnostic Study which mapped critical pressure points which were attended throughout project intervention. The emergent scenario post implementation was compared to pre-launch situation as mapped by diagnostic study.
  - Who-Does-Who-Pays (WDWP) Matrix - The tool has been adopted to map the availability of BDS and their existing users including paying pattern in the clusters. This was tracked for pre and post situation.
  - Cluster Coordination Committee - This instilled ownership among key cluster actors towards project initiatives right from inception (diagnostic) till exit (handing over to exit vehicles). It vetted, validated, monitored and guided the initiatives.
  - Cross Learning's & Exposure Visits - For learning's from successes and failures in other clusters, Project organized cross learning workshops on regular basis (national / regional level which has evolved as an institutionalized learning mechanism). More than 16 such learnshops upgraded the capacity of FAs.
  - Skill Development Models (with MFI, BMO led, Corporate Houses, Academia-Industry Partnership etc.) were tested and validated institutional BDS.

#### **Revitalisers – Attending to Bottom of Pyramid**

Swasreya Coir Development Society has 40 SHGs of 10 members each. The Society was linked to M/s R.G. Consultancy, a Business Development Service Provider (BDSP) for marketing in October 2008. As a part of their marketing strategy to increase visibility the project also introduced a BDS for website and catalogue development. Through his efforts the unit got its first domestic order in March 2009. The society had also developed a new product called the Comfort mat but were not making much headway in marketing it. The BDS provider hand hold for linkage to market in sectors (such as IT) where the product would have most relevance and easy acceptance. The BDS provider is in process of building a marketing department within the unit and training the personnel to enable it to undertake own marketing.

### ► **National Level Mentoring to MSMEs**

Capacity Building Assistance was extended for development of a portal [www.msmentor.in](http://www.msmentor.in) which is an online platform enabling identification, availability and matchmaking of right Professionals / Service Providers in a simple, cost-effective and time-efficient manner for Indian MSMEs. This website is a jointly supported initiative of SIDBI and NSE. Presently this service is being provided free of charge for both Professionals / BDS Providers (to enrol) and for MSMEs (to search).

### ► **Modified Rural Industries Programme**

SIDBI has been fostering rural industrialisation for many years. In order to make it more sustainable, the project supported the modified version of Rural Industrialisation Programme (RIP) in 2 Pilot locations (Sawai Madhopur, Rajasthan and Nayagarh, Orissa) with a focus on instilling supply side sustainability i.e. availability of local BDS.

### ► **Knowledge Access mechanism** - For attending to key challenges of the domain including information asymmetry and contribute to enabling policy environment, project has created

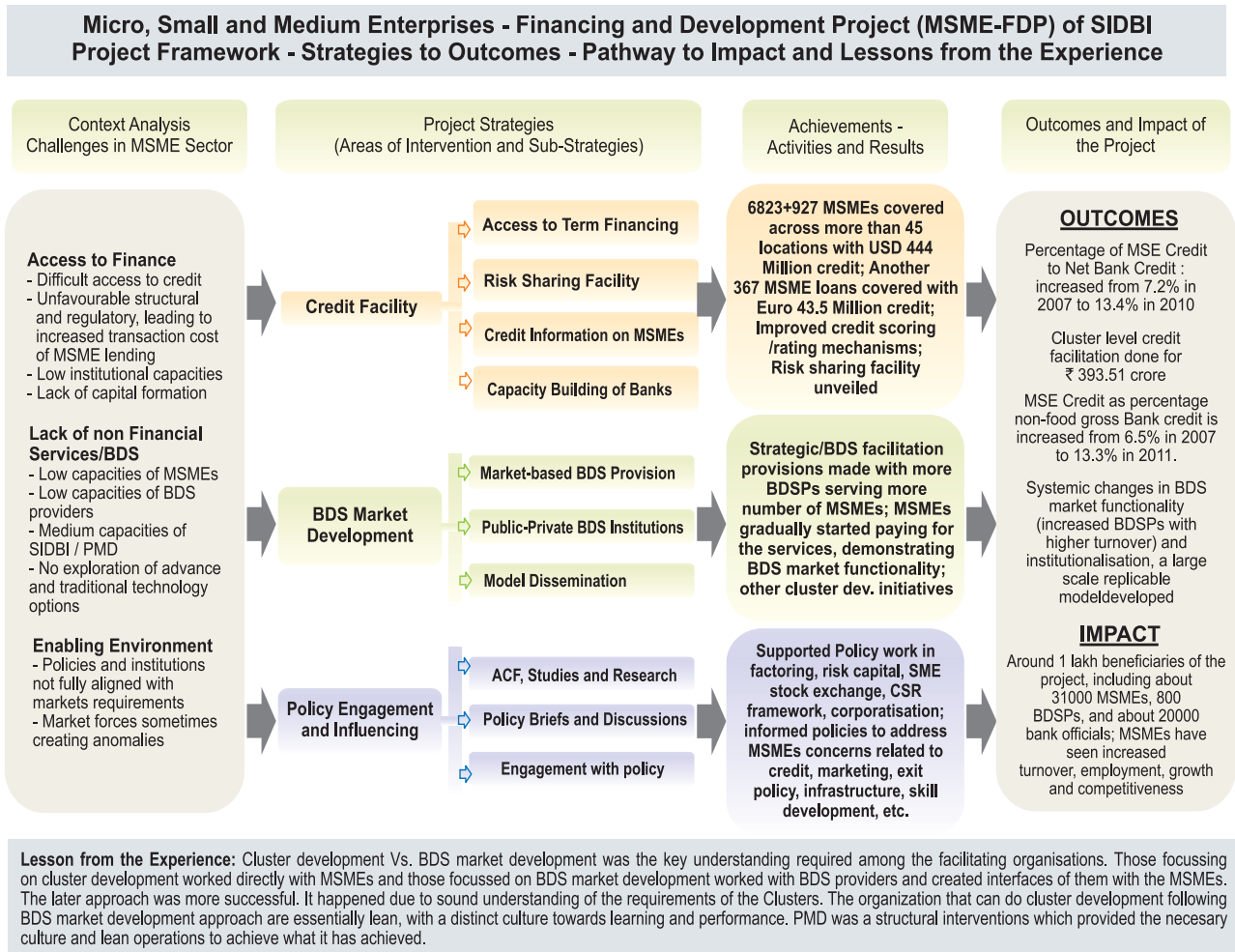
- Project Website ([www.msme FDP.net](http://www.msme FDP.net)) - A robust knowledge bank provides free access to toolkits, knowledge series and policy documents.
- Knowledge Series / Policy Papers / Tool Kits - Several policy papers / publications (e.g. Factoring - brought out in 2010 has contributed to legislation in December 2011), Global Best Banking Practices in MSME Financing and Development (practices with customization possibilities for India – references from which have been drawn for the Plan Document – 12th Five Year Plan), Toolkits (e.g. Walk-in-Kit for Corporatization of MSMEs - fostering corporatization so as to enable 95% non-corporate MSMEs to slowly adopt it for growth and rise up the value chain, web enabled MSME Kit etc.), Series on Risk Capital for MSMEs, Feasibility of Credit Card for MSMEs ) etc.

## **6.2 Achievement, Learning and Impact of MSME-FDP**

### **6.2.1 Summary of Project Achievements and Replicable Learning**

The project has contributed to increased percentage of outstanding MSE Credit to Net Bank Credit through channelising of line of credits which were aligned to Environment and Social Risk framework. Capacity Building of MSME Support Institutions like CIBIL, SMERA etc. contributed towards Credit Supplementation and Credit Enhancement to MSMEs, which is visible in the growth trend within the Sector. The project has attracted stream of BDS providers in the 19 clusters (adopted by it - Annexure III) who have depicted higher level of engagement with MSMEs leading to increased turnover (for both BDSPs and MSMEs) and profitability. Overall cluster intervention has fostered competitiveness by enabling 'Markets to Work for MSMEs'. It has also steered institutionalization of cluster support mechanisms and therefore has developed a large scale replicable model of BDS market development in clusters.

The summary of project strategies, achievements, outcomes, impact and lessons is captured in the diagram below:



As highlighted above, Cluster Development vs. BDS Market Development was the key understanding required among the facilitating Agencies (FAs). Those focussing on Cluster Development worked directly with MSMEs and those focussed on BDS Market Development worked with BDS providers and created interfaces of them with the MSMEs. The later approach was more successful. MSMEFDP's thrust on ownership and participation of cluster actors/stakeholders was major factor for success and replicable traits. It may be mentioned that unique interventions such as Green revolution or spread of mobile in nooks and corners of the country has been successful due to public participation. Cluster movement can have larger impact once ownership is instilled from very beginning. PMD and nimble cluster agencies therefore was a major factor of success of the MSMEFDP.

The Project has adopted many international best practices which have demonstrated scalability and replicability attributes. These are summarized below:

## **ACCESS TO FINANCE**

### **A. CREDIT DISPENSATION**

#### **CREDIT FACILITY**

The project has done very well on first count as both the World Bank(WB) Tranches and one Tranche of KfW have been well utilized for Credit Dispensation. On the second count, in terms of integration of BDS interventions with access to finance in the 19 clusters, the picture is mixed, with some successes.

The first Line of Credit by World Bank for USD 120 Million has reached to 927 MSMEs in 13 locations. The Line of Credit (LoC) was utilized in 18 months compared to target of 36 months. This appeared as improved MSME access to finance (including term finance). The additional Line of Credit by World Bank was provided for USD 400 Million in June 2009. Out of this, USD 324 Million (81%) have been dispensed by October 31st, 2011. With this line of credit, project has covered 6823 MSMEs through SIDBI, Participating Financial Institution (PFI) and Non-Banking Financial Company (NBFC). The LoC was channelized in 45 locations across the country, which includes underserved regions like North East and Uttar Pradesh, Madhya Pradesh etc. The additional line enhanced its geographical coverage, supported Innovative MSMEs loan products (Terms Loans, Working Capital Term Loan, Working Capital Limits, Bill Discounting etc.) as also reaped benefits of downscaling (doing small loans profitably). MSMEFDP has also linked its BDS initiative with access to finance and in 19 clusters over 874 enquires for amount over ₹ 393.51 crore were generated and over 335 MSMEs were linked to credit / financial institutions for assistance worth ₹ 241.89 crore. The Line of credit from KfW for Euro 43.5 million has also been fully utilized. It has reached to 367 MSMEs in 11 states. This was utilized in 15 months compared to target of 36 months.

#### **Downscale to Upscale**

Au Financiers (India) Private Limited (AUF IPL), an NBFC, which started from Rajasthan (now it operates in four states) has been a Small Road Transport Operator (SRTO) centric financier. AUF IPL is a frontrunner in the state of Rajasthan for phasing out old three wheelers operating on Diesel and Petrol engines and introducing newer CNG/ LPG based vehicles. IFC invested in the equity of the NBFC. In order to enable it to move to MSE domain (which was started in May, 2009 on pilot basis & has since taken a share of 9% of portfolio and further which is projected to grow up to 15% by FY 2012), SIDBI extended funding of ₹ 40 crore to it (under World Bank LoC support), which has since reached out to 1800 plus loans extended for energy efficient vehicle finance and MSEs loans (mostly ₹ 10 lakh and below to micro startups). In order to enable the integration of Environmental and Social Framework (E&S) in its lending mechanism, project has sensitized the key Credit Officers (including CEO) of Au Financiers on Environmental and Social framework. This shall enable it to be more responsive to sustainable agenda.

## **Responsible Financing**

### **Recognition of Environment and Social (E&S) Risk in Lending and Associated Risk Mitigation**

- ◆ The long term financing is a critical input for supporting capital formation and technological up-gradation. Looking beyond traditional approaches, the Project facilitated MSME growth for survival

and sustainability by providing Environment and Social Risk Framework aligned Credit Facility. With World Bank support, SIDBI adopted global best practices and piloted Environment and Social (E&S) Risk framework aligned credit to MSMEs. This started with first LoC in year 2005. After successful implementation, the project has sensitized and influenced Banks and Govt. of India on E&S Framework through Regional and National Workshops.

- ◆ In the beginning while adopting and extending the E&S Framework linked Credit Facility directly to MSMEs, it was found that its receptivity was low. Based on the perception and feedback of the credit officers, the project shifted its strategy towards supply side and trained a batch of 50 Credit Officers (emerged as nodal officers as also facilitation officers) capturing and guiding the mind share of MSMEs in a facilitation manner. This worked and it channelized USD 115 Million (in 1 ½ Years as against 3 Years availment period allowed by WB) to reach out to around 1000 enterprises.
- ◆ Later, it was realized that Internal and External Auditors as also Central Loan Processing Cells (with sectoral expertise) need to be trained. With a pool of more than 140 Credit Officials (including Internal and External Auditors, NBFCs etc.) on E&S, SIDBI spearheaded the agenda of 'greening MSMEs'. A sensitization programme for Banks /NBFC officials on E&S at regional and national level was also held.
- ◆ Under WB support SIDBI further adopted tracking of Procurement Practices of MSMEs and instilling best practices of transparent procurement, offering value for money.
- ◆ On non-financial side SIDBI has instilled functionality in BDS market by working extensively on developing a cadre of business development services in 19 clusters aimed at energy efficiency/ environment. In adopted clusters it has built the capacity of BMOs so that they attend to the environmental agenda on sustainable basis.

Tracking Evolution of Environment & Social Risk Framework		
Implementation	Achievement through E&S Framework	Becoming more Environmental and Social Responsive
SIDBI has adopted an Environment and Social Management Framework into its lending operations. Various initiatives were taken to create environmental awareness amongst MSME units such as awareness campaigns and cleaner production workshops. It adopted World Bank's safeguard policies and international standards/guidelines to assist the MSME sector in improving their environmental and social performance.	<ul style="list-style-type: none"> <li>■ Credit line reaching to Underserved states viz Uttar Pradesh, Madhya Pradesh, Bihar, Jharkhand, North East, West Bengal etc.</li> <li>■ A Regional Workshop at New Delhi (attended by 25 Bankers) followed by National Workshop on "Sustainable Financing and Non-Financial Risk Reporting" was organized in June 2011 under GIZ TA inaugurated by Deputy Governor of RBI and participated by more than 25 banks and stakeholders.</li> <li>■ Leveraged E&amp;S Framework for developing niche in energy efficiency try it in Micro Enterprise (Missing Middle), and adopt EE agenda in clusters where it is utilizing the experience of FAs who worked in cluster programme helped in leveraging FAs experience.</li> </ul>	<ul style="list-style-type: none"> <li>■ Case Studies on E&amp;S (status, achievements etc.) have been documented for dissemination.</li> <li>■ E&amp;S Framework revisited by a specialized agency for updating various legal aspects, incorporate field level feedbacks etc.</li> <li>■ Credit line reaching to the clusters adopted by the project and financial linkages through BDS took off.</li> </ul>

## **Sustainability Reporting**

Project supported Corporate Social Responsibility (CSR) Report of SIDBI - the first such report by Indian Financial Institutions which was later hosted on Global Reporting Initiative (GRI) website (a repository of sustainability reports). Based on that a Model CSR Framework was also developed (2010) for Banking & Financial Institutions which evinced appreciation from Reserve Bank of India and other stakeholders. Some banks have started following the preparation of CSR report as per the suggested CSR Model under the Project. Project has also supported in organizing the stakeholders consultation workshops of SIDBI Employees/Bankers under MSMEFDP-GIZ, wherein the sustainability related issues pertaining to Banking Sector and MSME Sector were discussed and prioritization has been done. These consultations have helped Bankers to understand how to identify the sustainability related issues and attend the same.

## **Green Rating**

SIDBI, hand-held its associate SMERA to launch a first time in India '**Green Rating**' for Enterprises. It is encouraging MSMEs to get their manufacturing facilities rated on environmentally sustainable parameters. The rating establishes compatibility of an industrial unit in adhering to manufacturing process resulting in efficient use of resources with minimum environmental damage. Green rating parameters are determined for each industry based on base level technologies and commercially viable clean technology available for the sector. It also takes into account compliance of a unit's environmental regulatory norms. Under the pilot arrangement, 80% of the actual cost of Green Rating subject to a maximum of ₹ 45000 per unit was borne by SIDBI. To enable initial buy in, during the pilot, SIDBI extended the rebate on interest rate to the units rated "**Green Rating-3**" and above under "**Green Rating**". To provide impetus to one of its unique kind of initiative in World, SIDBI's international partner - KfW, Germany agreed to support the cost of pilot green ratings.

## **Promotion of Micro enterprise Finance through working with Micro Finance Institutions (MFIs)**

Under MSMEFDP- GIZ, project promoted institutional lending to micro enterprises through "credit up-scaling activity". A micro enterprise loan product and a risk assessment tool have been developed together with Sa-Dhan, an association of micro finance institutions and its knowledge partner (M2i). A benchmarking exercise organized to identify MFIs that have the capacity to diversify into the Micro Enterprise Finance segment. Thereafter a consultative meeting with key stakeholders to disseminate information about the product was organized.

## **Promotion of "Green Finance"**

Under MSMEFDP- GIZ, Project supported the Indian banking sector with the development and introduction of innovative financial products in the area of "Green Finance". After a Knowledge Mapping on successful loan schemes and an analysis of international good practices in the area of energy efficiency financing for MSME in October 2010, a special loan product for purchasing energy efficient machinery and equipment in MSME has been developed by Frankfurt School of Finance and Management. After a workshop in



November 2010 to disseminate the knowledge, feedback was received from Indian banks. The product is being piloted with State Bank of India in the light engineering cluster in Ludhiana- Mandi Govind Garh, which includes around 10,000 units. A baseline study has been completed, providing information of different units' financing needs. Pilot of EE loan product will be carried out in 2012 and after positive evaluation of a pilot, the product will be rolled out nationally.

### **Sustainable Banking**

Under MSMEFDP- GIZ, project offered strategic advisory services for assisting banks in their development of their Sustainability or Green Finance Strategy. Jointly with other GIZ-initiatives and in collaboration with the Global Reporting Initiative, the project organized a multi-stakeholder dialogue and conference on "Mainstreaming Environmental and Social Aspects in Financial Markets" in January 2011, targeting about 150 delegates from financial institutions, financial consulting firms, academia and government departments. Awareness was created on the business case of integration of environmental and social concerns in business practices and corporate management. A status quo analysis for stocktaking of existing practices with regard to integration of environmental and social concerns in banks' operations was conducted and practices of SIDBI, YES Bank and ICICI were analyzed more in depth. A National Conference jointly organized under MSMEFDP by GIZ and SIDBI on "Non-Financial Reporting and Risk Assessment in Banks and Financial Institutions in India" on June 6th, 2011 in Mumbai offered a platform for more than 80 participants from 25 banks to discuss how to integrate environmental and social concerns in the banking sector and in lending procedures. The TC-measure aims to bring the discussion on integration of sustainability concerns in the financial sector to the policy level. As a result of the conference, in which the Deputy Governor of the Reserve Bank of India was guest of honour, first steps to engage with the Indian central bank on banks' responsibility to lend to MSME were explored.

## **CREDIT LINKAGES**

### **◆ Cluster Intervention**

By achieving integration of BDS Market Development with 'Access to Finance' initiatives, a greater multiplier effect has been unleashed. Every cluster has different financial needs. The banking industry generally provides similar financial products across the clusters with similar kind of conditions and compliance requirements. Leather and Pharma cluster firms, for example, need financial products that can cater well to the needs of the firm there. The terms and conditions of granting loans need to be suitably amended as well depending on the profile of cluster firms. Replicable attempts regarding this were done in the clusters. Access to finance can leapfrog with specific efforts by the cluster agency and specific financial products by the banking and MFI sector.

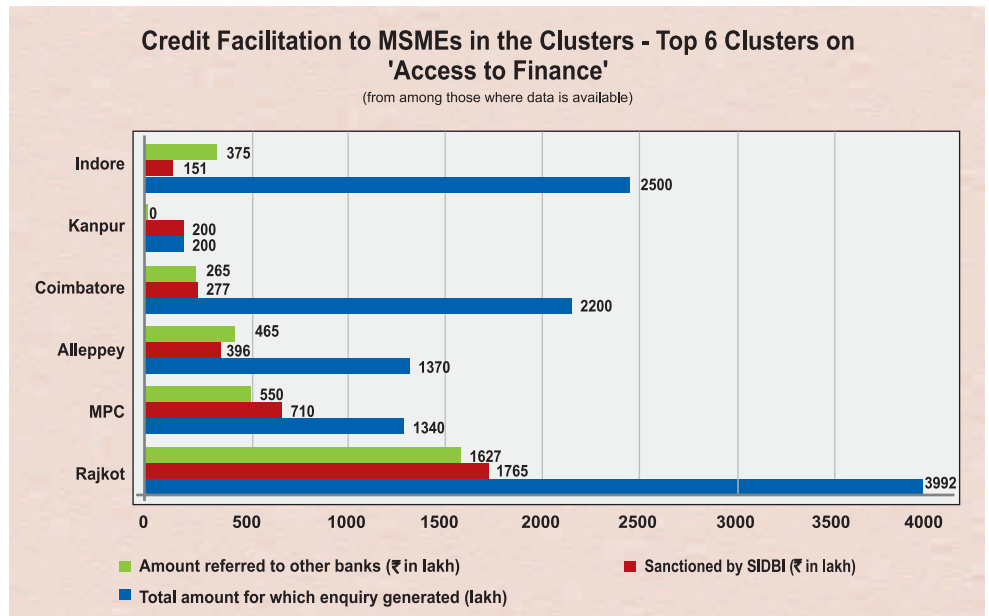
Clusters have seen efforts for facilitating linkages of MSMEs with SIDBI and other bank branches. Many SPVs {like Rourkela Techno-Park Self Help Co-operative Ltd. (RTPSHCL) for relocation of firm in Rourkela cluster} and consortia's (like Ahemdabad Dyechem manufacturers Cluster Ltd.) established

to ease the access to finance to MSMEs. Participating Bank officials sensitised towards MSME lending with better tools to lower transaction costs. In some cases like in Faridabad, BMOs have been capacitated to support MSMEs in accessing finance. A business correspondent model has also been devised and implemented for the purpose.

Few such credit linkage facilitation is depicted in the chart. In Indore cluster, diagnostics identified the bankers' reluctance to provide funds to MSMEs for the working capital. The cluster agency organized 2 Bankers meeting with SIDBI and other 4 financial Organizations. Another workshop with Cluster firms was organised to strengthen their Business Profile. Due to these efforts industry-financial institutional linkages improved in the cluster.

In Coimbatore cluster, four interaction meets were organised with Financial Institutions, nearly 200 cluster firms attended in the program. As a consequence, many

firms have obtained loans from TIIC, and Banks and SIDBI. Coimbatore association evinced keen interest in replicating Faridabad financial model for the benefit of MSMEs. In the pilot, 27 cluster firms got financial support.



**Differentiators - Making things happen**

Being dispersed, MSE units find it difficult to send sample to public laboratories on a regular basis. Even courier companies do not accept perishable and liquid samples. Alternatively, there are very few private laboratories in the Pune F&V cluster that provide full range of testing services. The cost of testing was also beyond reach as the benefits were still not very clear. To solve the problem of sending samples to laboratories for testing, a mobile testing van equipped with necessary equipments required for regular testing has been put to service by MAARC Lab. The van also carries the sample to the laboratory.

Wherever required, financial linkages have been enabled by roping in the financial BDS providers. While attending to this crucial agenda through downscaling 412 MSMEs have been finance with overall credit requirement of over ₹ 241.89 crore with project support in 19 clusters.

Under MSMEFDP-GIZ, project build strategic partnership with SIDBI, State Bank of India, State Bank of Indore, Bank of India, IDBI, ICICI, Narmada Malwa Grameen Bank, MFIs to enhance Credit Flow through Credit Linkages, Credit Up-scaling, Industry Specific Loan Products on GMP and ICT etc. Around 324 enterprises employing 33,124 persons linked with banks through Credit Linkages (aggregate credit of ₹ 806.52 crore extended). A pool of financial experts were linked to MSEs through voucher support.

## B. CREDIT SUPPLEMENTATION

Information asymmetry restricts Banks/ FIs to purvey adequate, timely and cost effective credit to MSME. This sub-component aimed at collating credit history data of MSMEs with a view to strengthening credit information building and dissemination. In addition to these, facilitating Credit Rating and creation of credit scoring products was also encouraged. In terms of improving Credit Information flow and supporting development of credit scoring/ rating mechanism, the project has supported following measures:

### ◆ **Credit Information Building**

With the objectives of enhancing the Credit Information System through Credit Information Building (MSME Credit Histories) and create a framework that encourages Banks/ FIs to make use of information for quick and informed decisions for lending to MSMEs, CB support was extended to Credit Information Bureau (India) Ltd. (CIBIL) from 2006 till 2011. The Project has helped CIBIL:

#### ■ **In establishing the first SME Commercial Bureau in India (in 2006)**

CIBIL, leveraging project support, successfully added Commercial Database wing to its repository of information and become the first and only operating Commercial Bureau with largest database size i.e. 75.9 lakh trade records for commercial entities as of October, 2011, (which is a considerable increase from 6.7 lakh records in March 2007) available from its 139 production members (37 in March 2007). The significant aspect of emergence of robust database has been that earlier while CIBIL stocked data information on willful defaulters as per mandate of regulators, however, with this commercial bureau credit history of all segments enabled inclusivity. This is important as it is enabling micro and small loans to be swiftly channelized.

The total no. of Credit Information Reports (CIRs) generated has gone up from approx. 2,700 in 2006 (start of support) to around 5 lakh in Oct, 2011 (average more than 17,000 per month) which indicates its increasing efficacy in credit dispensation.

#### ■ **Integration of Commercial (entity credit history) and Consumer Bureau (individual histories)**

Web-based Software (Bureau Analyzer) was developed in 2011. The software can be installed in the Member's technical environment that will enable them to access an integrated Consumer and Commercial Report through this system once installed in their environment. The integration has since happened and started bearing fruits.

#### ■ **Data Capturing on MSME Categories**

The data was not categorized during start of the project. Now, the new format for data capture (on the basis of categories of tagging) has been released to members. Formal training for bankers was initiated. CIBIL is geared up to have all systems in place including system changes which will include the Data Capturing as per categorization.

#### ■ **Unique offerings**

Project support has led to improvement in overall System Performance & Turn Around Time. There is 130% increase in monthly enquiries (Average 17000 per month during FY 2010-11) over the previous Financial Year. The average enquires per month during FY 2008-09 were 4116. Implementation of multi-channel approach under CB Support has resulted in better data

quality and in turn better Credit Information Reports (CIR). It has been observed that there has been significant reduction in rejection and improvement in Data Validation, Name Matching and Production Upload Process time. A direct result of this has been an improvement in overall system performance. This has reflected as significant increase in borrower count and credit facilities in the MSME domain.

Project support also facilitated inclusion of well performing State Financial Corporation's (SFCs) to become members of CIBIL. It enabled them to access CIRs at subsidized rates and thus enhance their outreach to MSMEs.

#### ◆ **Credit Rating for MSMEs**

With the objectives of strengthening Credit Rating Systems for MSMEs and create a framework that encourages Banks /FIs to make use of information (third party assessment) for quick and informed decisions on credit dispensation, CB support was extended to SME rating Agency of India Ltd. (SMERA) from 2006 till 2011. The Project has helped SMERA :

##### ■ **In evolving as dedicated Rating Agency for MSMEs in India (in 2006)**

SMERA was set up in September, 2005 (during the start of the project in 2006, it had done only 101 ratings and was in loss) and with project support it has completed more than 14,000 ratings. It has also achieved financial self-sustainability.

Out of the total SMERA rated MSMEs 95% constitute Micro & Small Enterprises.

##### ■ **To enrich its Product Offerings for MSMEs**

SMERA has diversified its basket of products (it had only one product during the start of the project) and has developed new models (assessing Green Field / Brown Field projects, MFIs, Green Ratings etc.)

The '**Green Rating**' Model launched by SMERA on pilot basis. '**Green Rating**' model is aimed to encourage MSMEs engaged in industrial activity to adopt better technologies and processes to prevent un-mitigated environmental damage. It is expected to act as a risk mitigation tool for MSMEs to reduce risk associated with rapidly changing world of "Environment Governance & Compliance", The process of Green Ratings is being piloted in 25 MSMEs in Casting/Foundry & Re-rolling category of steel sector in Ludhiana/ Faridabad/ Jodhpur/ Rajkot/ Coimbatore region. During the project support SMERA has conducted 36 Green Ratings. In an effort to enlarge the scope of its industry categories - from the model build perspective, SMERA has identified Dyeing, Chemical, Food Processing and Ceramics as potential sectors.

#### ◆ **Credit Appraisal Tool**

With the objectives of strengthening Credit Appraisal Systems of the Banks / FIs to facilitate quick and informed decisions on credit dispensation, CB support was extended for developing/upgrading Credit Appraisal and Rating Tool (CART). The CB Support has helped CART an online tool (its

purview covers presanction documentation & disbursement) as per below :

■ **In Developing CART - Standardize Process and System Driven Approach**

- The tool has demonstrated that it helps in a) Increase in number of sanctions b) Reduced turnaround time c) Lower NPA.
- This leads to quick decision on loan approval. Turnaround time at SIDBI has declined from 26 days (for loan size upto 50 Lakh) and 45 (for loan size above 50 Lakh) days in 2007 to 3-4 days and 4-5 days as on March 31, 2011 respectively.
- The tool caters to multiple requirements during Loan assessment (composite loan for both existing / green-field projects, different parameters for scoring /rating, provisions for Bank Guarantee, Letter of Credit, Energy Efficiency etc.)
- The tool has helped in the reduction of paper work and to provide hassle free enhanced performance which in turn decreases operational cost leading to offering of better interest rates to the MSME borrowers on a broader scale.

■ **Widening outreach**

The tool has been acknowledged by RBI (as per RBI Master Circular Banks were advised to adopt this). The tool has been designed on a IT platform which can be easily integrated with IT platforms of the other Banks/FIs/SFCs. SIDBI has since shared this tool with 20 Public Sector Banks and 18 State Financial Corporations. The results so far have been encouraging. IDBI Bank (the erstwhile apex DFI for industrial development in India, and which has been considering larger loan proposals only in the past) has adopted this Tool for processing smaller loans. Other Banks also have started using CART to appraise and rate loan proposals for the MSMEs.

**Change Maker**

Electronica Finance Ltd. (EFL) is a focused NBFC, engaged in financing of Machine Tools to MSME sector, providing finance for purchase of machines (mostly CNC) and equipment to MSME units across India. Project provided support to it towards training of staff on Credit appraisal and Sales techniques (32 officials underwent training) and capacitating their staffs to offer embedded services to MSME clients including Sourcing of proposals, Credit Appraisal, Recovery techniques, Sales kit preparation and Marketing etiquettes. This has led to processes in EFL becoming more efficient towards assessing MSME needs, streamlining credit delivery process, effective sourcing of proposals, etc. An independent study has found that EFL has recorded 1% reduction in the transaction costs, 60% increase in the number of Terms Loans Sanctioned to MSMEs, Reduction in the turnaround time for loan sanction, from 10 days to 8 days and improved management of risks associated with MSME lending.

◆ **Risk Sharing Facility (RSF)**

RSF is a tool to enable commercial banks to take up MSE financing as a viable and profitable business proposition. By sharing credit risk of participating banks and other Financial Institutions (on 50:50 basis), while at the same time making participation contingent on better credit assessment and risk identification by banks, the RSF helps the participating banks / Financial Institutions buildup a track record of good MSE lending. This is expected to encourage banks to scale-up lending to MSEs, and to price these loans more appropriately, with sector-wide demonstration effects.

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE - the collateral free guarantee institution setup by GOI and SIDBI) has been instrumental in implementing the pilot RSF Project. Under the scheme it had signed MOUs with eight Member Lending Institutions (SIDBI, UBI, BOB, BOI, PNB, Canara Bank, United Bank, SBI). Under Pilot 64 proposals amounting to ₹ 47 crore were extended to cover loans between ₹ 50 lakh (USD 0.108 Million) to ₹ 1 crore (USD 0.216 Million). Realizing that appetite exist in the segment (₹ 50 lakh - ₹ 1 crore) the core products purview was extended to ₹ 1 crore and thus institutionalized. A study has been also undertaken on Scaling up RSF and the new product shall be shortly launched.

## C. CREDIT ENHANCEMENT

### ◆ Capacity Building of Participating Banks

Under Capacity Building assistance, MSMEFDP supported banks, financial institutions and other intermediaries such that they enhance their offerings to MSMEs. It includes support towards Human Resource Development (through exposure visits and training in the relevant areas such as credit appraisal, sales techniques, negotiations, legal procedures etc), System & Infrastructure Development (through adoption of advance software / ICT infrastructure, automation of MIS system etc) and Institutional and Legal Framework Development. The support has led to strengthening of knowledge, abilities, skills and behavior of credit officers.

As a part of creating an enabling environment for the promotion of Risk Capital eco system especially for new ventures, Govt. of India has assigned a "Risk Capital Fund" to SIDBI to channelize this fund. Project extended CB support for engaging various experts for policy framework, product design, exposure, knowledge dissemination in the area of risk capital financing. A study was supported on 'Corporate Governance' so that MSMEs gear up to the emergent issues. Other FIs like Electronica Finance Limited, Andhra Pradesh State Financial Cooperation and other SFCs have been supported on trainings and IT infrastructure.

**MSMEFDP- KfW** portion contributed with its technical support to strengthen infrastructure, upgrading sectoral Information system and Human Resource Development. To increase the speed and early processing of loans / credit support for MSMEs, Video conferencing (VC) equipment were installed in credit offices of participating financial Institution (PFI). The system has reduced the turnaround time in financing through quick committee decisions, live interaction with borrowers etc. Indirectly it has also contributed to reduction of carbon emission due to less travelling for meetings, interviews etc. In addition support has been extended for subscription of I-Cube software from CMIE which led to enhancement of the sectoral knowledge and risk assessment capability of credit personnel.

Under Human Resource development, more than 80 officials (with 30 international trainings) trained in various areas related to the MSME financing. The areas covered various domains from risk assessment to financing, Customer relationship management (CRM) to assessment of distressed loans, Follow up & monitoring to legally disposal of loans. Other steps like engagement of consultant for new software and programme on 'change management' (to enable credit officers embrace change gracefully) have been undertaken to increase the lending capacity of PFI.

Project is also carrying out an empirical study in India, based mainly on tracing back success stories of entrepreneurs that grew out of the segment of micro enterprises. It aims at (a) identifying determinants of firm growth and qualitative upgrading and (b) deriving conclusions for policy-makers. The study is expected to help know critical competitiveness attributes of Micro, Small and Medium Enterprises, enable cross learnings and also address the retail lending aspects in a much better way. The study is part of a comparative research project which also includes entrepreneurial case studies of Philippines and Egypt.

#### ◆ **Credit Mapping**

Under MSMEFDP-GIZ Portion of Project a Credit Gap assessment (to estimate the existing credit gap and also to suggest the innovative delivery mechanism and products specific to clusters to reduce the credit gap) was carried out in 10 clusters, where MSMEFDP had made intensive intervention. Findings of the report is planned to be shared with policy makers and other banks for necessary actions.

#### **Upscaling Small Loans using Downscaling Technique**

After imbibing learnings from international workshop organized by the project on for Upscaling MSME Credit attended by participants, comprising representatives from GoI/RBI/IBA and Banks/ FIs/ NBFCs, project adopted the agenda of implementing the pilot in India. The aim was to ensure profitable and sustainable MSME lending, which is dependent on attaining and balancing three interdependent and interlinked principles:

1. **Minimizing Transaction Costs** - The smaller average loan size requires efficient products and procedures which would allow the Bank to minimize costs of extending MSME loans and achieve higher volumes.
2. **Volume** - a higher volume of lending is essential to ensure a sufficiently high income stream to cover costs and achieve profitability in the MSME lending;
3. **Maintaining Portfolio Quality** - High level of portfolio quality needs to be achieved as poor portfolio quality would result in erosion of profitability on the MSME portfolio irrespective of volume and efficiency. Therefore efficiency needs to be supplemented with strong risk management techniques. Typically banks participating in these programs in Latin America, CIS region, Eastern Europe reportedly, have a MSME loan portfolio at risk ratio of below 3%.

Project has attempted to serve profitably the lower end of micro enterprises (the segment of business requiring loans between ₹ 0.5 lakh and ₹ 5 lakh) which was not served effectively by any institution and thus considered the “Missing Middle”. SIDBI, which had already started one year ago to address this segment, wanted a sustainable mechanism in MEL scheme such that it is both “affordable and sustainable” and which would be carried out by a separate business unit. Some of the major lessons learnt by SIDBI from the segment were as under :

- ◆ Absence of formal financial information like financial statements, etc./information availability affects decision making.

- ◆ Need to bring in new assessment techniques.
- ◆ Large numbers need high standardization.
- ◆ Require simplification in procedures (as present guidelines are drawn from those for large loans).
- ◆ Highly manpower intensive & high transaction costs.

With the learning of above lesson, SIDBI decided to draw upon best international experiences in this sector for increasing credit to micro enterprises and started a 'Downscaling' project in October 2010 by roping in an International Consultant. The Technical Assistance included Development of a new methodology, an integrated software for appraisal and accounting including operations and training of manpower in the methodology. The expert agency had implemented similar projects for various banks in Latin America, Eastern Europe, China, etc. Salient features of 'downscaling' approach are as under:

- ◆ Application and appraisal formats are designed to capture and verify cash flows and informal financial statements of the borrower.
- ◆ Developing a credit rating tool based on existing MEL experience and the Indian context.
- ◆ Simplified documentation by merging various legal documents. Verification with credit bureaus like CIBIL and other lenders / Risk Management at different levels.
- ◆ CGTMSE Coverage / Seamless IT Backbone / Customized Software.
- ◆ Scalable model with well defined processes, HR modules with defined outputs, Training Kits, etc.

The pilot was launched through 7 Micro Finance Branches of SIDBI and is ready for scale up.

## **ACCESS TO NON-FINANCIAL SERVICES**

### **A. BDS Intervention**

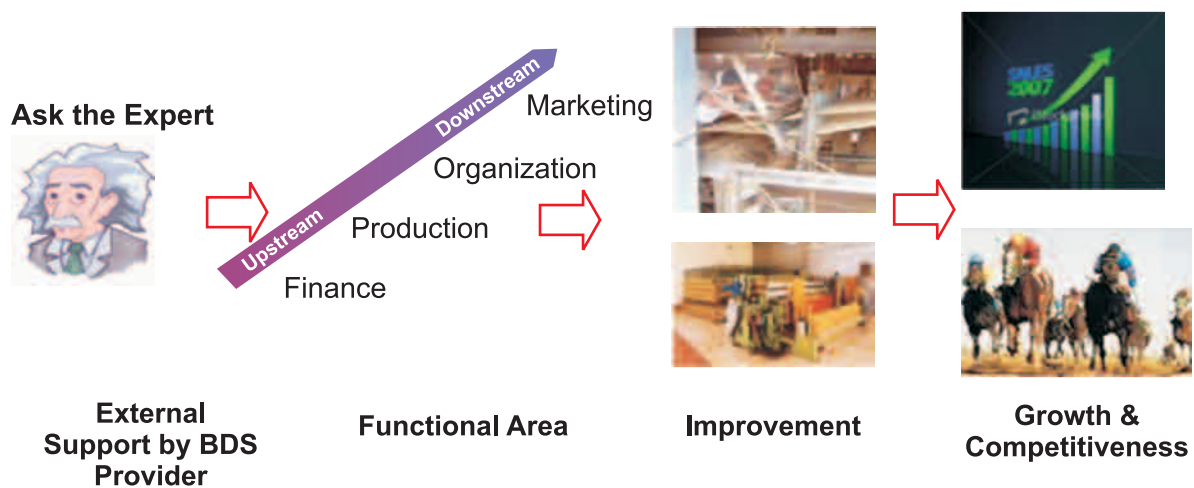
The Project is carrying the mandate of market development of Business Development Services (BDS) so that these continue or are replicated later on sustainable basis. For ensuring increased access to these by Indian MSMEs, the project has, in its three years of intervention, performed a journey full of challenges and opportunities. After assimilating learning's from pilot in 3 clusters, the initiative was scaled up in 19 MSME clusters (Annexure III). These clusters house about 42,000 MSMEs, with aggregated employed of about 20 lakh and with over ₹ 1,23,000 crore of turnover. The profiles of the clusters are given at Appendix (page no.183).

**Overall goal of SIDBI Cluster Development Programme through MSMEFDP - BDS Project** is to scale up MSMEs by increasing their access to improve private and public benefit business development services. On the long perspective, project took following steps to promote market led BDS in the clusters:

- Identification of both demand & supply side issues in the select clusters through diagnostic study.
- Stimulation/creation of demand for business development services from MSMEs.
- Strengthening the capabilities of supply side (BDS providers).
- Facilitating a sustainable demand-supply nexus of BDS providers and MSMEs.



Business Development services are wide range of services used by entrepreneurs to help them operate efficiently and grow their businesses. It includes training, consultancy & advisory services, marketing assistance, information, technology development and transfer, and business link promotion as also financial services. The BDS field focuses on promoting access to and use of these services by MSMEs. The project unleashed BDS market development activities across the clusters. The BDS market development believes in the theory that once BDS are capacitated and are acceptable to market they will kindle appetite of MSMEs and once profitability of service provider and recipient goes up the value chain imbibes functionality. The activities were identified systematically through the diagnostic studies. The emphasis was placed on developing markets for BDS with both demand (sensitization of MSMEs for the BDS) and supply (improving availability access and quality of BDS in the clusters) side interventions. The focus was also on value chain interventions with MSMEs to address structural, infrastructural, technological and managerial bottlenecks that these firms are facing. The interventions were based on the understanding that a positive spiral of change will ensue due to the interventions at BDS market and directly at MSME level, which will lead to overall cluster and local economic development (LED). The preliminary indicators of project impact assessment available from Foundation of MSME Clusters (FMC), cluster agencies and various monitoring data shows a very significant success of the approach, which is encapsulated in the diagram below :



BDS Project was first of its kind in India in which various innovative methods were used to make it successful over the existing approach (Hard infrastructure) for cluster development.

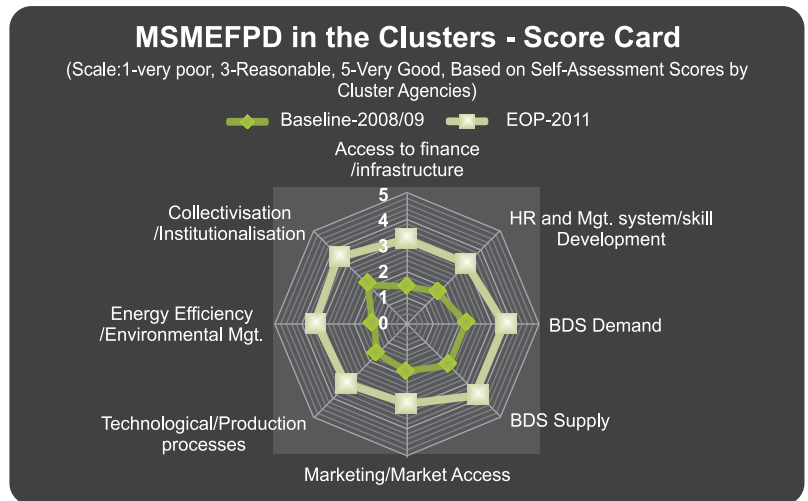
- The project was an induction ground for cluster facilitating agencies as many of these agencies got recognized expertise working on the project. The agencies have leveraged their experiences in MSME FDP to get other rewarding contracts for cluster development. This is a sectoral contribution of the project with number of agencies available in India with the necessary skills and perquisites to support cluster development initiatives and therefore scaling up and replication beyond 19 clusters is that much easier.

The process and methodology for approaching the BDS market development was kept systematic. Different templates, guidelines and benchmarked formats were used for conducting Cluster Coordination

Committees (CCC) diagnostic, action plan implementation, periodical reports/ feedback, viability gap funding, voucher support etc. Detailed methodology adopted under the project is appended at Annexure VI.

- The summary of project achievements on key thematic areas, where actions happened is captured in the graph shown alongside. The achievements have also been independently assessed through a score card mechanism and impact vis a vis logframe (Annexure V).

The score card is based on self assessment of cluster agencies on before-after situation of various aspects of BDS market development carried out in the clusters. The inner circle shows the baseline while the outer one captures the key improvements that has happened over the baseline situation. As the graph shows, in most areas, improvement has happened, though at differing scales. From an overall poor to very poor situation in the clusters (1.8 out of maximum of 5), the status at End of Project (EOP) is good (4.0 out of maximum of 5). This analysis portrays the situation in the clusters on various issues highlighted in the web diagram above. The analysis suggest that project very significantly improved the context of MSMEs in 19 clusters through various interventions. The situation now is more enabling towards MSME growth and employment. The ratings are just a reflection of the extent to which the project has influenced the change that has happened in the clusters. The ratings are not done on the project log frame which as cited by DFID, World Bank and other support partners of the project, has been largely to completely achieved. Therefore the ratings (which are derived from self assessment data of the cluster agencies) are a reflection of what changes project has brought in the larger picture of MSMEs in their working environment and should be viewed as such.



### Project Approach for Cluster Intervention

Project took three way approaches which attempted to cater to every segment of the market development. Project focused on demand side issues through awareness creation / sensitization. On supply side, issues such as capacity building and handholding of BDS providers in the cluster were taken up. **For demand – supply nexus** or match making (i.e. making market work) innovative instruments such as voucher support were utilised. Virtual market place through a unique cluster portal apart from trying other initiatives like BDS on wheels, BDS clinics, BDS Bazaar were tried out. Interventions in the first year were concentrated on trust building, providing training, consulting, strengthening existing institutions/ BDS providers and other services that address internal constraints faced by the enterprises. In the next two years, horizon has progressively expanded to include marketing services and information resources that assist small businesses gain access to services usually enjoyed by larger corporate. In these three years, the Project has organized more than 1100 activities, participated by more than 46954 stakeholders which include the MSMEs, BDSPs and so on.

The project so far has served almost 726 BDSPs in various areas and linked up around 1,032 firms with BDSPs who have benefited from direct voucher support to avail the services. BDS providers and MSMEs were hand-held through structured voucher arrangement which not only ensured quality perspective but helped in developing trust. Project launched voucher support extensively to kindle appetite of MSMEs and develop trust towards BDS. Project has witnessed a shift in outlook of both BDS and MSMEs looking for voucher support. They are transacting on their own. Several transactions are happening without project support and repeat transactions (over 2,130 transactions in total out of which 48% with project support and others without project support but with handholding continued) have also been happening. These are indicative of traits of market functionality which then does not and may not need further support. When market operates it does not look for handholding. Market making happens through market corrections and seamless matchmaking between demand and supply.

While FY 2008-09 saw 'setting up' of base, FY 2010 witnessed 'step up' and FY 2011 has been the year of 'consolidation'. A number of initiatives were undertaken on various themes viz. Energy, Technology, Productivity enhancement, Lean Manufacturing, Market Access, Capacities building of BMOs, Institutionalization of the initiatives, Skill development etc.

Various initiatives have been used in different clusters to sensitize MSMEs and stimulate demands for BDS e.g. Voucher Scheme described below. Other mechanisms like Cluster Coordination Committee (for overall monitoring and to provide guidance to cluster initiatives), BDS clinic (place for MSME and BDS for solutions), BDS Bazaar (offering matchmaking), BDS on Wheel (reaching out to door step of beneficiary), BDS consortium (pooling BDS for enabling swift outreach to MSMEs as one stop shoppe), Exposure visits (for learnings from successes and or failures) etc. stimulated BDS demands in the clusters.

BDS Market Development - Cluster wise Status Report (Annexure VI).

It is pertinent here to describe in detail some of the innovative elements and best practices of the BDS market development work by the project. The description here below is for the Voucher scheme, BDS clinic, value chain interventions for micro firms, opening up of export markets through compliance to social accountability (SA8000) standards, skill upgradation initiatives across the clusters and improving working conditions of women.

#### **Game Changer**

In Alleppey Coir Cluster, Management Gyaanam Mantra, a 7-day long training program was conducted by Mr.Sasikant of Marg Atreya, a BDS provider who conducted business renewal workshops for 38 societies who participated. The program was probably the first ever of its kind conducted for cooperative societies. While the participants were appreciative of project, the BDS provider was even more enthused. "... the project has conditioned the cluster to accept my services. This is great, given the past history, access to the coir industry has been made easier by the presence of a neutral agency..."

**Voucher Scheme** is an external support mechanism towards the price based services of BDS providers (Consultants, Service providers) to MSME firms. It intended to give a fillip to the demand of BDS providers from the MSMEs (firms) as an incentive scheme. The whole idea of Voucher Cost rests on the premise that

### Confidence is Showing

Mr. Hashier of Novasoft, a BDS provider involved in web related services was introduced to the Alleppey Coir cluster through the first BDS training program. Since then he has been associated closely with the project and has signed 4 MOUs with various units. His team has become so confident about the potential of the market for IT related services that he has come forward to create and maintain the first coir B2B website, totalcoir.com.

instead of being a permanent subsidy based mechanism, it should be reduced on tapering pattern overtime and finally withdrawn over the medium run once the BDS services begin to be demanded by firms on regular basis and such markets between the BDS-Firms appear functioning smoothly within the cluster. The case for the subsidy rested on

three arguments, as the interim report of Allapuzha cluster says :

- ◆ **First-Mover Disadvantage** : First-movers face higher risks and often higher costs as a result of being the first to undertake a new project (or consume a new service). BDS was a largely unknown service to Coir MSMEs; many of whom were skeptical of its utility. In addition, many BDS providers would be learning on the job as they delivered services to the coir cluster, imposing hidden costs onto their clients. Helping MSMEs to off-set some of the risk that they took in consuming an untried, new service would help stimulate demand and, aside from anything else, just be fair.
- ◆ **Cost Substitution** : In the absence of a cost-sharing mechanism, the project would have had to develop substitute means of stimulating demand. This would likely take the place of increased MSME sensitization about BDS, which would have been costly. Furthermore, the project was regardless engaging in MSME outreach; more of the same would likely offer diminishing returns.
- ◆ **Quality Control** : The project wanted to play a quality control role in initiatives undertaken by BDS providers with coir MSMEs. However, if the project had no active role in the relationship between a BDS provider and a client MSME beyond the initial match-making, it would not be able to ensure that the BDS initiatives run as projected. Having some financial involvement - even a nominal amount - allowed the project to remain involved in different initiatives, and ensure that BDS providers reported on progress to the project.

Voucher Scheme operated in a manner that FA become 'trust watchers' during the transactions between MSMEs & BDS. On confirmation of satisfactory services by MSME, FA, would after obtaining written confirmation of MSME, release project support to BDS.

### Accelerators

Tarannum Banu Siddiqui is a Graduate. Drawing is her hobby. A course in vocational education changed her future course of action decisively. She took a fascination for vocational education as this can be a possible route for creating job for the needy. She went on to take a one month Footwear Management Technology at local MSME centre (Kanpur), a one month course in footwear design by FDDI and on the job training as line-woman at M/s God Sons (a footwear unit). At this stage she was selected as a trainee trainer as an apprentice with a senior trainer. "I learnt a lot under the guidance of Mr Shishir Awasthi and now I am confident". "It is not easy for a woman to get up to here, but I have proved that one can do it", beams Tarannum. She is in charge of the Unnao training sub-centre of Superhouse (a large footwear unit). "One day I will promote my own training centre", says Tarannum, as her young eyes light up. Trannum is not alone. The programme has created a total of 10 such local trainers who are ready to serve and grow.

**BDS Clinics:** In the marketing BDS /Market Access area, the Project not only handholded the BDS providers to fetch initial transactions but also supported / facilitated transactions on pilot basis to demonstrate the initial success. Virtual market place through a unique cluster portal apart from trying other initiatives like BDS on wheels, BDS clinics, BDS Bazaar were tried out. BDS clinics, as interim report of Allapuzha cluster says, is the approach which is less research based, more exploratory, and inherently flexible. It was more 'market.' The BDS clinics came to be a major channel for deals for the cost-sharing scheme, and the source of many of the project's success stories.

**Value Chain Intervention for Micro Firms:** Project commenced its interventions through value chain mapping and identified key pressure points. These were tracked pre and post intervention. An Example of impact on 'bottom of pyramid' is thus. 600 women hunter making artisans in Kanpur prepare whips, an accessory of saddlery products. Their returns were minimal, estimated at ₹ 15 to ₹ 20 per day. With no other suitable option to work from home, they were also bound to work as job workers for contractors. Soon it was realized that they are making only the rope part of the whip and hence creating the entire product on their own will be a difficult proposal. The strategy was thus set as product diversification. However any product diversification also needed training as their skill set was low. Training-cum-product diversification workshop was organized with the involvement of skilled designers. 5 BDS providers conducted 15 training programmes and trained more than 100 women artisans in various skills of beading, weaving, surface making, macramé and related techniques. 32 new products were also developed including bags, mats, cushions etc. A mini loom was also designed specifically for the purpose of surface making. 17 women artisans have executed a trial order of 300 bags valued at ₹ 34,200 and have received an order for 1,000 bags valued at ₹ 1,40,000 which is currently being prepared. 40 artisans are working on this order. This particular initiative enhanced their daily earning by ₹ 50 to ₹ 55.

**Improving working conditions of women:** Under the BDS component of the MSME- FDP, various initiatives have been taken to improve the working conditions of women in the clusters. Few such examples are as below :

- ◆ A journey of Rural Tribal Women Wage earners to entrepreneurs in Ganjam
- ◆ Innovation in spinning 'Ratt' Development - Alleppy
- ◆ Tapping the Retail chain: M/S Ruchi food Products - Pune
- ◆ From waste to market taste- enabling value add products through waste- Kanpur
- ◆ Bridging the Skill divide: Skill development initiative in Ludhiana

#### **Compliances :**

With an objective to create awareness amongst apparel industry regarding the future environmental challenges, knowledge building and disseminating workshops across other apparel clusters in the country was organized. 3 workshops on 'Carbon Responsibility and Mainstreaming Efficiency Options in Apparel Industry' were conducted in Tirupur, Ludhiana and Bangalore. Further, a guide book and manual as a knowledge product with an objective to give apparel units a roadmap on how to adopt energy efficiency and carbon responsible initiatives was also distributed.

**Opening up export markets through compliance to Social Accountability standards:** The project instilled compliances (both regulatory and as per market expectations) by promoting suitable BDS. The relatively larger SME footwear units of Kanpur had a focused need for SA 8000 auditor, not easily available in the cluster. Apart from increase labour welfare, this would give them easier entry to European market. The BDS provider was identified by the Project, and was finalized with the involvement of the units. The BDS provider had proven previous record in this field and had the ability to gain the trust of the units. 5 firms have since got SA 8000 certified and 2 more are to get it soon. The process has started in few more firms.

**Apparel Sector:** Under MSMEFDP-GIZ portion of Project special focus was laid on apparel industry- the second largest employment provider in the country, adding significantly to the country's exports. The project has assisted the development of targeted service offerings to foster the development of service market, integration of business responsibility, energy efficiency measures and social standards in this sector. The Apparel Export Promotion Council (AEPC) is the apex industry body that promotes and nurtures the apparel export industry and programme cooperate with AEPC's to initiate action on REACH compliance management. REACH is important environmental compliance legislation from European Union. Majority of the Indian MSME apparel exporters are unaware of basic information regarding their obligation and how they can comply with REACH, if required. The programme is assisting with awareness creation amongst industry and other stakeholders through training workshops and a web portal ([www.reach-apparel.com](http://www.reach-apparel.com)). The programme's support to AEPC would enable greater focus from GOI on up scaling efforts on REACH compliance. Two online portal [www.b-smartonline](http://www.b-smartonline) and [www.consultwho.com](http://www.consultwho.com) were also developed in partnership with AEPC to provide self assessment tool and service linkage platform. This is expected to enable better functioning service market in apparel sector. This online tool helps apparel manufacturers measuring their performance indexes and helps in finding areas of improvement in different processes and departments of their manufacturing units and find appropriate service providers.

**Marketing:** MSMEFDP targeted at instilling network competencies among MSMEs for Local-Local, Local-National, National-Global outreach. Under MSMEFDP-GIZ support was extended to identify market diversification opportunities and future actions for export growth for NCR's apparel manufacturing enterprises. Based on findings and insights from this study in July 2010 a **national level workshop on 'Discovering Growth'** was organized to disseminate the findings and best practices in the apparel sector. The workshop attracted several key stakeholders and nearly **80 delegates** participated in this workshop.

**Promotion of a mini cluster of textile Zari Workers in Hyderabad:** With an aim to develop a mini cluster with micro and small Zari workers by facilitating necessary business development services, project has under **MSMEFDP-GIZ** assisted the **promotion of a mini cluster of textile Zari Workers in the old city of Hyderabad**. Profiles of 150 Zari entrepreneurs were collected and 50 of them were scrutinized for mini cluster promotion. They were organized in common interest groups for providing them a platform to share their problems, concerns and also hold discussions on designs and marketing plans. In order to enhance understanding of Zari entrepreneurs about cluster promotion, orientation programme was conducted at two different locations attracting a total of 80 entrepreneurs. Orientation programme on cooperative promotion and management was conducted for the Zari entrepreneurs, and a cooperative society was formed. Manual and automated book keeping system was introduced and software was installed to maintain the data of the cooperative society. With above support, for the first time, Zari workers were organized to

provide them with different types business development support. Notably, the mini cluster thus developed is instrumental in providing business development services such as financial access from banks, product design and marketing support.

### **Business Model Development for Successful BDS Service Delivery:**

Under GIZ-MSMEFDP, Project is making progress in reaching the objective to strengthen sustainable business models for market and demand oriented delivery of business development services. Through an integrated development partnership (iPPP) with the *Federation of Indian Chambers of Commerce and Industry* (FICCI), successful models of service delivery systems and business development services are currently being analyzed and documented, before recommendations are forwarded to the policy level.

### **Overall Achievements under BDS**

- ◆ **Systemic change in Cluster development** : In India, focus was hard infrastructure centric whereas project established the significance of Soft infrastructure. Project achievements indicate that when hard and soft infrastructure complement each other, MSMEs enhanced competitiveness is seen.
- ◆ **Paradigm shift in knowledge, responsive, collectiveness and competitiveness of MSMEs** : unlike earlier programmes which targeted at 'delivering what we have', project instilled 'ownership' from beginning based on "deliver what MSME/ stakeholders need". The programme aimed at strengthening the supply side but with equal thrust on strengthening the demand side. This strategy emerged as an ENABLER to increase the competitiveness of MSMEs.
- ◆ **New models of BDS delivery** : several new models viz. BDS on wheels, BDS Clinics, BDS panel ( those BDS were enlisted undertaking more than 2 successful transaction with MSMEs), Consortia model (single shoppe of multiple specialists under one umbrella), BDS - BMO membership, institutionalization of BDS delivery mode, etc. BMO linked model emerged as public good initiative which is replicated by other clusters at their own.
- ◆ **Development of various networks / linkages with Govt. authorities** : Project carried out network promotion in order to create sustainable exit vehicles. The exit vehicles were identified during the walk in process and were targeted with specific Capacity building support aimed at sustainability such that once project over, vacuum does not emerge.
- ◆ **Assessing Logframe Indicators**
  - In this 4 years of intervention over 450 new BDS providers in various domains were created as against the target of 200 BDS providers in 19 clusters.
  - Average turnover of BDS providers got increased from ₹ 8.4 lakh to ₹ 32.6 lakh as against the target of ₹ 14 lakh.
  - Over 100 case studies were documented in both short and longitudinal manner, at the end of project MSMEs have increasingly started (ranging from 14 to 60 %) using strategic BDS services in various thematic areas as against the target of 10-15%.

- An independent M&E impact study has found that increase in turnover by 37%, profits by 10%, employment by 13%, productivity per employee by 20% when compared with control groups which could only record growth of 35%, 7%, 8% and 11% respectively. This establishes the efficacy and effectiveness of this model.
- BDS Model offered Value for Money (VfM) as by instilling efficiency among BDS and enabling market mechanism to operate the market dynamics lead to market corrections, market functionality and set in traits of competitiveness.

#### ◆ Professional Development / BDS Agencies for Cluster Development in India

- Knowledge sharing / professional capacity building.
- Over 20 Learnshops / exposers visits organized.
- Capacity building of over 110 cluster development professionals / experts.
- 4 national level programmes for cross learning.

These have led to institutionalization of learning mechanism and ready expert pool for replication.

#### ◆ Output of Programme

- Empamalled over 450 BDS providers (generally  $\geq 2$  satisfactory transation) in 19 clusters.
- Over 2,130 (more than 1,030 with direct project support) BDS transactions recorded support over 1,102 transactions without project support.
- 60 websites created / supported which have emerged as virtual BDS providers / facilitators. All Cluster Websites have database of local BDS providers and catering the need of clusters as a knowledge sharing platform.
- Over 40 PPPs for different domains created / supported, 12 Common Facility Centre (CFCs) promoted.
- Skill development – over 17,497 persons dierectly trained directly including over 1,100 women, Several new models for skill development on sustainable basis developed (BMO led, Business house led, industry-academia partnership, Local Panchayat involvement Model, etc).
- Facilitated Credit linkages for amount of ₹ 393.51 crore (more than 870 cases).

#### Ruchi Steps Out

Ruchi Food Limited, is now a regular supplier of pickles to Food Bazaar under the brand name of Harshman. The desire to expand its scale of operation started after Mrs Sangita Bagul, the owner of Ruchi Food attended the awareness workshop on good hygiene practices in manufacturing, labeling and packaging. During those days the products of Ruchi Food were produced at the corner of her room with 7 other women and sold door to door and through local shops.

Post workshop, the owner contacted the project to get a brand name for her products, acquire bar code and expand the market through linkages and participate in exhibitions. The Project identified the BDSPs for each service. For brand registration she had hired the support of BDS provider Mr A H Kulkarni, for bar code registration that of M/s GS1, for bar code equipment M/s Falcon Exim Private Limited and for market linkages that of Food Bazaar. Apart from identifying the BDS providers, the Project provided voucher support on tapering basis for brand registration and bar coding. Later the cost of market linkage was borne by the firm. Post intervention the annual turnover of the firm has increased to ₹ 700,000 from earlier ₹ 84,000.



- Enhancing Learnings- Cross cluster learning through exposure visits, learn-shops, participation in trade fairs etc.

#### ◆ Other

- Capacity Building of BMO (Jamnagar Factory Owners Association) for Common Testing Facility centre METALAB, Jamnagar. Tested over 10,000 samples for about 1,100 MSME units. This BMO participation was supported through viability gap funding. It has led to advantages of VfM as also market dynamics as private player were forced to revisit their lab testing rates and delivery mechanisms.
- National Level database of BDS providers ([www.msmentor.in](http://www.msmentor.in)) - registered more than 12000 BDSPs after basic due diligence. It is geared now for matching making with MSMEs.
- Micro Enterprises Business Information Counselors (MEBIC) - provided non financial services (consultancy) to 1100 MSMEs on engagement of financial services.
- Modified RiP (Rural BDS) - pilot phase at 2 locations to improve the livelihood in rural areas-Over 100 awareness camps, 2 SPVs, Bankers meet, reach over 626 MSEs, 212 MEs - credit linkages.
- Supported more than 20 demand based surveys like retail chain study, domestic market assessment, financial products in the cluster, productivity enhancement etc. in 19 clusters. This has led to emergence of informed MSMEs.

## Thematic Achievements

### Enterprise and Skill Development

The Project adopted thematic approach which were pursued an ABC approach format i.e. Activity (being done) Budget (allocated utilization) and Change (utilization in clusters). The MSME-FDP has undertaken both systemic (long term) and need based (immediate term) in the adopted clusters. The focus was on 'Employable Skills', 'Skill Up-gradation' and 'Efficient Production' skills. The interventions led to increased employment opportunities for thousands of unemployed youth from poor socio-economic background. The intervention also led to 'Better Skilling' of existing workers of MSMEs in the clusters. More importantly, the interventions led to improved infrastructure of skill development e.g. 9 skill development institutions are available (as against 3 earlier) now in Kanpur cluster with support from Industry and Government sponsored schemes. Overall, the project has also assisted in establishment of 12 Skill Development Centers and linking up / institutionalizing of 21 Skill Development Centers.

#### Multipliers - Skill Development

Skill development is a pressure point in most clusters. Areas of intervention include up-scaling availability of existing skill as well as promotion of new skills required due to introduction of new technology or machinery or product. Approximately 40 institutions have been strengthened/come up in this process as BDS providers in this field.

Here, moving beyond traditional training institutes, the Project has introduced various new training models including those led by (a) large firms (Kanpur and Ludhiana), (b) industry associations (Kanpur, Tirupur), (c) machinery suppliers (Mohali and Panipat), (d) local level elected bodies (Ludhiana), (e) international experts for export oriented product (Kolkata), (f) capacity building of local technical institutes (Rourkela), (g) reorienting government technical institute (Ganjam), (h) business responsibility (Ludhiana), etc.

The process of creating and institutionalizing skill development programme has various dimensions. Needless to say, although the facilitating agencies played an important role in stimulating each step, at the ground level these initiatives are always led by a typical cluster based institution and simultaneously supported by a host of related stakeholders, who have also played significant role in implementation. Successes of such models have also led to spin-offs in the form of cluster based institutions starting similar programmes (Kanpur, Pune, Rourkela, Ganjam). At times such skill development programmes have also led to strengthening of networks too.

Identification of the problem and/or propagating the need is mostly the forte of the local association. At some places it was explicit, while in others, the need arose when benchmarking was done with other clusters/facilities outside the cluster.

**Creation of appropriate course content and duration** is a professional exercise which is done by specialized agencies. Such agencies mostly include local technical institutions. However if such agencies are not available locally, they need to be hired from outside the cluster. At times, suppliers of machinery on which the training takes place, play this role. This is more so if the training is to be done on one or predominantly one single high value machinery.

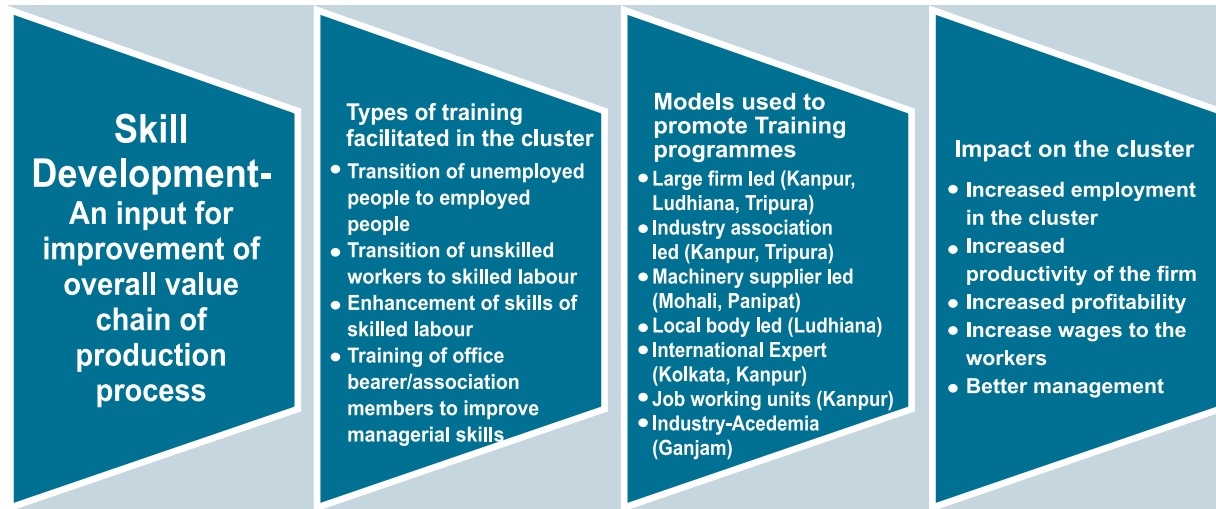
#### Inclusivity

In Ludhiana, Kulveer Kaur is fluent in local language and her graceful conduct makes the village elders trust her to allow the females to come to the factory. She has successfully evolved herself as a BDSP and is now working as line supervisor as well as mobilization coordinator. This has helped her in generating additional income and her economic condition has improved tremendously. Looking at the success of Kulveer Kaur, one more operator, has also worked in some villages in her spare time and has managed to mobilize females from nearby areas. They followed a unique advertisement model in which announcements about the project were arranged from village Gurudwara and a time was announced when the females could gather at a common meeting point. The candidates were motivated and shortlisted. They also met Sar-panch to convince them for sending the village females to the firms for training and then job. Sometimes after the preliminary discussion the factory manager visited the villages and talked to the Sar-panch and convinced them regarding the security and safety of the females. Even the factory representatives invited the Sar-panch to visit factory to see the working environment.

However, even at this stage, it is found to be always important to get it vetted with the local industry, if the cluster need is very special. This role is played by leaders in such thought process from the local association. Course duration, coverage, timing, etc. are also vetted by them.

Mobilization of trainees is another key issue. Here, the local institutions having the necessary trust level play an important role. At this place, the role played by the institutions like village panchayat (elected body) has proved very substantial, especially when the students are women. At times local service providers also proved to be handy in mobilizing such trainees.

Not the least is the process of institutionalization, i.e. sustainability. Here the target is to identify training ownerships which are naturally sustainable or institutionalized by definition. Hence the natural choice is a local training institution. However gestation period of getting it through is high, especially if it is a government institute having statutory responsibilities, with very less room for experimenting. However it has its advantages too, as the quality is naturally ensured and the value of the certificate is much more cherished. Alternatively machinery suppliers, large firms and even local associations have turned out to be useful means of this.



Moving beyond traditional institutes, training models was led by large firms (Kanpur and Ludhiana), industry associations (Kanpur, Tirupur), machinery suppliers (Mohali and Panipat), local bodies (Ludhiana), international experts for globally competitive product (Kolkata), etc. are also emerging as important contributors in promoting skill development. These new generation BDS providers have also led to creation of local BDS providers for sustainability. The skill development initiatives, achievements and lessons (across the clusters) are summarized in the table below :

Employable Skill Development Initiatives in few Clusters			
Cluster	Sector	Skill Development Initiatives	Effectiveness and Impact
Coimbatore	Engineering	About 500 workers trained in CNC machinery operations.	Benefitting the firms with employable /skilled human resources.
Mohali-Panchkula-Chandigarh	Engineering	30 workers and 60 unemployed youth trained on various operations of CNC machines. Sam's Techno School is a unique example of a machine tools supplier becoming a trainer.	The workers got increased wages and unemployed youth got good jobs with starting salary of ₹ 4000-4500.
Kanpur	Leather	9 skill development institutions are available (as against 3 earlier) now with support from Industry and Government sponsored schemes.	More than 500 candidates are being trained every month from these training centres.
Hyderabad	Pharmaceutical	Imparted training to 200 candidates on employable and industry acceptable skill sets.	
Ganjam and Ganjpati	Fruit and vegetable processing	To meet the demand of skill man power in the cluster, a Certificate Course (with practical training) for Cashew processing is approved by Government of ODISHA. The course will develop skilled manpower as well as trainers in the cluster.	The impact is still to be seen.
Ludhiana	Knitted Apparel	12 BDS have introduced new models of training to provide need based training - 4 innovative skill development models were formulated and adopted which lead to operationalization of private sector BDS in the cluster.	25 firms are expected to benefit with skilling of their people.

Since there is always a need of skilled workforce and retaining them (for enhancement of productivity in the clusters) project has made significant contributions from supply side. Initiatives in Kanpur, Ludhiana, Bhadohi, Kolkata and Chandigarh involved BMOs, SPVs, and local BDS (individual / institutional) to sustainably attend to this mandate. A total 95 BDSPs were linked in this area and trained over 24600 people who were successfully absorbed by industry. The project has also assisted in establishment of 12 Skill Development centers and 21 were linked up / institutionalized.

### **Few illustrations of interventions are :**

**Training by International BDS:** Kolkata is known for industrial gloves. A formal network (M/s United Creations Pvt. Ltd.) of six industrial gloves manufacturers decided to make a move from industrial to fashion gloves. This was a new product meant for exports and there was a need for an international expert who understands the product as well as the market. The Project partially supported hiring the services of German trainer. He trained 27 workers. Later another 20 persons have been trained by some of the trainees. The typical leather required was being sourced overseas and is now being sourced from two local producers. After over six months of trial and error (with the support of the expert), two tanneries have reached the quality levels needed and the raw material is now being sourced from them. The initial German buyer of the product was also linked by the BDS provider. Later the network found a buyer each in Holland and Spain. They are presently completing the last part of orders worth ₹ 30 lakh and are sure to cross sales of over ₹ 1 crore this year and ₹ 1.5 to ₹ 2 crore by the year 2011-12.

**Skill Development through a Local Intermediary Institution:** In Kanpur Cluster, Uttar Pradesh Leather Industries Association (UPLIA) already had trust with the firms; thereafter a professional course through a reputed institution and with the involvement of the industry was worked out. The course ensured that placement takes place post training. UPLIA provided training venue, raw material and machinery. Experts from Indian Institute of Leather Products (IILP) Chennai prepared the one-month training module for stitching operators. It was oriented to provide specialized modules for stitching, skiving, and fitting and folding modules with inputs from UPLIA. The cost per trainee is around ₹ 17,500. Industry funded around 24% and the Project funded around 11% and rest was given by Ministry of Rural Development. 2,500 persons have been trained and employed leading to an estimated income rise by ₹ 10,000 to ₹ 15,000 annually. Interestingly, starting with UPLIA training centre, the Project has increased to 3, with more centers being started without project support.

**'Skilling' the Clusters:** As technology and regulations are continuously upgrading, the employable manpower availability for Engineering MSMEs in Coimbatore was a difficult task. To tide over manpower shortage, many cluster firms are interested to associate with any intervention in manpower training in technical subjects covering quality assurance, quality control, production etc. The cluster agency facilitated a process wherein potential fresher's from educational institutions were identified and trained to cater the need of Engineering MSMEs.

**BDSPs led Model of Skill Development:** A model of training for skill development of unemployed youth, which lead to fetch higher wages for them and increase in their efficiency was tried out in the Mohili Panchkula Chandigarh Cluster. This involved BDSPs, Sams Technical School and industry partnership, Ludhiana and other clusters also facilitated the involvement of BDSPs for skill development. Thus skill development is one of the best ways of cluster Development which focuses on 'bottom up' approaches and directly benefited the poor. Enterprise and skill development initiatives among various clusters across the country have, in a way, paved remarkable avenues for cluster development and help in solving the problem of talent acquisition for MSME units. It has also helped in increasing the productivity and improving the quality of the products developed by MSME units.

### Technology Modernization

At least 7 clusters (out of 19) saw technological /production processes related interventions. Technology initiatives were related to:

- Technology upgradation
- Cleaner /greener production technologies
- Advanced technologies for processing
- Drudgery reduction technologies
- Product and design diversifications
- Information and Communication Technology (ICT)

### Holistic Approach - Skill Up-gradation and Market linkages- Turning Waste to Market Taste

The plight of poor 'hunter (leather whips) women of Kanpur' was brought to light very early in the project. The 'Hunter Making' is part of the unorganized sector. This sector comprises largely of women where about 900 hunter artisan families make leather whips - an accessory of saddlery products. Therefore, it became critical to take up this issue of skill gap present in the cluster with specific focus on the actual requirement that would assist these poor women. Therefore, the project needed to bring in some innovative solutions.

The project focused on three cross cutting issues,

- (a) Diversification of the product
- (b) Developing the skills of these women and
- (c) Establishing 'market linkages' to address the issue in a comprehensive manner.

The pilot programme was discussed with the lead Business Member organization, UP Leather Industries Association (UPLIA) which was struggling with the skill gap issue. Thus, in collaboration with UPLIA intervention was initiated to facilitate the growth of the leather industry in the cluster by demonstrating the efficacy of such approach. The pilot also aimed at fulfilling the existing gaps in operating such training program by designing short term training curriculum.

In the pilot programme, these women workers were counseled and motivated to enhance their skills beyond knitting of just 'hunters' (whips) which were losing market grip. This required lot of effort and eventually they were convinced to take up other useful products such as bags, table set, wallets, etc.

#### Instilling Sustainability

Another innovative effort by the project was in convincing the Industry to enable judicious deployment of 'scrap waste'. This 'waste' in fact was the key ingredient for the women who would pick these up from the industry waste disposal area and use to knit them into hunters. When these Industries were sensitized about the project's efforts (and the plight of these women), they agreed to cut their leather pieces in such a manner that maximum area was available (which were not actually of any use to them). This was then provided to these women and it enabled them to convert these pieces into varied products as against just hunters.

To highlight, this initiative also reduced environment hazard where most leather waste would just pile up and was not easily disposed off.

#### Reaching Markets

The initiative was appreciated by all the stakeholders and then these women were linked to markets for selling their products. Project assisted these women to directly set up their stall in Trade Fairs, Delhi Haat etc and in their very first attempt found that they were receiving direct orders from customers and firms (orders worth ₹ 1.40 Lakh materialized). This enhanced their confidence. To help them be competitive in the market further, the project facilitated in linking them with professional designers who developed new attractive/ marketable/ designs for them. The product made by these women units holders were also displayed in workshops and programmes organized under the project including national programmes / workshops. This gave them and product recognition and appreciation as also business links to customize their final product viz. gift items, office desk stationery etc. Later these women have got artisan card thus linking them to finance, health and inclusive growth.

Main achievements and lessons from technology modernization are described in details below:

**Technological Up-gradation:** Improvisation of Tanning Drum in Chennai led to cost reduction. Upgradation of Coupla in Coimbatore cluster to maximize the use of coal resulted in an estimated saving of approximately ₹ 1.12 crore per annum. Similarly in Rourkela, 3 technology demonstration on latest technologies in automated CNC and welding machines were organized which led to adoption of the technology.

**Cleaner/Greener Production Technologies:** Common evaporating unit and treatment plant for hazardous waste and effluent was successfully done in Ahemdabad Dyes and Chemical cluster. Similarly pollution reduction equipment (Multiple Effective Evaporator with latest technology) was introduced in Hyderabad pharma cluster.

**Advanced Technology for Processing:**

One of the major problems faced by the Panipat Floor Coverings Cluster is low productivity (as more than 90% of the tufting and composite manufacturing firms are using manual tufting guns for tufting operations). This is also resulting in diminishing repeated orders for small tufting and composite firms from exporters as they are unable to supply the goods on time and thereby affecting the entire supply chain. The problem identified was inability to utilize electrical tufting guns (ETGs) as in house mechanics were not properly trained in repairing and maintaining the guns leading to frequent break downs resulting in reluctance of the labour in using the guns; and thereby finally leading to low productivity. Introduction of new

**Technological Change benefiting Women**

A small yet significant change was introduced in the coir weaving sector of Alapuzza coir cluster, which employs more than 150,000 weavers. As many of these looms were situated in the interior parts of the cluster where power shortage is a problem, a BDS provider was brought in by the Facilitator Agency, Cluster Pulse, who suggested that the changes should be non-electrical and aim at improving productivity. Accordingly, it was suggested that the heavy wooden frames be replaced by G.I. pipes, ball bearing be introduced to make the movement effortless, the final wooden cylindrical beam which rolled the finished mat be redone with a gear arrangement and the frames to be optimally balanced. The changes suggested were to cost between ₹ 12,000 to ₹ 15,000 per loom. 30 looms have installed these changes. Currently the changes are being done in 15 more units. One of the owners of a beneficiary unit, Mr. Ranjith says, "Newly improvised model produced an additional yardage of 15 meters per day and that this resulted in a profit of around ₹ 100 per day per loom". The project has trained 5 loom manufacturers from various areas in the cluster so that their reach will be greater and that they will be able to provide services in the interior parts of the cluster as well.

technology when accompanied by the necessary skill development measures is most successful as the case of Electrical Tufted Guns (ETGs) shows in the Panipat Cluster. The same was also tested successfully in Bhadoli Carpet Cluster. Similarly, in Ganjam, under Cashew processing, shifting from 'Roasting' technique to 'Boiling' technique decreases the wastage by 30% (which led to saving of approximately ₹ 9.9 crore per year for 36 firms).

**Drudgery Reduction Technologies** e.g. Semi-Automatic Spinning Ratt in Allepuzza cluster wherein this shift to small mechanized interventions has provided enormous benefits. Introducing economical semi mechanized looms have proven to not only reduce human drudgery (for example the women had to walk 10-12 km but now can sit and do retting) but also enhance efficiency.

**Design Diversification:** Design innovations ensures sustainability of cluster firms e.g. in Shantiniketan cluster, 28 new designs (surface and patterns) and 12 mock ups designs were introduced through design workshop during the course of the project with a high response from the buyers. Similarly Designers' Club initiative in Tirupur has given rich dividends. Tirupur, the textile hub is also a hub of potential designers. But due to lack of knowledge, information, and adequate platform, the designers were unable to release their talent and needed a platform to hone their skills. Tirupur BDS Project identified this need and founded a Club for Designers in association with NIFT - TEA. The club is founded with the objective of promoting designers from the cluster and to build industrial linkages through the experts. Supporting agendas with inbuilt sustainability traits have been mainstays of project.

**Product Diversification:** Kolkata is known for industrial gloves. A formal network (M/s United Creations Pvt. Ltd.) of six industrial gloves manufacturers decided to make a move from industrial to fashion gloves. This was a new product meant for exports and there was a need for an international expert who understands the product as well as the market. The Project partially supported hiring the services of German trainer. He trained 27 workers. Later another 20 persons have been trained by some of the trainees. The typical leather required was being sourced from overseas and is now being sourced from two local producers. After over six months of trial and error with the support of the expert, two tanneries have reached the quality levels needed and the raw material is now being sourced from them. The initial German buyer of the product was also linked by the BDS provider. Later the network found a buyer each in Holland and Spain. An order worth ₹ 30 lakh has already been completed. Sales are expected to cross over ₹ 2 crore by the year 2011-12. Clearly many product (fashion gloves in Kolkata cluster) and design diversification efforts (in Shantiniketan cluster) also benefitted the MSMEs enormously.

**Information and Communication Technology:** Given the criticality of adoption of ICT among Indian MSMEs, the phenomenon has been effectively leveraged by many discerning small enterprises as a tool for gaining competitive advantage for long term growth. However,

#### Low Hanging Fruit: Foundry Unit Improves Profitability

60% of the 250 odd foundries in Coimbatore are small scale proprietary concerns with an estimated average annual turnover of ₹ 50 lakh. Most of them are equipped with single blast cupola furnaces. They operate with an average profitability of 10%. Although stricter pollution control norms have led a top few to switch over to induction furnace, but unstable power supply and strict time limits on the usage of electricity have led to most of the units to continue with the traditional coke-based melting technology.

A quick survey under the project by a foundry expert suggested that uncontrolled flow of air into the cupola is burning excess coke and controlling air supply will help in reducing percentage of coke used per melt. The expert suggested that installation of a butterfly valve at the inlet pipe from where air flows into the cupola to burn the coke, will provide optimum air supply and reduce usage of coke. Such controlled flow will reduce percentage of coke usage by nearly 10%.

It started with one of the foundry units, M/s Coimbatore Engineering Corporation (CEC), implementing the suggestion. The butterfly valve is a custom made product, depending on the pipe size, and was fabricated by the consultancy cell of the local engineering college-PSG Institute of Technology. This led to an investment of about ₹ 10,000. Few months into the operation, CEC is able to reduce coke metal ratio, i.e. the ratio of weight of coke and metal used for burning from 1:9 to approximately 1:10, leading to reduced coke usage by approximately 10%. It is estimated that a unit can save up to ₹10,000 per month. Thus the investment can be recouped in a month and profitability is estimated to increase by ₹ 1,20,000%. With a current estimated profit of ₹ 5,00,000, it is predicted that a foundry unit can enhance its profitability by 20 to 25% in this process. Over 10 MSMEs have adopted the same with project support and several others without direct project support in the cluster.

adoption of ICT by MSMEs poses unique challenges and constraints which can prevent full realization of potential. Under the project, initiatives were seen in the area of computer aided design and enterprise resource planning. Most of the ICT/IT adoption was witnessed in the engineering clusters. ICT use can promote enormous efficiencies and cost savings with current usage at very low levels. MSMEs that are using ERPs have learnt the benefits of integration of planning, production, inventory, quality control, financial, depts., and enhancing the efficiency of inventory management, planning, procurement, etc.

The summary of cluster level efforts and impact of technology modernization is captured in the table below:

Technology Modernisation Initiatives in Clusters			
Cluster	Sector	Technology Development, IT /ICT Initiatives	Effectiveness and Impact
Pune	Fruit and vegetable processing	20 Food Technologist introduced in cluster.	15 more BDSPs introduced in the cluster (along with existing 50) to support close to 50% of the units of the cluster on various technology area like cold storage bar coding, Product development, packaging etc.
Chennai	Leather	- Technological up-gradation (improvisation of Tanning Drum) for cost reduction. - Cleaner production technologies	- Saving of approx. ₹ 3,65,000 per drum and recover the cost within one year. - The implementation of cleaner production technologies in one unit is completed and its benefit have been disseminated in the workshop wherein the beneficiary MSME unit have acknowledged, the saving of water consumption to the extent of 20% and other benefits are yet to be quantified.
Hyderabad	Pharma	- One firm adopted Multiple Effective Evaporator with latest technology. - Firms are adopting the ICT /ERP/specific software like GMP Pro with support from BDSPs.	MSMEs have realized the importance of environment and Pollution reduction. 6 MSMEs have adopted the pollution reduction equipments.
Ahmedabad	Dye and Chemicals	Cleaner production technologies adopted by 10 units.	Establishment of common evaporating unit and treatment plant for hazardous waste and effluent (by 45 units).
Allepey or Allaphuzha	Coir	Developed new semi automatic spinning ratt.	Saving electricity, energy and avoid drudgery faced by women and increased daily income.
Ganjam and Gajpati	Fruit and vegetable processing	During project intervention 38 entrepreneurs were exposed to Mangalore and Kollam cluster to learn best practices and advanced technology for processing.	The initiatives resulted in converting 36 units from traditional roasting method to boiling processing and other 20 is in verge of shifting.
Panipat	Floor covering	52 firms procured 710 Electrical Tufting Guns. Also replicated in Bhadohi.	Increased productivity levels and increase in wages of 550 workers by 30%.

### Energy Efficiency and Environmental Management

Energy is one of the prime issues for intervention in clusters. The major areas of intervention included studies, awareness promotion; walk through energy audit, detailed audit and implementation. Energy Efficiency initiatives in the clusters adopted three pronged strategy:

- Energy saving through energy audit implementation, subsequent to awareness and sensitization drive on energy economy



- Energy saving through enhanced product efficiency
- Financing products related to the green and clean investments in technology

**Awareness and Sensitization – Energy Economy :** The project has conducted around 108 walk-through audits and 25 detailed audits. As a result of this not only market corrections enabled fee benchmarking (from a high of ₹ 1,20,000, this came down to ₹ 40,000) but also instilled orientation to best practices as these MSMEs looked forward to detailed audits. Energy Efficiency booklets on four different sectors have been published in English, Hindi and regional languages. The project has also published Energy Efficiency tip sheets & Posters which provides common and easy ways of energy savings by adopting household measures. These have attended to information asymmetry. Now in clusters Energy Auditors are available and providing their services to MSMEs in the cluster. While ‘Walk through audit’ is a trust building measure, there is need to convince MSMEs to opt for full package of energy audit and to identify the triggers which can help in its replication in the clusters. During the first year of implementation in most of the clusters, as a product, walk through energy audit has taken the prime lead (Hyderabad, Dehradun, Indore, Coimbatore and Rourkela). However, in some clusters, detailed energy audit has also picked up (Kanpur, Ludhiana, Mohali). 47 BDS providers have got involved in this process. Apart from direct energy savings measures, promotion of product efficiency is also promoting energy savings. Some interventions, which are saving energy cost on the one hand, do also have potential for environmental impact on the other.

### **Energy Savings through Energy Audit**

**Implementation:** In the Kanpur leather cluster, a group meeting was organized first with industry participants where the BDSP was introduced. The industry was explained about the experience of service provider in area of energy efficiency. Industry was also explained the detailed methodology for energy savings and the support expected from units during audits. Industry input was also taken regarding the critical areas of energy consumption in tanning process. The selection of the service provider was done after

taking into consideration the service fee being charged and quality of service offered by leading service providers. An appraisal visit to service provider was organized in tanneries covering small, medium and

#### **Fostering Sustainable Agenda**

In Hyderabad Pharma cluster, project has taken Pilot initiative in installing ‘Multiple evaporator system’ for addressing the issue of effluent treatment. This initiative was taken because the social benefits of industrialization of a backward district like Nalgonda could not be accrued due to the negative impact of effluents on the environment. The units in Nalgonda district are too scattered to be connected to a common effluent treatment plant (CETP). They set up independent treatment solutions which do not effectively separate all the components of the effluents (Light and Heavy Organic Components, suspended solids) during the treatment process. These plants produce treated water with colour and smell along with COD (Chemical Oxygen Demand) far above the set limits and salts with carry colour and smell.

To overcome this, a unique multiple evaporator system was custom designed by a BDSP. This system not only overcomes all the above said problems, it also increases recovery of various components in the effluents (steam, salts with little or no coloring and no smell, 60-65% water recovery). This system ensured that there is no pollution due to effluent but also optimally allows re-utilization of scarce resource like water. This has been successfully adopted by several others in the cluster.

large units. After taking stock of the situation, the service providers assured of potential of at least 10 percent saving of the current bill amount at the present operational set up. 7 units went for the audit and implementation. The charges were proportional to KVA usage and 50% was paid by the units.

Post implementation, data shows that six units were able to save ₹ 4,00,000 in one month. Accordingly, it is estimated that even to start with, estimated annual saving of the seven units will be around ₹ 60 lakh. The annual savings are estimated to increase to ₹ 2 crore as the units pick up the learning and complete the investment process. A booklet on industry level 'dos' and 'don'ts' shared by project is expected to lead to immediate impact even before fully fledged audits are done by the rest of the industry.

**Energy Savings through Enhanced Product Efficiency:** Rajkot engineering cluster produces 100,000 pumps valued at ₹ 200 crore. In such pumps, purchase price accounts for 5%, maintenance 20% and energy costs 75% of its total life cycle cost. Here, going in for appropriate BIS certification and thereafter BEE star rating has tremendous potential for energy savings during the product life cycle of a pump. An awareness programme organized saw participation of 45 units and 2 potential BDSPs. Thereafter, project team identified a local Business Development Service Provider (BDSP) providing consultancy services related to ISI marking and provided 3-day training by BEE, customized as per the needs of Rajkot manufacturers. As a result, the BDSP is now able to guide the firms in product improvement, prepare documents and file online application. The submersible pump was taken for initial intervention. BDSP improved the motor portion technically. These improvements have increased the cost of production by ₹ 800 per motor, but also simultaneously reduced the energy bill by around ₹ 4,000 per annum. Even if 50% of pumps are manufactured in this fashion, there is a savings potential of ₹ 10 crore per year from this one product. 4 local manufacturers have already obtained BEE star rating for submersible pump and another 15 units are getting their documents prepared by the BDS Provider for the same. Turnover of the BDS Provider has increased by ₹ 2,00,000 as he has provided consultancy services to more than 19 units in the cluster till August 2011 for BEE star rating. Looking at the increasing demand, the firm has trained 1 engineer and planning to train 1 more to in this area of BEE scheme related consultancy. There are 5 more BDSP specializing in BIS certification. Looking at the demand for BEE certification (triggered by this project) they are also likely to extend their services in this area.

The cluster experiences shows that replication of energy efficiency interventions are easier with demonstration effect e.g. in the Coimbatore cluster more than 200 firms adopted the energy efficiency measures.

#### Synchronizing Development & Environment

In Ganjam Fruit & Vegetable Processing Cluster, 20 entrepreneurs planted around 5000 trees of 10 varieties like teak, etc. Entrepreneurs with the help of FA contacted horticulture and environmental experts to know the types of trees which can give the best result in terms of oxygen emission. Based on the experts' recommendation they identified these 10 varieties and purchased those from the Forest Department and planted in their premises and nearby areas. This initiative by the entrepreneurs is a step towards mitigating the problems due to air pollution by their cashew processing units. This initiative has also motivated other entrepreneurs in the cluster. The Cashew processors' association is also actively involved in the whole process and made it a part of its development agenda.

### **Environmental Management at the Clusters:**

Environmental management involves use of latest technology for waste characterization, modeling, waste utilization, waste reduction process and waste reduction materials. This is applicable to specific clusters like leather, engineering which have higher pollution emitting firms. Leather, Engineering, Pharma, Dyes and Chemical clusters have taken serious measures to address environmental concerns emanating from the nature of operations of the industries in these clusters. The Kanpur Environment Protection association is working on a single but very crucial project which is linked with the existence of the leather industry in cluster. The project aims at upgrading and expanding the common effluent treatment system in Jajmau (Kanpur) which has been a chronic problem for pollution to river Ganga. The project cost is about ₹ 190 Crore and the same has started. Most of the 375 functional tanneries in Jajmau (Kanpur) have committed to adopt advance technology as per the requirement at individual tannery level.

#### **Mainstreaming**

In Ludhiana Cluster project facilitated Knitwear Club of Ludhiana to organize training programme in jail. 50 jail prisoners were imparted 'linking machine operator training'. Cluster firms of Ludhiana started sending job works to jail and the trained prisoners started doing the job works using linking machines installed in the jail by knitwear Club. Through this initiative the prisoners earn money that are being saved to their accounts and they are getting skill development training and experience on the area which will give them opportunities to get future employment. This activity not only results into increase in the skilled manpower for the industry but also turned into a social benefit in which the jail prisoners got a mean to earn their bread and butter after their prison.

Overall, the energy efficiency and environmental management initiatives of clusters are significant and amount to being considered as part of Clean Development Mechanism (CDM). These therefore can become part of carbon economy and can claim/earn certified emission units through carbon finance mechanisms. This will be of great significance to the development of MSME Sector as it will play a very important role in improving the cost effectiveness of the sector, while reducing its carbon footprints.

**Technological Mapping of Rice Mills in Murshidabad:** In another sector-specific intervention, the MSMEFDP-GIZ addressed technology mapping of rice industry in West Bengal. It aimed to identify the gap in existing technologies and suggest measures to improve rice mills. Technology, processes and management systems were identified as areas for improvement. Project roped in German experts for the exercise so that the mapping is undertaken keeping the global best practices in view.

#### **◆ Institutionalization and Sustainability Vehicles**

The project has supported development of cluster owned institution or strengthened the existing cluster institutions. In the adopted clusters, distinct institutional entities have been established, representing the broader cluster interest and interest of a group of MSMEs. Special Purpose Vehicle (SPV) is major form of the institution established in different clusters. The purpose of these SPVs is quite different. The purpose of two SPVs established in Mohali cluster is to avail of the Lean Manufacturing Competitive Scheme. Rourkela Techno-Park Self Healf Cooperative Ltd. (RTPSHCL) is SPV for relocation of firms in Rourkela cluster. In Chennai, Leather cluster, an SPV is formed for common buying of Dyes & Chemicals. All the industry associations in Kanpur have now come together to form an SPV named as Jajmau Tanneries CETP

Company Ltd., for the implementation of the up-gradation project and expansion of CETP. In Hyderabad pharma cluster, 2 SPV are established, one on CETP and another on vocation training. The summary of actions and learning on sustainability vehicles is given as under:

<b>Institutionalisation as Sustainability Vehicles - Measures taken in the Clusters</b>			
<b>Cluster</b>	<b>Sector</b>	<b>Form and Nature of the Institution</b>	<b>Status and Effectiveness</b>
Mohali-Panchkula-Chandigarh	Engineering	Two SPVs established to avail of the Lean Manufacturing Competitive Scheme: namely, 'Mohali Alpha Engineering Cluster' (10 members) and 'Mohali Beta Engineering Cluster' (8 members).	The creation of these SPVs has also resulted in a revenue generation of ₹ 50 Lakh.
Rourkela	Engineering	RTPSHCL is SPV for relocation of firms (5 acre Govt. lands identified).	In the planning stage; CFC in the premises planned.
Chennai	Leather	SPV for common buying of Dyes & Chemicals.	140 tanneries involved; cost saving of ₹ 7 to 8 crore per annum.
Kanpur	Leather	The Government of Uttar Pradesh has approved the establishment of Testing Lab. All the industry associations have now come together to form an SPV named as Jajmau Tanneries CETP company Ltd., for the implementation of the up-gradation project and expansion of CETP.	There shall be a one-time grant assistance of ₹ 8 Crores (80%). Firms shall contribute ₹ 2 Crore (20%). The land for the project purpose has been purchased by SPV.
			Implementation stage.
Allepey	Coir	BDSP Consortia- Eight created.	Each consortia is providing professional services to coir industry. Consortia conducted a successful domestic market survey.
Dehradun	Pharma	Common Analytical Testing laboratory & training centre with E-library, in the process of establishment with support from ministry of MSME.	Planning stage
Hyderabad	Pharma	2 SPV established - one on CETP and another on vocation training.	Grant is expected to be sanctioned by Ministry of MSME for establishing Common Effluent Treatment Plant, vocational training centre with E-library.
Ahmedabad	Dyes and Chemicals	A consortium to buy raw material and allied purchases and also to market the final product, jointly - Ahmedabad Dyechem manufacturers Cluster Ltd.	20 member group produce a variety of products with wide product range and will make its presence felt in domestic and international markets.
Pune	Fruit and Vegetable processing	Evolved NAFARI as an umbrella BDSP in the cluster in self sustainable way.	BDSP started offering services to industry in different areas, increased membership base and now successfully caters to varied needs of the cluster.
Bhadohi	Floor covering	Three BMOs formed and registered under Society Act.	2 BMOs namely Bhadohi Carpet Designers Association(BCDA) & Purvanchal Designers Welfare Association(PDWA) taken up the CAD trainings. Another BMO called Bhadohi Hastshilp Kaleen Prashikshan Sewa Sanstha imparting ETG trainings in the cluster, they have visited Mumbai for promotion of carpet in domestic market.
Ganjam and Gajpati	Fruit and Vegetable processing	Formation of four cluster associations: - Ganjam Kewda Development Trust (SPV), Registered under Trust Act. (21 members). - Gajapati Cashew Processor Association, Registered under Trust Act. (12 members). - Tumbeswar Cashew Development Trust, Registered under Trust Act. (7 members). - Shree Jagannath Cashew Cluster Pvt. Ltd. (4 members).	2 SPVs will work for CFC and raw material bank in the cluster.
Ludhiana	Knitted Apparel	The capacity of the existing Federation of Knitwear, Textile and Allied Industries Association (FEKTA) has been build through extending support to the association who are also members of FEKTA like Knitwear Club, Ludhiana Dyeing Associations etc.	FEKTA has also been recognized as an Exit Vehicle for the project.

In Ahmedabad cluster, another remarkable thing of inter-cluster collaboration (as clusters are in a macro sense dependent on each other) has happened which has leveraged inter-cluster dependencies. MSME units in the cluster are small and individually managed. Lot of duplication is happening in production and services. Lack of availability of cheaper sources of marketing has often taken away the margins to many intermediary agencies. MSME units were desirous of such cluster approach in procurement and CFC to be cost effective in the competitive market. The project intervention has brought a sample size of about 15 units together for using cluster benefits in the CFC, procurement and also Inter linkage to the other clusters possible. A SPV created out of Micro and Small units has already started reaping rich benefits of this coming together approach. Linkages with two clusters have been established successfully and the initiative can further linkages with many more clusters.

Another remarkable achievement /best practice in creation of sustainability vehicles in the strengthening of meso organisation in Pune cluster. NAFARI has been established in the cluster as a Meso-organisation, it has been capacitated so as to carry the developmental processes on even after the exit of project in the cluster, with the establishment of BDS Desk, Regulatory Panel and Resource Centre at NAFARI for MSMEs in Cluster. Many training programmes, seminars, studies, workshops has been organised during the course of the project in coordination with NAFARI and in the premises of NAFARI itself so that it

### Counseling helps – Converting Passionate Ideas into Business Reality

Success is often achieved when the person is able to go further than most people, breaking limitations imposed by their own economic, physical and cultural boundaries. **Meena Pathak** is an example of success, as she overcame economic and social barriers to become a successful business women in Boragaon, a small place in periphery of Guwahati. Her entrepreneurship quality with motivation and self confidence found the right source of guidance from the counselor Mr. Mrinal Baishya of Guwahati Counseling Centre for MSE financing and the result was seen in the rapid growth of her enterprise in last one year.

Meena learnt tailoring from her mother and took it up as a livelihood option with one stitching machine just after her marriage. She started a small tailoring shop in 1993 with a capital investment of ₹ 1 lakh got under PMRY scheme. Soon after, she hired two workers and started doing business pretty well. But her thirst did not stop there. She wanted to start a proper factory by installing advanced stitching machines and also to become a social entrepreneur by availing skill development training to the unemployed youths in the area. Despite of good repayment record she was refused by her bank for higher dose of credit. After a few months she got to know about the Financial counseling centre through a friend. Meena met the counselor to understand the sources of financial services that help people like her to grow. After two days of thorough counseling she learned how to make a proper financial plan and take right decision on investment. She also learnt different products offered by financial agencies and the basic requisite to avail it. Meena approached SIDBI with a proper project proposal and got another loan of ₹ 1 lakh and an assurance of getting more than double the size of credit after completion of the first doze. She used that money and some other savings to buy 4 new stitching machines and 2 automated electric stitching machine and comfortably started earning a net amount of more than ₹ 12,000 every month after incurring all expenses. Now 12 boys and girls are getting full time employment in her unit. She is also running a training centre offering basic as well as advanced stitching courses to the girls. She now aspires to buy a computerized machine for designing and stitching and creating monograms on garments after getting the higher amount of credit from Banks/FIs.

Entrepreneur is a catalytic agent of change, which generates employment opportunities for others and brings prosperity to the society. Right guidance through proper counseling helps a lot. When an enterprise is established, it not only boosts economic growth, but also has many desirable social outcomes. Meena who is not only a business entrepreneur but also has turned out to be a social entrepreneur and a community mobilizer now counsels other Self Help Group members and rural women to do regular saving, investment and take up business activities which suits to the local conditions.

remains well acquainted with the project approaches, which will aid it the future activities. Establishing a Meso-organisation is a unique and strong feature of the project which can be replicated in other areas also.

Another important initiative under the project umbrella was capacity building of Jamnagar Brass Cluster testing facility where more than 10000 samples from about 1100 MSME units have been tested till date. In Allepey, a Business Development Centre-Coir Shippers Council was granted viability gap support from the project, which has helped in leveraging support under Industrial Infrastructure Up gradation (IIUF) scheme of GOI. The first phase of the project has been completed and is sustainable now. The project has also established Micro Enterprises Business Information Counselors (MEBIC) in collaboration with Rashtriya Gramin Vikas Nidhi (RGVN). Around 1100 prospective entrepreneurs have been provided counseling services through project support. The project has supported Faridabad Small Industries Associations to channelise larger credit flow to MSME members. Till project intervention, financial support has been disbursed to around 50 MSMEs members. This has led to creation of a new model for credit delivery by leveraging social capital which has also been replicated in Ahmedabad cluster with demands emanating from few more clusters. Another innovation was done in Allepey cluster in the form of BDS consortia called Centre for business research & counseling (CBRC). The consortia undertake multiple BDS transactions in multi discipline, beyond cluster/ region. Furthermore, the project has established Prime database, which is a national level database of BDS providers by creating a website ([msmementor.net](http://msmementor.net)). It contains a pool of over 12000 professionals enabling matchmaking at national level and has attracted investments from few other institutions, indicating its value proposition.

Clearly, sustainability of actions is guaranteed wherever an institution has been created and wherever exit processes have been followed e.g. in Allepey cluster BDS centre is managed by consortia of BDS providers, supported by CBRC (a company of 8 BDS providers), BDS centre funded by the Government viability funded by project and CFC scheme by Government. Handover wherever not proper, may not have seen enough momentum for the mechanisms to continue or strengthen the establishment of the BDS market. The project model of institutionalization (which is really vast, considering the type and spread of institutions developed) need to be examined in depth for its effectiveness and impact. This can provide very useful lessons to all cluster development work in India and elsewhere.

### **Natural Facilitating Agency**

It has been generally observed that the successful performance of a cluster depends on existence of effective networks of stakeholders like association/ Business Membership Organizations (BMOs) with targeted vision, committed leadership and technically qualified support staff and also presence of institutions strongly linked to delivering various business/ support services to the cluster. Such networks/ associations/ institutions work as Natural Facilitating Agencies (NFA) in the cluster providing various critical services in the areas of infrastructure creation, marketing, financing, technology and human resource development of the industry. There are many such reasons why the creation of a NFA may be an essential

component of a broader cluster development initiative. While the broader goal of the project was creation of a sustainable BDS market, the sustainability could not be ensured without creation of such natural facilitating agencies (NFA). To ensure this the project initiatives were envisaged to be pursued through NFAs to the extent feasible and easy up-scaling of the flagship activities. In addition, project also ensured a robust exit strategy for the cluster envisioning NFAs will continue the need based development work for the industries.

#### **Building Social Capital- "I am SME of India"**

The Faridabad Small Industries Association (FSIA) has over 800 direct and 1200 indirect (association based) members. These units produce over 35 different products including foundry, metal cutting, machining, electroplating, heat treatment, injection or blow moulding etc. Various renowned companies purchase spare parts from the MSME units in Faridabad. In short FSIA members have the cutting edge benefit of learning and growing continuously with some of the high profile manufacturing units of the region. In order to keep abreast with the latest technologies and sudden surge in demand from their valued clients, the firms are often confronted with critical liquidity crunch and face the result of losing out on sure business. In such situations, financing is required within 15-20 days. However, the stipulated time required for a bank to provide loan typically varies from 2 to 3 months involving lengthy procedures and arrangement of collateral.

To address this gap, need for a scheme that would make loan available within 15-20 days' was realised by FSIA. SIDBI came forward to address this problem through a unique model of making the association significantly responsible in this loaning process. While SIDBI made available the loan, FSIA took the responsibility of identifying responsible loanees from among its members, doing a part of the initial processing and also agreeing to do necessary follow-up for repayment. MSMEFDP, SIDBI also invested, through grant support, in doing necessary capacity building of FSIA.

Under MOU with SIDBI & FSIA, SIDBI introduced a special scheme of Collateral-free Equipment Finance up to ₹ 50 lakh exclusively for FSIA members at an interest rate of PLR less 0.5%. FSIA promoted a Special Purpose Vehicle (SPV) - 'Integral Association of Micro, Small and Medium Enterprises of India' (I-am-SME-of-India) as a Section 25 Company in January 2009. IamSME acts as the front desk, helps fill up the Application Form, complete documentation etc. Based upon the evaluation and recommendation of IamSME, suitable CAPEX limit (Line-of-credit) upto ₹ 50 lakh is sanctioned by SIDBI. The initiative met with success and 50 cases with sanctioned amount of ₹ 9.62 crore (87.5%) and disbursement is around ₹ 6.5 crore (60%). Many firms have applied for loan under the scheme for the second time, which reveals the easy and hassle free accessibility of loan for the MSMEs. IamSME has subsequently signed MoU with Indian Overseas Bank (IOB) for collateral-free Finance upto ₹ 1 crore for IamSME Members at low interest rates. It has also tied up for insurance to members at better rates. One right step leads to vibrancy and several sustainable steps.

However, creation and strengthening of such NFAs is not an easy task. The project thus hired external specialized Facilitation Agencies (FAs) who are otherwise known as Artificial Facilitating Agency to work in the cluster, identify the needs, bring solutions and work as a catalyst for industrial development by means of creating a sustainable BDS market for the industries. While these FAs worked directly with the stakeholders, at the same time they maintained their facilitator role and promoted various associations and institutions as NFAs to ensure greater sustainability of the interventions.

However, process of identification of NFAs, in the initial stage was very difficult as in some of the clusters there were no effective associations and in some cases where associations were present but they were in dormant stage. In addition, most of the clusters were characterized by weak linkages with technical/support institutions.

#### From Lab to multi-domain BDS

“NAFARI, established since 2002, is an autonomous, not for profit sharing organization, registered under Section 25 of the Companies: Act 1956. It is managed by A Governing Council having representation from MCCIA Pune & Region's Food Industry and Members may also be nominated by FIs. The Institute has an ISO/ IEC 17025 NABL accredited laboratory, equipped with 'State of the Art Facilities' for Chemical and Microbiological Analysis. However, the facilities of NAFARI were not fully utilized and it was incurring losses. NAFARI has been turned up into a profit making entity after its association with the project. The total number of clients has increased to over 500 from 350 and sales from ₹ 26 lakh to ₹ 40 lakh. NAFARI is emerging as a prominent Incubation Centre in the Food Sector for new product, process and package development along with Training services.

With its facilities, skilled staff and increasing acceptance in the cluster, NAFARI took another step to diversify its activities and play an important role in the development of Pune F&V processing cluster. A business plan document was prepared for NAFARI with project support and now NAFARI is in process of implementing the same. This would also enable NAFARI to raise resources from Govt. and other stakeholders. This initiative shows the transformation of a testing lab which was almost at the verge of closure into a institutional BDS provider offering wide range of services under one roof.

Where there were no effective associations or institutions, FAs started working with 2/3 leading personalities of the cluster who had the ability to motivate other cluster members, came together and establish /revive organizations. This revival strategy proved success in Panipat and Chandigarh cluster. On the other hand some of the clusters like Kolkata, Tirupur, Chennai Coimbatore and Shantiniketan where strong associations were already present but they were indorment stage, project gave handholding support for further growth and development to become NFAs. Similar is the case with institutions becoming NFAs.

**Industry Association as NFA :** In many clusters the associations of MSMEs suffered from ambiguity of purpose and a low resource base. With low resource base, lack of revenue model, low memberships, restricts their ability to work as natural facilitators of change processes. The project has thus focused on strengthening the associations and creating professional management systems in order to play the role of NFA and continued facilitating various BDS linkages and even worked as BDS provider for the benefit of its industries. In Kolkata Leather Cluster ILPA, an association of leather goods manufacturers is giving training support as well as various design and skill related services to its members through its design studio- FREYA. FREYA is continuing the project initiated use of design forecast online subscription, use of audio-visual training tools for skill up gradation of industry workers and many other such services. Similarly in Chandigarh cluster, the association is leveraging various Government schemes, programmes and linking it with the cluster units. The association is also rendering various need based services. Some of such cases of association led NFA are elaborated as below.

**International exposure :** Project took a delegation of lead national/regional BMOs to participate in Work SME Expo in 2008. BMOs were introduced to competitive strategies of MSMEs as also how BMO marketed their value add services to attract memberships. Few BMOs implemented few best practices such as websites counseling, financial linkages and so on.

**Institution as NFA :** Presence of institutions strongly linked to delivery various business/ support services to the cluster have ensured greater sustainability of various cluster initiatives. Here, institutions play the role of NFA. The case studies that follow illustrate how institutions were capacitated to become NFAs and become acceptable naturally by the cluster stakeholders.



### Intitutionalising Learnings, Communications and Dissemination

In terms of information and communication channels, project has used multiple strategies:

- BDS workshops –Regional and national levels
- Learnshops
- Management Information system and Quarterly reporting
- Outsourced Strategic BDS support along with regular M&E
- Outsourced baseline and impact assessments

**BDS Workshops:** Project organized four BDS workshops (June 2007, May 2008, April 2009, and October 2010) at different phases of the project. BDS workshops in a way were crucial milestones in the project phase and therefore provided an opportunity to learn, strategize and bring stakeholders on to a common platform and learning. First BDS workshop achieved awareness and sensitization of new BDS implementing agencies as international and national level consultants shared their experiences on market linked BDS. Various diagnostic tools like Participative appraisal of Competitive advantage (PACA), Value Chain Analysis (VCA) were discussed in this workshop. The workshop also helped in creating a road map for the BDS intervention and discussed establishing an M&E framework for the facilitator agencies. Second BDS workshop was organized to review the progress of the implementing agencies working in the three clusters at the pilot phase. The Project brought together implementing agencies to share their progress, action plan, emergent issues and discuss strategies of intervention in the clusters. The workshop also comprised of a focused discussion session conducted by Foundation for MSME Clusters – the knowledge partners and experts. The learning were shared and best practices were disseminated among the cluster level facilitator agencies. The third BDS workshop was conducted after successful pilot phase of the Project. It brought together implementing agencies from the pilot phase as well as from the additional 15 clusters to openly discuss action plans, issues, solutions and challenges, and workout a common roadmap for further intervention. Fourth BDS workshop focused on showcasing the interventions and their outcomes in 19 clusters. In addition to the panel discussions, sessions on communication skills, log frame as a tool for effective monitoring and evaluation, cluster school and National Level database were also organized.

**Learnshops** have been institutionalized where in 7 facilitator agencies including over 110 cluster experts have been trained with cross learnings and experiences, which were replicated. Successes were leveraged and failures were correctly understood to minimize wastages. During intervention, a number of workshops (16) has been organized in various clusters which enriched participants with successful and unsuccessful experiments and achievements.

Overall, the project has enormous learning to offer to the cluster development initiatives in India and internationally. It may be prudent to organise a national level BDS market development and cluster development learning workshop involving all cluster organisations, BDS experts and MSMEs together. This will not only provide physical integration of entire project, but will also be a showcase opportunity for successful project initiatives. Precursor to that, the project can initiate thematic reviews for depth understanding of interventions and impact.

More detail on achievements and learnings appended at Annexure VII.

### Development of new service offering and capacity development of select target groups:

As per the need identified from stakeholder's discussion and field level experience, MSMEFDP-GIZ portion of project is working with identified private service providers to introduce new service offerings which can be sustainably offered beyond project period.

- ◆ A two week residential workshop on Export Growth Counseling was conducted with an aim to enable BDS providers(BDSPs) to understand the nitty-gritty of import-export, specifically in relation to doing business with European Union. BDSPs were introduced to EU market and they could get access to reach out to more number of MSMEs through this workshop. Some of the key topics discussed were-export documentation, banking documentation, logistics, taxation, foreign trade, etc. General awareness about exporting to EU was also created during the workshop.
- ◆ Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI) was assisted in developing a centre for E-enabled services which can provide cost effective, simple, and scalable and proven IT solution for SMEs. Scope of solution includes- sales, purchase, inventory, excise, finance, planning, production, quality control, maintenance and payroll. Solution is provided through Software as a Service (Saas) model. SMEs can choose the required business functionality in order to scale up their business. In addition, trained manpower for training and implementation support is also available with FAPCCI.

## Policy Advocacy

The Project aimed at playing a significant role in attending to key policy, legal and regulatory issues that are critical in establishing a facilitating framework that promotes MSME sector. The Project carried out a wide range of initiatives, through various forms of policy advocacy tools. These advocacy tools aimed at reaching out and deliver message to policy makers to enable them to make an informed policy decision. Initiatives also involve creation and promotion of information booklets to disseminate information on new and existing ideas of relevance.

### Cooperation works-

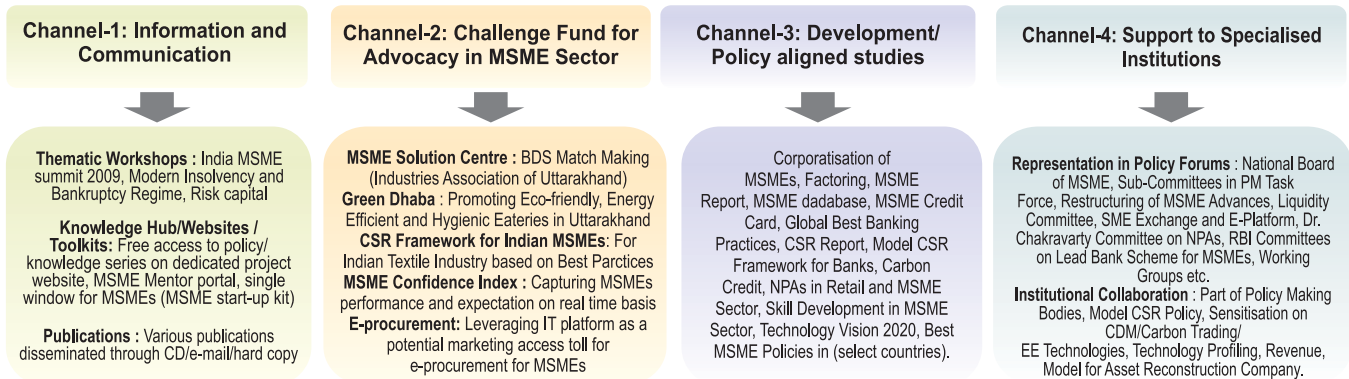
#### **CAPSULE - a BDSPs Network:**

With an objective to facilitate BDS market development, the BDSPs have been brought together on one platform, by forming “Consortium Service Providers for Upgradation of Enterprises” (CAPSULE) in Hyderabad Pharma Cluster. This is an association of MSME services providers’ under one umbrella providing services to MSMEs. To sustain the activity, for other verticals and regions on an ongoing basis, CAPSULE was formed. The ultimate goal of institutionalization of BDSPs is to enable the MSMEs to improve their business performance and to achieve sustainable growth. CAPSULE facilitates this by providing a basket of varied cost effective services comprising of the latest management methods and technology solutions which in turn helps the MSMEs make the best use of available resources.

More than 75 BDSPs were introduced to the cluster and out of which 23 BDSPs are reached to self sustainable stage. The BDSPs belongs to cGMP, energy savings, safety management, lean management practices, water management, Information Communication Technology, etc are initiated to take membership of the three industry BMOs to take lead for their business improvement and also improve the performance of the cluster firms. CAPSULE is a proactive body and closely working with MSME-DI and industry BMOs for their support to leverage the NMCP Schemes for competitive advantage of their members firms. The leveraging of Government schemes is future Catalyst for the different type of Services for the industries.

## Micro, Small and Medium Enterprises - Financing and Development Project (MSME-FDP) of SIDBI

### The Project Actions and Contributions to making the context enabling to MSMEs in India



**Key Achievements:** Critical issues and important themes have been attended to by the project and appreciation/ recognition on these are being received. Project influenced the MSME context for the better in two ways:

**Improved Policies and Policy Building Environment:** Factoring report has enabled are legislation process to take off. The policy advocacy component of MSMEFDP is mentored by a Policy Advisory Group (comprising of top management of SIDBI, senior officials from DFS, MOF and MOMSME) which renders guidance and inputs on strategic issues as well as future interventions. Along with National Stock Exchange (NSE), took the initiative for setting up an electronic platform for discounting of MSME receivables - NTREES (NSE Trade Receivables Engine for E-discounting). Government is now considering implementation of some of the innovative financial products and mechanism of Risk Capital/Venture Finance for MSMEs. A new model is being developed to provide Credit Guarantee to MSE loans in the range of Rs. 100-200 lakh against the existing ceiling of Rs. 100 lakh.

**Attending to the Expectations of MSMEs to their Critical Concerns :** Policy aligned initiatives through India SME Technology. Services Ltd. (ISTSL). Credit mapping and monitoring the flow of credit and bridging the gaps. BDS market development in 19 clusters. Planning replication and scale up in more number of clusters through a dedicated division of SIDBI. SME exchange for improving the legal and regulatory structure. Representing MSME interest in policy forums and bodies.

**Key Lessons :** SIDBI enormously increased its Policy footprints due to initiatives under the project. MSMEs are beset with various disadvantages due to institutional, policy and delivery challenges. Policy influence work requires persistent agenda and energy. SIDBI has the require calibre and presence at appropriate level to not only engage but actually influence the shape and size of policy and institutional response that can spur the growth and competitiveness of MSMEs. The project was a small window which catalysed the actions and provided initial results in terms of making the context more enabling to the MSMEs in India. However, all experiences and perspectives of internal and external stakeholders to SIDBI suggest that what is done and what is achieved is a good beginning towards change and enabling eco systems.

"MSME sector accounts for about 28% of the total population of the country i.e. (2.6 Crore MSME+6 Core Employees)x4 Minimum average size of the family members = 34.4 crore people.", says President of Indian Industries Association

Project has, under the guidance of apex group - the Policy Advisory Group (comprising of project partners, top management of SIDBI, senior GOI officials from DFS, MOF and MOMSME) adopted both Top - Down (i.e. supply side of Institutional Support flowing to MSMEs) as also Bottom- up approach (i.e. demand side of enlisting the issues emanating from MSME and devising suitable strategy) to attend to these mandates. With this range of initiatives, the project addressed context related critical issues. The Project influenced the MSME context for the better in two ways:

- Improved Policies and Policy Building Environment
- Attending to the Expectations of MSMEs to their Critical Concerns

SIDBI enormously increased its Policy footprints due to initiatives under the project. Policy influence work requires persistent agenda and energy. SIDBI has the required calibre and presence at appropriate level to not only engage but actually influence the shape and size of policy and institutional response that can spur the growth and competitiveness of MSMEs. The project was a small window which catalysed the actions and provided initial results in terms of making the context more enabling to the MSMEs in India. However all experiences and perspectives of internal and external stakeholders to SIDBI suggest that what is done and what is achieved is a beginning towards enabling eco system.

The Project has adopted a systematic approach towards instituting framework and structure for methodical attendance to Policy Matters. This included:

### A. Improved Policies and Policy Building Environment - Creating Policy Support Mechanism

Agenda	Purpose	Assignments/Activities
Creating a favorable and facilitating environment for MSMEs through advocacy on enabling environment.	To facilitate the development and growth of a competitive and vibrant MSME sector	<p>Project carried out a wide range of initiatives, through various forms of policy advocacy tools. These advocacy tools aim at reaching out and deliver message to policy makers. Initiatives also included creation and promotion of information booklets to disseminate information on new and existing ideas of relevance thereby contributing to competitiveness of MSMEs.</p> <p><b>Channel 1 – Information /Communication</b></p> <p>◆ <b>Physical Interaction – Capturing MSME Perception</b></p> <ul style="list-style-type: none"> <li>● Organized /supported /sponsored events /workshops /seminars at local, regional &amp; national level based on various thematic areas.</li> <li>● Example of the workshops organized directly by project team: <ul style="list-style-type: none"> <li>- Risk Capital for MSMEs (organized in Mar 2008 along with national level BMO) - Towards creating an enabling eco-system and framework for Risk Capital for MSMEs.</li> <li>- Modern Insolvency and Bankruptcy Regime for Indian MSMEs (organized in Jul 2008 along with national level BMO) – Towards suggesting a modern Insolvency and Bankruptcy regime based on best practices for MSMEs.</li> <li>- India MSME Summit (organized by Times of India Group along with national level BMO in Feb 2009 and supported by project). Conducted in the backdrop of global economic crises of 2008. It suggested on measures for MSMEs to sail through the prevailing crises. The deliberations during the workshop were documented as policy booklets /papers and thereafter published/ released /disseminated/ hosted on project website.</li> </ul> </li> </ul> <p>◆ <b>Virtual Interaction - Harnessing IT Platform</b></p> <p><b>Website</b></p> <ul style="list-style-type: none"> <li>● A separate and dedicated website (www.msme FDP.net) for project developed and launched in 2008.</li> <li>● As per the records the project website has registered average 1508 unique visitors during last six months (total 9050 unique visitors and 11396 hits during May-Oct, 2011) indicating its visibility and efficacy. Visitors' domain countries besides India include-Germany, Russian Federation, China Finland etc.</li> </ul> <p>◆ <b>Public Good</b></p> <p><b>Knowledge Bank</b></p> <ul style="list-style-type: none"> <li>● A free access knowledge hub has been created by the project. <ol style="list-style-type: none"> <li>a) Project has created a knowledge pool on SIDBI &amp; Project Websites in Oct 2009. This was enriched during the later period and contains all the policy / knowledge series/toolkits/papers brought out or supported by the project. The knowledge pool attends to crucial gap of information asymmetry by acting as one stop repository of project publications making the website a dependable tool.</li> <li>b) A CD on Fostering MSME Competitiveness (released in Apr 2010) – It contains information on Green Finance, Green Rating, Policy Series / Reports etc. and was released on SIDBI's 20th foundation day in 2010 by Honorable FM of India.</li> </ol> </li> </ul>

Agenda	Purpose	Assignments/Activities
		<p><b>Toolkits</b></p> <ul style="list-style-type: none"> <li>● <b>Developed Online Tool-Kit</b> - A single window information hub on IT platform to guide an upcoming entrepreneur (in setting-up new enterprise) and existing entrepreneur (to look up the value chain and improve operational efficiency, market competitiveness). It's pilot is operational.</li> <li>● <b>Walk-in-Kit on Corporatization</b> - With 95% MSMEs being non corporate entities, growth gets stunted after sometime. The toolkit Provides handholding thus enabling conversion to corporate entities (released in 2009 and widely disseminated across MSMEs, stakeholders etc).</li> <li>● <b>How to link-up with Retail Chain</b> - enabling local-local, local-national marketing linkages by providing information to MEs for turning upto the expectations of retail chains. It shall enable MSMEs to come up to the standards of big retail chains and be part of their supply chain.</li> <li>● <b>MSME Database</b> - A one stop statistical information on Indian MSME domain. This is unique endeavor for enabling information efficiency.</li> </ul> <p><b>Channel 2 – Challenge Fund for Advocacy in MSME Sector (Advocacy Challenge Fund - ACF)</b></p> <ul style="list-style-type: none"> <li>■ On the lines of international best practices, MSMEFDP has set-up( first time in India) an ACF in Feb 2009. Which aimed to promote ownership through involvement of beneficiaries / stakeholders and funded their ideas to take shape as an action initiative. It provides advocacy action grant as also CB grant ( as an incentive after successful implementation of ACF).</li> <li>■ Details provided in the subsequent sections.</li> </ul> <p><b>Channel 3 – Developmental and Thematic Policy Aligned Studies</b></p> <ul style="list-style-type: none"> <li>■ The project conducted policy aligned studies for the benefit of MSMEs and to facilitate policy formulation.</li> <li>■ Details provided in the subsequent sections.</li> </ul> <p><b>Channel 4 – Support to Specialized Institutions</b></p> <p>Specialized institutions carry the responsibility of advocating / disseminating on the critical mandate carried forward by them. To make policy framework more focused and specific decentralization of advocacy initiative through enabled intermediaries, stakeholders and specialized institutions was framed and implemented.</p> <ul style="list-style-type: none"> <li>■ CB Support was extended to India SME Technology Services Limited (India's only technology bank, setup in 2005) towards: <ul style="list-style-type: none"> <li>a) Sensitization of MSMEs and Stakeholder on CDM, Carbon Trading, Energy Efficient Technologies etc. Website upgraded as more interactive and user friendly.</li> <li>b) Develop Technology Database (Profiling of more than 600 MSME related technologies was done and these are categorized by tagging as clean /green , Energy Efficient etc.) Database has also been hosted on the website. Except the “technology offer” details, the other database is freely accessible.</li> </ul> </li> <li>■ CB Support was extended to India SME Asset reconstruction Company towards suggesting strategies and measures for unlocking precious capital locked in NPAs.</li> </ul>

## B. Attending to the Expectations of MSMEs to their Critical Concerns - Thematic Initiatives

Initiative	Remarks
Corporatization of MSMEs	Based on the outcome of the study project had developed a Walk-in-Kit on Corporatization (2009) aimed at enabling MSMEs understand the advantages and walk the process. It surveyed few MSMEs who had corporatized and also presented showcase study for easy replicability.
A Study on Factoring OPTIMiSM	A Report brought out in 2010 (which did extensive discussion with factoring companies/ BMOs and MSMEs) contributed to the new factoring bill for MSMEs (passed by parliament in December 2011). Prior to this on the basis of the Study, SIDBI, along with National Stock Exchange (NSE), took the initiative for setting up an electronic platform NTREES for discounting of MSME receivables (facilitated fast bills payment to MSMEs on the same day as against 3 to 4 days taken earlier. Electronic mode has reduced paper work and also aims at price discovery).
OPTIMiSM	Periodical digest based on thematic areas released by Finance Minister in April 2010. Later periodical editions were brought out on thematic agendas of competitiveness, Energy Efficiency, etc.
SIDBI MSME Report	A one stop repository of information on supporting framework, status of Indian MSME Sector and emergent areas for planners, overseas/domestic investors and other stakeholders. The report was released by Finance Minister in April 2010. The present edition documents the achievements and learning's of the project from independent perspective. It attempts to bring in models, case studies for wider dissemination for adoption.
MSME Database	A first time single window database on Indian MSME Sector. The report was released by Finance Minister in April 2010. It's being periodically updated.
Feasibility Study on MSME Credit Card (CC)	The study analyzed the feasibility and developed alternate CC type product /scheme for Indian MSMEs. Hosted on project website under Knowledge Bank.
The Global Best Banking Practices	Released in April 2011, the study documents Best Practices prevalent globally and enlists customization possibilities for Indian MSMEs. The Government is now considering implementation of some of the innovative financial products and mechanism of Risk Capital /Venture Finance for MSMEs. The study brings a tip sheet mechanism for ready access to policy makers.
CSR Report & Model CSR Framework for Banks / FIs (2010)	SIDBI's CSR report was brought out as also based on it, CSR Model developed. It's first CSR report by any financial / Banking institution of India. Later hosted by GRI on its global website. This has been highly appreciated by Reserve Bank of India and stakeholders. Some banks have started following the preparation of CSR report as per the suggested CSR Model under the Project. Later on an International GRI consultant was roped in through MSMEFDP-GIZ TA portion for assimilating best practices on CSR Reporting (2011). As a part of the agenda to benefit larger community (through sensitizing the banking fraternity) a national level workshop on "Risk Mitigation through Non-financial Measures and reporting" was organized at Mumbai in 2011 with > 25 bankers/industrialists participating DG, RBI inaugurated the workshop.
Booklet on Carbon Credit	Aimed at removing understanding gap on carbon credit. Widely disseminated among MSMEs/ stakeholders.
Report on NPAs in the Retail and MSME Sector	Provided status and Suggested Resolution Measures to enable unlocking of locked capital.
Report on New RSF Product	On the basis of the study on Risk Sharing Facility for CGTMSE, a new model has been developed to provide credit guarantee to MSE loans in the range beyond ₹ 100 Lakh as against the existing ceiling of ₹100 Lakh.
Report on Skill Development in MSME Sector	The report captures the status of skill gap in the 8 identified clusters where project had made interventions (6 sub-sectors), developed the Training Modules (based on best industry standards), Implementation and Monitoring Framework.
Technology Vision Report – 2020	This maps the technological gaps in 10 clusters and suggests steps to attend to these in future.
Best MSME Policies in Select Countries	Endeavours to gauge the crisis responsive policies of select countries and draw lessons for India. To be released soon.
Reports on EE (4 energy intensive clusters)	- Sectors Covered <ul style="list-style-type: none"> <li>■ Fruit and Vegetable processing</li> <li>■ Foundry</li> <li>■ Ceramics</li> <li>■ Engineering</li> </ul>

## Challenge Fund for Advocacy in MSME Sector (ACF) in India

### Introduction

In general terms the Challenge Fund is a support aimed to give impetus to ideas, projects, organizations that have the potential to conquer a particular challenge.

The history of “Challenge Fund” goes back to 1990s when Ambassador Walter Annenberg announced a gift of USD 500 Million from Annenberg Foundation to America’s public schools to reinforce existing reforms and institute new ones. In the year 1995, a group of local community activists and representative organizations was awarded with a part of the grant which emerged as Chicago Annenberg Challenge<sup>1</sup>. At the dawn last century a number Challenge Funds were established in UK under universities to assist the successful transformation or commercialization of research into business.

The concept was further adopted by foreign aid agencies and during 2004, the Millennium Challenge Corporation (MCC) a bilateral United States foreign aid agency created by the George W. Bush administration was authorized, to apply a new philosophy towards foreign aid.

The best example to quote for Challenge Fund for Private Sector Development is the Business Sector Advocacy Challenge (BUSAC) Fund of Ghana. The BUSAC Fund aims to make an impact by enabling the private sector, to influence public policy formulation by undertaking appropriate research, developing evidence based policy positions and advocating those positions with government and other private sector institutions / organization that may be targeted by the action. The BUSAC was originally launched by DANIDA in 2004 as part of the broader Business Sector Programme Support but now attracts support from DFID and USAID. The Business Sector Advocacy Challenge (BUSAC) Fund has won the prestigious award for the “Not for Profit Making Organization of the Year” for 2010 by the Chartered Institute of Marketing, Ghana (CIMG). The award is in recognition of the “Fund’s excellence in strategic marketing in the year 2010”.

An other example is the Business Linkages Challenge Fund (BLCF) 2 designed by Department for International Development (DFID) to engage with the private sector to accelerate growth and poverty reduction in developing countries. The other main DFID private sector challenge fund is the Financial Deepening Challenge Fund (FDCF). DFID also finances the Civil Society Challenge Fund, although this does not target the private sector and has other significant differences.

1 Ref: <http://ccsr.uchicago.edu/publications/p0b06.pdf>

2 Ref: <http://psp.emergingmarketsgroup.com/components/download.aspx?id=2dd6671b-336a-45a3-be75-c48e19acdd40>

The extension of grant to a country was based on Competitive selection process (17 indicators and policy performance), Country-led solutions (priorities for achieving sustainable economic growth and poverty reduction) and Country-led implementation. Later on the concept gained popularity to aid Civil Societies and Community led initiatives towards education, medical & health, environment, Business, social cause etc. to benefit larger community.

### About ACF under MSMEFDP

Through Policy and Advocacy component the project aims at playing a significant role in attending to key policy, legal and regulatory issues that are critical in establishing a facilitating framework that promotes MSME sector. In this regards the project has carried out a wide range of initiatives, through various forms of policy advocacy tools. These advocacy tools aim at reaching out and deliver message to policy makers to enable them to make an informed policy decision. These initiatives also involve creation and promotion of knowledge series or booklets to disseminate information on new and existing ideas of relevance

which is aimed at attending to information asymmetry and contribute to enabling policy environment. Project has created a robust knowledge bank available free to access at [www.msme FDP.net](http://www.msme FDP.net). Several policy papers / publications like Factoring (taking shape of new legislation), Walk-in-Kit on Corporatization of MSMEs, Risk Capital, Global Best Banking Practices in MSME Financing and Development, CSR Model have been widely appreciated (Till date more than 20 policy papers / publications / knowledge series have been released).

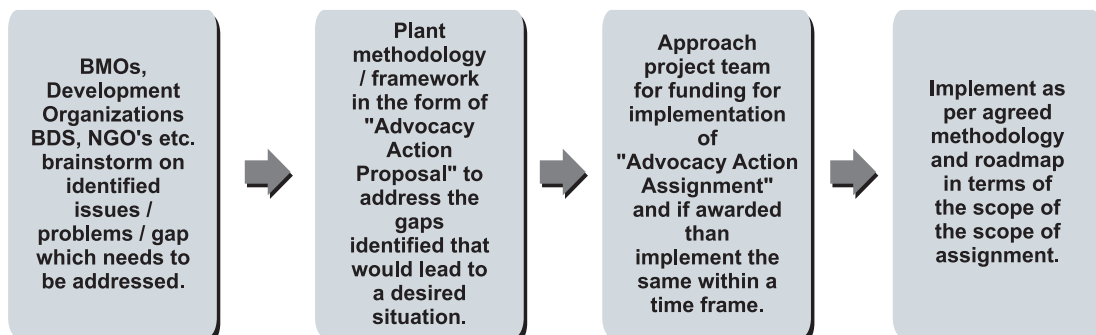


On the lines of international best practices, first time in India MSMEFDP has set up a Challenge Fund for Advocacy in MSME Sector (ACF) for Enterprise Development. ACF is based on internationally tested approach to enable actor /agents (Associations, NGOs, and Developmental Organizations, etc.) to influence another actor / body including policy makers for removing barriers and bottlenecks that hinder their development. It promotes action based advocacy preferably on initiatives that have either been trialled or tested or can be tested / scaled-up backed by action oriented research / framework. The pilot was launched in February 2009 with following objectives :

- Sectoral engagement of representative organizations in policy formulation.
- Develop understanding and effective role of private sector in policy advocacy through active and informed participation.
- Develop them (private sector representative organizations) as strong delivery channels.

The ACF framework adopted under MSMEFDP has since transformed into an efficient and effective mechanism through the basic premise is same. A brief on the ACF framework, its evolution in the course of operation highlights-key features-learning's-success, project supported under ACF etc. has been provided below :

### 1. ACF Framework





## HIGHLIGHTS

- ◆ It enables eligible entities/actors to shape their own action research ideas Implementing it is challenge for them for which project supported them.
- ◆ Addresses the inadequate delivery capacity, information asymmetry, infrastructure (soft) constraints etc. of BMOs, NGOs, and other MSME Stakeholders etc. through mentoring and performance incentives.
- ◆ Grant Components :
  - Advocacy Action Grant - (To support proposed advocacy action / idea / project).
  - Capacity Building Grant - (Provide as performance incentive).
- ◆ Two stages filtering process - Preliminary Selection (based on Concept Note) & Final Selection (evaluate detailed Proposal).
- ◆ Simplified “Proposal Document” available online with all Forms, Formats & Guidelines.
- ◆ Specified time frame for the implementation of assignment.
- ◆ The mechanisms aimed at infusing sustainability traits in advocacy framework.

## 2. Evolution to Present Model

Head	Pilot (Feb 2009)	Present	Remarks
Objectives	<ul style="list-style-type: none"> <li>■ Sectoral engagement of representative organizations in policy formulation.</li> <li>■ Active participation of private sector in policy advocacy.</li> </ul>	<ul style="list-style-type: none"> <li>■ Sectoral engagement of representative organizations in policy formulation.</li> <li>■ Develop understanding and effective role of private sector in policy advocacy through active and informed participation.</li> <li>■ Develop Private Sector Representative Organizations as strong delivery channels</li> </ul>	Enhanced the scope of the Advocacy Challenge Fund.
Grant Components	<ul style="list-style-type: none"> <li>■ Component I (Advocacy Action Grant) - Maximum ₹ 10 Lakh for each proposal.</li> <li>■ Component II (Capacity Building Grant) - Maximum ₹ 2.5 Lakh for each proposal.</li> </ul>	<ul style="list-style-type: none"> <li>■ Component I (Advocacy Action Grant) - Maximum ₹ 12 Lakh for each proposal.</li> <li>■ Component II (Capacity Building Grant) - Maximum ₹ 3 Lakh for each proposal.</li> </ul>	Enhanced the value of grant to support good proposals.
Features	<ul style="list-style-type: none"> <li>■ Process of invitation of proposal through advertisement.</li> </ul>	<ul style="list-style-type: none"> <li>■ Wider Information dissemination among target groups through mails, CDs etc.(Besides advertisement for opening of call).</li> </ul>	Enhanced information and encouragement for more participation.
	<ul style="list-style-type: none"> <li>■ Proposals required to be submitted in hard copies.</li> </ul>	<ul style="list-style-type: none"> <li>■ Online submission of Proposals</li> </ul>	Reduce time, energy and overall TAT.
	<ul style="list-style-type: none"> <li>■ A list of areas was provided as focus areas for the proposals to be submitted under ACF</li> </ul>	<ul style="list-style-type: none"> <li>■ No such restriction. However, the chosen area for advocacy action to be aligned to project objectives and in tune with Government policies</li> </ul>	The areas for sectoral articulation towards supportive policy for MSMEs were kept open.
	<ul style="list-style-type: none"> <li>■ Selection through competitive bidding having two stages evaluation process (Preliminary and Detailed) &amp; Competitive.</li> </ul>	<ul style="list-style-type: none"> <li>■ Quality Based Selection (QBS) method adopted. However, the evaluation process kept unchanged.</li> </ul>	The proposals found support worthy, on basis of quality & eligible criteria were supported with no restriction on numbers.

### 3. Key features-Learning's-Success

#### Unique Features

- ◆ Support to “Action” oriented initiatives (that have either been trialled or tested or can be tested / scaled-up backed by action oriented research / framework).
- ◆ The grantee / awardees must provide from its own resources or mobilized its resources at least 10% in cash or kind of the total cost of the proposed action as part of their participation commitment to the project.
- ◆ “Transparency” in selection (committee based, scoring system, discussions /PPT by applicant etc.). Thrust on elements of sustainability, replicability, showcasing, scalability etc.
- ◆ Deliverable based release of grant.
- ◆ Provision of monitoring and handholding mechanism during implementation of the assignment.

#### Learning's

- ◆ Except a few national level BMOs, the regional level BMOs are not well versed with advocacy viz. fundamentals, concepts, types and tools of advocacy etc. and need to be sensitized.
- ◆ Availability of limited resources at BMOs disposals including low levels of skills in documenting success stories, project outcome etc.

#### Success

- ◆ Received 22 proposals from 17 organizations.
- ◆ These were submitted by Business Member Organizations (BMOs)-4, NGOs-5, Business Development Services (BDS) providers -4 and others -4.
- ◆ Out of these 22 proposals, 5 were supported under Advocacy Action Grant.

### 4. Project supported under ACF

Project	Implementing Agency	Theme	Remarks
MSME Solutions Centre	Industry Association-Industrial Association of Uttarakhand	Business Development Services	<ul style="list-style-type: none"> <li>■ Implemented by a BMO in underserved region.</li> <li>■ Thrust on retired skilled personnel's (retired from banks, research institutions, PSUs etc.).</li> <li>■ Under project period, 8 (+5 events) workshops were conducted, more than 459 queries received under “Helpline Service”, database of 350 MSMEs and 30 BDS providers created and 58 matchmaking interventions have been made.</li> <li>■ Today it is doing, on its own, pollution control board clearances for MSMEs, enabling MSMEs to adopt discipline and fetch better rates from existing Banks.</li> </ul>

Project	Implementing Agency	Theme	Remarks
CSR Framework for Indian MSMEs	Non-profit Organization -India China Economic and Cultural Council	Sustainable Development	<ul style="list-style-type: none"> <li>Developed CSR /ESR Framework for Indian MSMEs through best practice mapping of Indian and Chinese Textile cluster.</li> </ul>
MSME Confidence Index	BDS - Indicus Analytics	Information Efficiency	<ul style="list-style-type: none"> <li>Act as responsible voice for MSMEs by being a regular feeder on MSME perceptions to policy makers.</li> <li>Two quarterly indexes launched with project support. Others being done on its own.</li> </ul>
Green Dhaba Project	NGO - Research, Advocacy and Communication in Himalayan Areas (RACHNA) Society	Green MSMEs & Energy Efficiency	<ul style="list-style-type: none"> <li>In hilly terrain and in a tourist circuit, project impacted &gt; 30 road side eateries to adopt green agenda (use local resources, rain water harvesting, Energy efficient equipments, prohibit child labour etc.) and create awareness on health-safety-hygiene among clients.</li> <li>Achievements indicate high replicability possibility.</li> </ul>
Leveraging IT for E-Procurement	BDS - Ace Global	Sustainable Development	<ul style="list-style-type: none"> <li>Facilitate E-procurement for MSMEs from paper/chemical wholesalers. It offers value for money by better information of promoter's time and financial resources. Framework developed and tested. It has been validated by MSME associations.</li> </ul>

These are explained in Annexure VIII

## 6.2.2 Impressions - Project Foot Prints

- Besides activities under various components, project has reached out to stakeholders through publications, thematic programmes as also dissemination through various platforms. In recent times, support has been extended to Industry Associations like Assocham, AICOSMIA, FASII etc. The project has also joined Times of India group's 'Go Green Campaign' and a thematic publication had been supported to include Green financing and development for Indian MSMEs.
- The project website [www.msme FDP.net](http://www.msme FDP.net) is linked to 25 other websites launched by agencies implementing different initiatives supported under the Project. Cumulative number of hits on these websites has exceeded 10 lakh.
- The Project has been consistently bagging high ratings of partners review missions. It had also been showcased on World Bank's South Asia website. Project had received a rating of the 2 (second best) during DFID Review, indicating that project objectives are "Likely to be largely achieved". World Bank, India had picked up the project for documenting its approached on programme effectiveness for replication by other projects.
- In the year 2010, SIDBI has been honoured with international Merit Award on implementation of "MSME Financing & Development project (MSME FDP)" by Association of Development Financing

Institutions in Asia Pacific (ADFIAP) for the project's developmental impact on the local economic development. MSMEFDP won the international ADFIAP Award 2011 with the agenda of "Making Markets Work for Indian MSMEs" for its cluster intervention model.

- MSMEFDP has been making good progress and bagging international recognition. The project has been featured as showcase model in IFC G-20, report of sub-group on SME finance, Oct 2010.
- Tableau of Dehradun Pharmaceutical BDS intervention of the project was included in State Republic day parade and gained appreciation from Chief Minister of uttarakhand and other key functionaries. Some of the MSMEs facilitated by the project got MSME Award at national level.
- Project has been regularly disseminating the cluster soft infrastructure model among various ministries, Industry associations as also on national and International platforms. In international TCI conference held for the first time in India, MSMEFDP made presentation and earned recognition about the model and its achievements.
- Project gets visible through more than 300 media coverage in over 19 clusters (newspaper, magazine etc.), more than 25 lakh website hits (through 20 websites).

## Sources of Information

## Annexure I

### Sources of Information

Websites, Reports, Published Documents of various agencies:

- Government - Central, State and Autonomous:
  - Ministry of MSME
  - Development Commissioner, MSME
  - Planning Commission
  - Dept. of Science & Technology
  - PM Task Force Report on MSMEs
  - Ministry of Textiles
  - Ministry of Commerce and Industry
  - State Govt. websites
  - DC Handicrafts and DC Handlooms
  - SIDBI - MSMEFDP (Project and Clusters)
  - Federation of Indian Small and Medium Enterprises
  - State Government Websites
- SIDBI & its Subsidiary/Associates
  - SME Rating Agency of India Ltd. (SMERA)
  - Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
  - India SME Asset Reconstruction Company Ltd. (ISARC)
  - SIDBI Venture Capital Ltd.
  - India SME Technology Services Ltd. (ISTSL)
- Institutions - NABARD, KVIC, Coir Board, NSIC, FIEO/Export Promotion Councils
- International Agencies - World Bank/ IFC, ADB, GIZ, UNIDO, UNDP, EU, DFID, KfW, World Business Council for Sustainable Development, Association of Development Financing Institutions in Asia and the Pacific, World Intellectual Property Organisation (WIPO).
- Trade Associations - Indian Industries Association, FICCI, CII, ASSOCHAM, PHDCCI (Centers of excellence), etc.
- Training Institutions - Entrepreneurship Development Institute of India, Indian Institute of Entrepreneurship, Indian School of Livelihood Promotion, National Institute of Entrepreneurship and Small Business Development.
- Documents:
  - Fourth All India MSME Census, 2006 - 2007.
  - Institutional Mechanisms for SME Promotion: A Comparison of India with International Practices, German Development Cooperation (GIZ), 2010

- Nation Building: The SME Route by Indian School of Business
- SIDBI Report on Micro, Small and Medium Enterprises Sector, SIDBI, 2010
- 12th Five year plan –Suggestions by Indian Industries Association
- MSMEFDP Annual Progress Reports, MSMEFDP – Cluster BDS Strategies Document
- Cluster-wise Reports, and their websites, MSMEFDP
- Credit Dispensation Plans of the Banks – SIDBI and SBI
- M/o MSME Strategic Plan
- Cluster level website and interim final reports
- Specific and thematic publications
- Baseline and impact assessment reports
- Advocacy challenge fund –report on the initiatives undertaken
- Reports from Foundation of MSME clusters
- DFID annual review reports, Project memorandum and related documents

## List of stakeholders in the MSME Sector

## Annexure II

### Institutions working for MSME's in India:

Central Government | State Government | Autonomous institutions | Trade Associations | Training institutions | International agencies |

#### Central Government :

- Ministry of MSME, GOI
- Reserve Bank of India
- Dept. of Industrial Policy and Promotion, Ministry of Commerce and Industry, GOI
- Dept. of Science & Technology, GOI
- Ministry of Food Processing, GOI
- Ministry of Textiles (Textiles committee & DC- Handlooms / Handicrafts), GOI

#### State Government :

- All State Governments

#### Autonomous Institutions:

- Banking system
  - Nationalized banks
  - Private sector banks
  - Regional rural banks
  - Co-operative banks
  - Non-banking financial companies (NBFCs)

Under each of the above, the following key players operate :

- ◆ Nationalized Banks
  - State Bank of India (Project Uptech)
  - Bank of Baroda
  - Punjab National bank
  - Axis Bank
  - Bank of India
  - Indian Overseas bank and many more
- ◆ SIDBI and its associates/subsidiary
  - SME Rating Agency of India Ltd. (SMERA)
  - Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
  - India SME Asset Reconstruction Company Ltd. (ISARC)
  - SIDBI Venture Capital Ltd. (SVCL)
  - India SME Technology Services Ltd. (ISTSL)
- ◆ Private Sector Banks
  - ICICI Bank
  - HDFC Bank

- ING Vysya Bank
- IndusInd Bank
- Yes Bank and many more
- ◆ Regional Rural Banks
  - Andhra Pradesh Grameena Vikas Bank
  - Karnataka Vikas Grameena Bank
  - Uttar Pradesh Gramin Bank
  - Bihar Kshetriya Gramin Bank
  - Dena Gujarat Gramin Bank and many more
- ◆ Co-operative banks - many cooperative banks at state and district levels
- ◆ Non-banking financial companies (NBFCs) - various private players

Apart from the above, the following are other institutions that provide credit and other developmental support MSMEs:

- National Bank for Agriculture and Rural Development (NABARD)
- Khadi and Village Industries Corporation (KVIC)
- Coir Board
- National Small Industries Corporation (NSIC)
- Export Import Bank of India (EXIM)
- FIEO / Export Promotion Councils
- Indian Banks Association
- MSME Industry Associations
- Training Institutions:
  - Entrepreneurship Development Institute of India
  - Indian Institute of Entrepreneurship
  - Indian School of Livelihood Promotion
  - National Institute of Entrepreneurship Small Business Development
- International Agencies:
  - Multilateral - World Bank, European Union
  - Asian Development Bank, French Development Bank (Afd)
  - Department for International Development (DFID), UK
  - German International Cooperation (GIZ)
  - UN organisations - UNIDO, UNDP
  - World Business Council for sustainable development
  - World Intellectual Property Organisation (WIPO)
  - Japan International Cooperation Agency (JICA)
  - KfW, Germany



## Annexure III

## List of Clusters–MSME FDP

Sr.No	Cluster	Sector	Website
1	Ahmedabad	Dyes & Chemicals	<a href="http://www.ahmedabaddyechembds.com">http://www.ahmedabaddyechembds.com</a>
2	Alleppey	Coir	<a href="http://www.alappuzhabds.com">http://www.alappuzhabds.com</a>
3	Bhadohi	Floor Coverings	<a href="http://www.bhadohibds.com">http://www.bhadohibds.com</a>
4	Chennai	Leather	<a href="http://www.chennaileatherbds.com">http://www.chennaileatherbds.com</a>
5	Coimbatore	Engineering	<a href="http://www.coimbatorebds.com">http://www.coimbatorebds.com</a>
6	Dehradun	Pharmaceuticals	<a href="http://www.dehradunbds.com">http://www.dehradunbds.com</a>
7	Ganjam - Gajpati	Fruits and Vegetable Processing	<a href="http://www.ganjamgajapati-bds.org">http://www.ganjamgajapati-bds.org</a>
8	Hyderabad	Pharmaceuticals	<a href="http://www.hyderabadbds.com">http://www.hyderabadbds.com</a>
9	Indore	Pharmaceuticals	<a href="http://www.indorebds.com">http://www.indorebds.com</a>
10	Kanpur	Leather	<a href="http://www.kanpurbds.com">http://www.kanpurbds.com</a>
11	Kolkata	Leather	<a href="http://www.kolkataleatherbds.com">http://www.kolkataleatherbds.com</a>
12	Ludhiana	Knitted Apparel	<a href="http://www.ludhianabds.com">http://www.ludhianabds.com</a>
13	Mohali-Panchkula-Chandigarh	Engineering	<a href="http://www.chandigarhbds.com">http://www.chandigarhbds.com</a>
14	Panipat	Floor Coverings	<a href="http://www.panipatbds.com">http://www.panipatbds.com</a>
15	Pune	Fruits and Vegetable Processing	<a href="http://www.punebds.com">http://www.punebds.com</a>
16	Rajkot	Engineering	<a href="http://www.rajkotbds.com">http://www.rajkotbds.com</a>
17	Rourkela	Engineering	<a href="http://www.rourkelabds.com">http://www.rourkelabds.com</a>
18	Shantiniketan	Leather	<a href="http://santiniketanleatherbds.com">http://santiniketanleatherbds.com</a>
19	Tirupur	Knitted Apparel	<a href="http://www.tirupurbds.com">http://www.tirupurbds.com</a>

## BDS Market Development

## Annexure IV

### 'Making Market Work for MSMEs'-Enabling paradigm shift

Business Development services are wide range of Services used by entrepreneurs to help them operate efficiently and grow their businesses. It includes training consultancy & advisory services, marketing assistance, information, technology development and transfer, and business link promotion as also financial services. BDS can be transactional (basic), strategic and embedded (viz. machine suppliers offering training). The BDS field focuses on promoting access to and use of these services by MSMEs.

Overall goal of SIDBI Cluster Development Programme through MSMEFDP - BDS Project has been to instilling competitiveness in MSMEs by increasing their access to improved private and public benefit business development services.

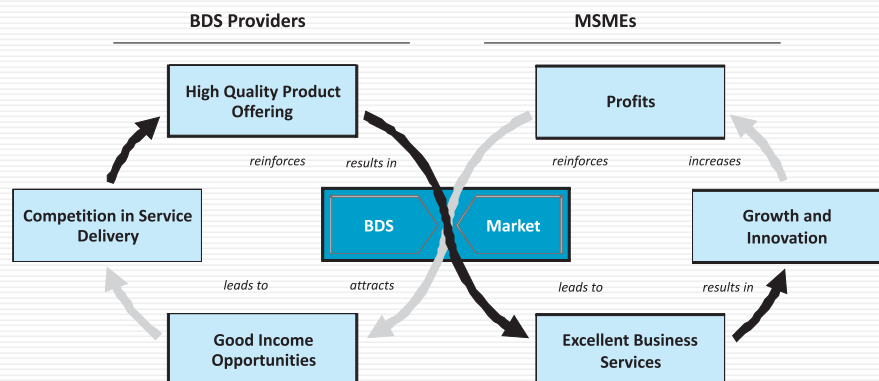
### Approach

It is known that MSMEs do not involve BDS Providers (BDSPs) as (a) they are not sure about their credentials (trust factor) b) the BDS products are not tailor made to suit their need and (c) they are not sure about the returns to such investment. The BDS market development believes in the theory that once BDS are capacitated and are successful in satisfying

the appetite of MSMEs, the market rejuvenates. By using services, MSMEs get growth impetus and subsequent profit. They seek more services of BDS and as profitability of service provider goes up, it attracts other players. The market attributes get imbibed in form of a self sustaining loop (exhibited below – courtesy OTF USA and Cluster Pulse) which brings in innovation, cooperation and competition.

### Making market for MSMEs- Enabling paradigm shift

*The fostering of a skilled and entrepreneurial BDS sector will lead to a self -supporting loop of improved innovation and competitiveness in MSMEs.*



Courtesy : OTF USA/Cluster

By fostering Business Development Services (BDS) in 19 clusters (4 Leather, 4 Engineering, 3 Pharma, 2 Knitted Apparel, 2 Fruit and Vegetable Processing, 2 Floor Covering, 1 Coir, 1 Dyes and Chemicals), project targeted at soft infrastructure with both long term (3-4.5 Years) and short term intervention. These 19 clusters had over 42,000 Principal MSMEs, cumulative turnover of over ₹ 62,000 crore and provided Direct / Indirect employment to over 20 lakh people on the long perspective, project took following steps to

promote market led BDS in the clusters:

- ◆ Identification of both demand & supply side issues in the select clusters through diagnostic study.
- ◆ Stimulation/creation of demand for business development services from MSMEs.
- ◆ Strengthening the capabilities of supply side (BDS providers).
- ◆ Facilitating a sustainable demand-supply matchmaking of BDS providers and MSMEs.

Project focused on **demand** side issues through awareness creation / sensitization. **On supply** side, issues such as capacity building and handholding of BDS providers in the cluster were taken up. **For demand – supply** match making (i.e. making market work) innovative instruments such as voucher support were supported. Virtual market place through a unique cluster portal for each cluster which acted as referential point, Project also laid thrust on other tools like BDS on wheels, BDS clinics, BDS Bazaar which played role in evolving BDS market.

Broadly the project adopted following approach:

- ◆ **Managed by Dedicated Outfit** - Project Management Division (PMD) with internal experts from SIDBI and outsourced expert.
- ◆ Emphasis on Micro **Enterprises (MEs) and instilling competitiveness** driven by participative & market driven thrust.
- ◆ **Ownership** - Involving cluster stakeholder from very beginning through formation of Cluster Coordination Committee (CCC) which vetted and validated each step whether diagnostics, action plan implementation, M&E or at exit stage. Ensuring participation at thinking and transaction stages kept MSMEs and stakeholders not only involved but own the initiatives.
- ◆ **Experimenting**
  - Project piloted an Internal Experts model under MSMEFDP GIZ TA (at four regions) which operated from own establishment and internal experts. Here mostly interventions were standalone. Project then adopted an outsourced and programmatic model wherein it roped 7 Facilitator Agencies (FAs) for 7 sub-sectors. FA approach showed good results. FA had setup their offices and instead of doing, they facilitated evolving of BDS market and did everything for that unique expertise of FAs in specific fields (marketing, entrepreneurship, infrastructure, IT, Energy Efficiency, Rural / ME Industrialization) were encashed by each other.
  - Combination of Long term and short term interventions. Short term for “quick wins” and establishing that “it works”. Long term interventions took form of pilot in 3 clusters, imbibing learnings / revisit strategy and scaling up for simultaneous implementation across 16 clusters in 7 subsectors.
  - Trying different models, cross learnings and replicating success and minimising failures.
- ◆ **Developing Local Expertise for Sustainability** - The thrust has been on developing technically competent - locally relevant experts (both individual and institution), infusing sub sectoral niche, enabling national/international compliances by MSMEs etc. Wherever local experts were not available, experts from outside, hand holded / mentored potential local experts.

- ◆ **Partnering Key Players** - Foundation for MSME cluster (previous UNIDO experience and expertise) brought in as an Independent reviewer, micro monitoring and evaluation ( M&E) and for strategic Input support to PMD.
- ◆ **Knowledge Management** - 19 cluster websites attached to mother website (msmefdp.net), bringing out tool kits / knowledge series / useful booklets and ensuring wide circulation.
- ◆ **Synergy** with available government schemes for leveraging remained a thrust area. It may be mentioned that 8 clusters (Indore, Ganjam, Ahemadabad, Bhadohi, Rajkot, Shantiniketan, Coimbatore, Ludhiana) adopted by the project were those adopted by Ministry of Micro, Small and Medium Enterprises (MoMSME).
- ◆ **Thematic Approach** - Project identified cross cutting as also flagship themes in each cluster. As implementation went ahead some of the themes such Energy efficiency were tapped for intervention. A number of initiatives were undertaken on various themes (viz. Energy, Technology, Productivity enhancement, Lean Manufacturing, Market Access, Capacity building of BMOs, Institutionalization of the initiatives, Skill development, use of IT, finance etc.) in clusters.

The process and methodology for approaching the BDS market development (see below) was kept systematic. Different templates, guidelines and benchmarked formats were used for conducting CCC, diagnostic, action plan implementation, periodical reports/ feedback, viability gap funding, voucher support etc.

### Process Adopted

SIDBI commissioned an independent study to identify the most suitable clusters and sub-sectors for intervention based on buckets of poverty, export centricity and sub sectoral approach. Out of over 50 clusters proposed, SIDBI chose the following as the first phase pilots:

Sub sector	Cluster location
Fruit & Vegetable processing	Pune
Carpet and Floor covering	Alleppey
Leather	Kanpur

Based on the lessons from these three clusters, the project embarked upon Phase II where a further 16 clusters were taken up for project implementation. These were:

Sub Sectors	Cluster locations
Pharmaceuticals	Indore, Dehradun, Hyderabad
Knitted Apparel	Tirupur, Ludhiana
Engineering	Coimbatore, Rourkela, Rajkot, Mohali-Panchkula-Chandigarh
Dyes and chemicals	Ahmedabad
Fruits and Vegetables processing	Ganjam - Gajapati (Orissa)
Leather	Kolkata - Shantiniketan, Chennai
Floor Coverings	Bhadohi, Panipat

Besides strengthening internal value chain in adopted clusters, the Dyes and Chemical sub-sector was

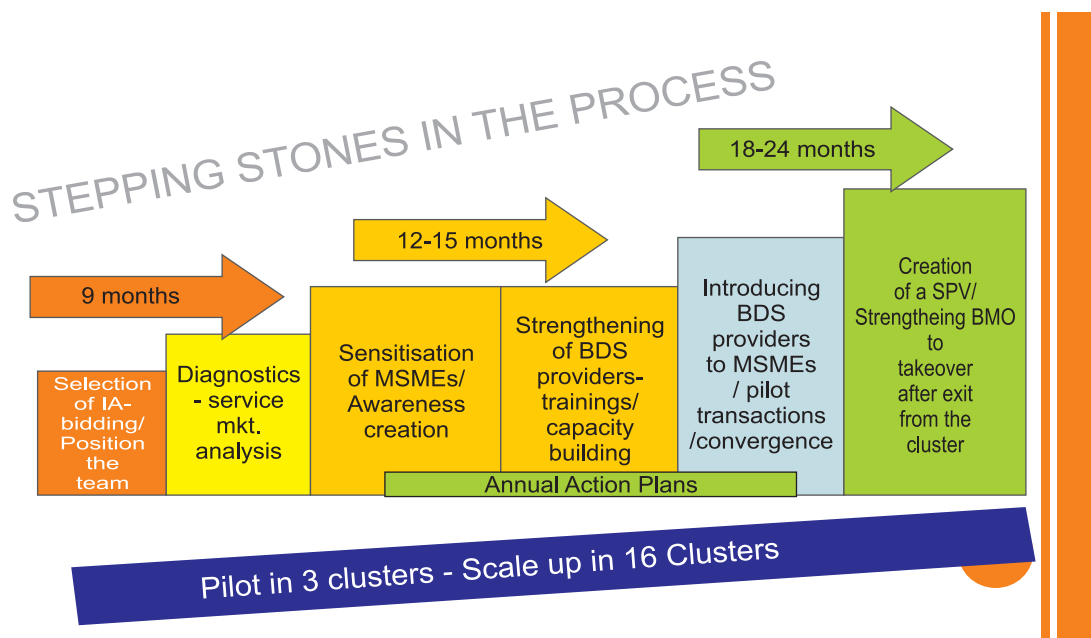
chosen to strengthen the external value chain (Chemicals and Dyes are consumed by leather, floor coverings, Knitted Apparel etc.). In addition to the above clusters, the project also implemented short-term projects in Morbi, Ludhiana, Guwahati and Jamnagar.

## Methodology

With a view to address structural, infrastructural, technological and managerial bottlenecks that these firms are facing, the focus was kept on value chain interventions with MSMEs. The interventions were based on the understanding that a positive spiral of change will ensue due to the interventions at BDS market and directly at MSME level, which will lead to overall cluster and local economic development. SIDBI engaged expert Facilitating Agencies (FAs) to roll-out the project at the select cluster locations. They had clear mandate of not doing things on own (except if very critical or to set examples) but nurture and nourish BDS (existing/ potential) to perform services.

- **Mapping of select clusters** : The FAs carried out the mapping of the cluster / sub-sector and the major players / actors by using value chain assesment using PACA methodology. It mapped the key pressure points of the cluster. The FAs then carried out the analysis of various Business Development Services (BDS) available in the cluster using tools such as 'Who does-Who pays(WDWP) matrix' etc. The FAs then prioritized the critical areas of intervention and accordingly developed an action framework (action plan was kept dynamic), which identified the activities / programmes that were be pursued along with rationale for the proposed line of activities. This framework specified areas for intervention in alignment with timelines, the likely target group, the number of beneficiaries, the likely multiplier effect and the sustainability of the intervention over a period of time. The value chain map and WDWP was tracked for change brought in pre and post intervention levels.
- **Development of a Prioritized Action Plan** : The FAs developed detailed Action Plans for respective cluster(s) giving overall direction to the component becoming itself sustaining and growth-oriented in the long run. The FAs also defined long-term and short-term goals and objectives attuned to overall project objectives as indicated in Logframe and provided operational and financial benchmarks.
- **Focus on International Best Practices** : Designing the interventions was, from the beginning, focused on bringing in international best practices and approaches in development of BDS markets. Learning's from successful cluster / sub-sector level programmes in India and from other emerging economies was factored in the plans. Successful instruments tried out at other locations were tailored to fit local conditions and drawn up keeping in view the needs and aspirations of local industry.
- **Exit Strategy** : The thrust of project has been to ensure that it walks with the stakeholders of the clusters (both BDS and MSMEs) from begining so that they emerge as natural facilitators, after exit of the project. The identified exit vehicles were strengthened through various capacity building support tools. Project continues to lay thrust on these under MSMEFDP-GIZ which shall run up to March 2014.

- Monitoring:** It adopted a comprehensive methodology which included baseline and impact evaluation of indicators aimed at strengthening the supply side i.e. BDS. Tracking the growth of BDS providers (in terms of widening of client base and product offerings thus indicating acceptability by MSEs), their profitability (indicating sustainability) and their ability to take the same forward on their own (demonstrating that market works) were pursued diligently. Few tools included tacking **the achievements of indicators in project Logframe, nested Logframe in each cluster, differentiation brought about in Value Chain Map/WDWP as also ABC (Activity, Budget and Change) remained the key pillars. The diagrammatic presentation of a BDS Model programme (based on our experience), which should be typically for a five year span is thus:**



### Innovative Tools/ Best Practices

The Project has successfully tried and replicated various innovative tools / model for BDS delivery viz. Voucher support (subsidizing by the project towards initial payout by MSMEs to BDS on tapering down basis through a tripartite arrangement between BDS, MSME and FA where, FA role has been to oversee successful transaction completion), BDS Clinic (an one point solution and matchmaking platform bringing MSMEs/ BDS together), BDS on Wheels (a vehicle carrying BDS to cater to MSMEs service requirements at the place of MSMEs), BDS Panel (created panel of > 450 empanelled BDS who have successfully rendered services to MSMEs thus giving the needed trust), Nineteen virtual BDS (each cluster has a website which have acted as knowledge repository), BDS Consortia (pooling BDS of different specialization under one umbrella to offer advantages of collaboration), Who Does Who Pays Matrix (to map the players in clusters), Cluster Coordination Committee (for overall monitoring and to provide guidance to cluster initiatives), Exposure visits (for learnings from successes in other clusters), strengthening

the pool of FAs (7 with more than 110 personnel in team), cross learning workshops (more than 4 at four regions including two national level workshops), skill development models (with MFI, BMO led, corporate houses, academia-industry partnership), Benchmarking of costs leads to reduction in fee and so on.

### Achievements

MSMEFDP has given new dimensions to cluster development by acting as 'Market Enabler'.

During its implementation MSMEFDP has overall outreach of around 1 lakh stakeholders which included extending financial and non financial offerings.

Under Business Development Services (BDS) interventions in 19 clusters it had outreach of around 46954 stakeholders. It has, through seven FAs, developed sustainable & locally relevant experts (450 BDS - both individual/ Institutional), enabled national /international compliances by over 2000 MSMEs in clusters (achieved through 1100 activities-cumulatively from 2007), over 2100 transactions (with / without voucher support), enabling Credit linkages etc. While project hand-hold the initial transactions between MSMEs and BDS through Voucher support, almost 1100 plus transactions have happened on their own indicating market functionality. The initiative has led to **market functionality now visible** in these clusters, which is a **systemic change as against earlier transaction led standalone actions**. MSMEFDP has won two international awards for the cluster interventions.

The BDS providers brought in, were in areas like energy, technology, Finance, marketing etc. Among various types of Strategic BDS, the highest usage reported is for Quality related Technical Services (60% of the MSMEs). The other popular services offered by external BDS providers, used by MSMEs are for obtaining Market Information (32%) and for Marketing of their products (29%). Industry Associations (IAs) being integral part of the programme, were handholded to emerge as natural facilitators after Project exit. The support has enabled 49 BMOs to cater to members with revenue models such as accessing finance, move ahead to float Public Private Partnerships (PPPs - to pilot nearly 22 such initiatives), leverage common procurement / marketing etc. The project has through Learn-shops and regular interactions, strengthened the capacity of the 7 FAs (through cross learning forums nurturing over 100 experts) who are ready to take forward the initiative.

Project Snapshot - Under BDS Intervention	
- SIDBI clusters	19
- Facilitating Agencies involved	7
- Awareness Programme conducted	>1100
- Participation	>46000
- Women Participation	>2200
- Firms benefited through voucher support	>1000
- Firms without project voucher support	>1100
- BDS providers introduced	>400
- No of trainings programmes	>330
- Skill development/ upgradation	>17440
- Employment	>16400

<b>Decoding BDS Approach</b>	
<b><i>Only growth in total factor productivity and not capital Investment, leads to long term prosperity-Paul Krugman</i></b>	
• Subsectoral approach attending to internal and external value chain is critical .	
• Participation and ownership has to be embedded in BDS development.	
• Quick wins very important for Trust building – form Cluster Coordination Committees are very beginning.	
• Facilitator Agency (FA) – not to be tempted as an BDS provider but act as Facilitator.	
• Market Development – Should have judicious blend of Supply side thrust and demand articulation.	
• Stress on Strategic services is good but (due emphasis on transactional/embedded BDS) also be supplemented/ complemented taking into account the maturity and receptivity of the cluster.	
• Knowledge Pool – Each cluster to have a website.	
• Policy alignment/ enabling environment is integral- Advocacy challenge funds acted as differentiator.	
• Logframe based monitoring including value chain mapping and Who does who pays matrix helps.	
• Learnshops / Workshops / Bulletins are critical for institutionalising and replicability.	
• Invest in MSMEs by offering value adds – reap benefits later.	
• Attending to non financial side ultimately leads to hunger appetite being kindled which offers 'growth impetus'.	
• Exit cannot be timed but has to be well planned from beginning for escaping vacuum.	

The BDS demand-supply match making is ensured in all the clusters. Let's take example of 6 clusters which provide an understanding of the achievements in this area. As the table below shows, 350 BDSPs linkages were facilitated with 2375 MSMEs in these 6 clusters (picked for the illustration).

**Table 4: BDS Demand Supply Matrix**

<b>BDS DEMAND-SUPPLY NEXUS AS FACILITATED BY MSME-FDP</b>																	
Cluster	Sector	Access to Finance		HR		Design/ Production/ Technology/ Quality		ICT /IPR		Marketing / Market Access		Skill Development / BMOs		EE /Climatic Adaptations		Inventory Mangt. / Infrastructure	
		BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs	BDSPs	MSMEs
Coimbatore	Engineering	8	22	5	350	17	100			6	20	5	25	6	35		
Hyderabad	Pharmaceuticals					15	248	5	9			5	25	12	71	3	200
Indore	Pharmaceuticals					14	35	5	25	2	8	5	15	5	25	3	
Ludhiana	Knitted Apparel			21	15	69	900			7	130	12	25	8	30		
Tirupur	Knitted Apparel			13		30		36						18		4	
Rourkela	Engineering	4	11	3	34	2	6			2	6	1	5				
<b>Total in 6 Clusters</b>		<b>12</b>	<b>33</b>	<b>42</b>	<b>399</b>	<b>147</b>	<b>1289</b>	<b>46</b>	<b>34</b>	<b>17</b>	<b>164</b>	<b>28</b>	<b>95</b>	<b>49</b>	<b>161</b>	<b>10</b>	<b>200</b>

BDSPs      351      2375

Projected    1053    9500

The table above shows that significant area of impact was design, production and technology as in here 147 BDS providers worked with 1289 MSMEs. Similarly energy efficiency, skill development interventions were well catalyzed by the project. This shows that project managed to bring in both transaction and strategic BDS interventions in the clusters.



The programme has also affected the micro enterprises in systematic manner to improve their competitiveness.

Essentially it led to a two way impact :

- Realization of the value of BDS by MSMEs
- Realization of the value of MSME market in the clusters by BDSPs

Further on, it led to clarity between MSME and BDS providers on mutual beneficial engagement and from that BDS business expansions from a product to other products, within a cluster and also migration of BDSPs beyond the clusters (geographical expansion of their business) happened. BDS transactions in the clusters have increased many folds which is a clear reflection of realization of the needs for BDS by MSMEs, for example, in Alleppey, the cluster agency connected 43 BDS providers with coir MSMEs and generated total business worth ₹ 1.16 crore for BDS providers. 10+BDS providers in the cluster have shown business growth rate at 50% in span of one year.

Project tracked the progress in clusters through value chain map and differentiation brought out in it both at inception and at the end of the project.

**Sectoral Contribution:** The project has provided inputs to cluster policies of several ministries. Few of project FAs have landed up with assignments in clusters in ME domain. The project was an induction ground for cluster FAs as many of these agencies got recognized expertise working on the project. The agencies have leveraged their experiences in MSMEFDP to get other rewarding contracts for cluster development. This is a sectoral contribution of the project by building capacity of number of agencies available in India (which was scarce) with the necessary skills and perquisites to support sustainable cluster development initiatives and therefore scaling up and replication beyond 19 clusters is that much easier. MMWM has inherent advantages of sharpening the resilience, deepening the vibrancy and positively impacting topline and bottomline of MSMEs who emerge more competitive.

**Addressing the issues raised by the Prime Minister's Task Force (PMTF) :** The major issues raised by the PMTF include credit, raw material, promotion, market, skill, infrastructure, governance, etc. and achievements of the Project in addressing these issues appear as APPENDIX. This indicates the thrust project laid on addressing relevant and emerging issues which concern stakeholders.

**Support to Micro Enterprises:** In its attempt to address the BDS issue at the bottom of pyramid, the Project also worked intensively with the micro enterprises and poverty intensive entrepreneurs, especially the weavers in the clusters of Bhadohi and Panipat, the artisans of Kanpur and Shantiniketan, enterprises of Kolkata, the women SHGs of Ganjam, the tier 3 enterprises of Rourkela, the Weavers in Alleppey, The agroprocessors in Pune and so on.

It impacted a significant portion of MEs by involving MFIs/SHGs/NBFCs and associations. It reflects that, if attended to, Market work for MEs as well. The model can be a success for attending to 'Missing Middle' segment thereby enabling these unorganized microfinance beneficiaries looking up the value chain to join organized domain of MEs. The Project has presented the model in national conference on microfinance organized by NABARD at Lucknow and it evinced enthusiasm and receptivity. Project has, as a change agent, attended to national priorities and Millennium Development goals (MDGs) especially that of poverty reduction through enterprises development, which is significant.

## Cluster Development – Self-Assessment of Changes Due to the MSME-FDP

## Annexure V

CLUSTER DEVELOPMENT /BDS MARKET FACILITATION - DIAGNOSTICS & CHANGES DUE TO PROJECT INTERVENTIONS																		
Cluster	Sector	Access to Finance / infrastructure		HR & Mgt. systems / Skill Development		BDS demand		BDS Supply		Marketing /Market Access		Techno-logical / production processes		Energy Efficiency /Envir. Mgt.		Collective operations /institutionalisation		Remarks
		Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	
Ahmedabad	Dyes & Chemicals			1	2	2	3	2	3	2	4	1	4	1	4	1	4	Cleaner Production
Alleppey	Coir	2	4	2	5	1	5	1	5	1	5	3	4			2	4	Domestic and International Market Linkage
Bhadoli	Floor Coverings	1	2	2	3	1	4	1	4	1	4	1	3			1	3	Skill Development of Weavers, Marketing Consortia etc.
Chennai	Leather	1	4	3	4	1	3	1	3	1	2	1	2	1	3			Common Effluent Treatment Plants are difficult to establish (require very strong policy support and cluster level facilitation)
Coimbatore	Engineering	1	3	1	4	3	4	3	4			1	4	1	4	1	3	Energy efficiency, technological improvements are significant changes; Common procurement yet to taken off; HR, access to finance and production costs related issues are partially addressed
Dehradun	Pharmaceuticals			1	4	3	4	3	4			1	4	1	4	1	4	Procurement of raw material, packaging material, certified quality compliance, skilled manpower, waste management and energy management
Ganjam - Gajapati	Fruits and Vegetable Processing	2	3	2	4	1	3	1	3	3	4	1	4					Quality, testing facility, product range, technology
Hyderabad	Pharmaceuticals	3	4	1	4	1	3	1	4			1	4	1	3			Adoption of GMP Practices
Indore	Pharmaceuticals	2	3	1	4	1	3	1	4	1	3	1	3	2	4			Quality raw material, quality compliance, institutional exports, skill building, financial products, EE
Kanpur	Leather	1	3	1	3	1	3	1	4	1	3			1	4			All the industry associations have now come together to form an SPV named as Jajmau Tanneries CETP company Ltd., for effluent treatment
Kolkata	Leather	1	4	1	4	1	3	1	4			1	3					CETP upgradation accomplished; testing lab as embedded BDS;
Ludhiana	Knitted Apparel			1	2	1	3	1	4	2	2	3	4	3	4			Inventory mgt, ICT, technology, product diversification, marketing
Mohali-Panchkula-Chandigarh	Engineering	1	3	1	4	3	5	3	5	1	3			1	4	3	4	Domestic and foreign markets and brand building work still needs to be further carried on; portable testing facilities is under construction.
Panipat	Floor Coverings			1	4	2	4	2	4	3	3	1	3	1	3			Skilled workers scarcity is resolved to great extent; Market access/penetration, quality control in production is addressed to limited extent; pollution levels in dye houses need concerted steps
Pune	Fruits and Vegetable Processing	2	4	2	4	1	3	1	5	1	4	1	4					Marketing, skilled HR, financial linkages
Rajkot	Engineering	1	3	1	3	3	4	3	4	1	3	1	4	1	4	3	4	Marketing remains a crucial impediment. Inefficient productions make it more challenging complex. Testing facilities need encouragement

Cluster	Sector	Access to Finance / infrastructure		HR & Mgt. systems / Skill Development		BDS demand		BDS Supply		Marketing /Market Access		Techno-logical / production processes		Energy Efficiency /Envir. Mgt.		Collective operations /institutionalisation		Remarks
		Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	Be-fore	After	
Rourkela	Engineering	1	4	3	4	3	4	3	4	3	4	3	4			3	4	Common marketing consortium approach is working well;
Shantini-ketan	Leather	1		3	4	3	4	3	4	3	4	3	4			3	4	Raw material bank, design interventions, access to finance and HR interventions are successfully done
Tirupur	Knitted Apparel	1	3	3	4	3	4	3	4	3	4	3	4			3	4	
<b>OVERALL</b>		<b>1.4</b>	<b>3.3</b>	<b>1.6</b>	<b>3.7</b>	<b>1.8</b>	<b>3.6</b>	<b>1.8</b>	<b>4.0</b>	<b>1.8</b>	<b>3.5</b>	<b>1.6</b>	<b>3.6</b>	<b>1.3</b>	<b>3.7</b>	<b>2.1</b>	<b>3.8</b>	

Notations: On a scale of 1 to 5; 1 being very poor, 3 reasonable and 5 very good

	Critical issue / continues to be critical	Scale of 1 or 2
	Semi critical / Addressed to some extent	Scale of 3
	Important but not critical /Addressed to a great extent	Scale of 4 or 5

A score card was constructed based on the data provided in interim final reports by the cluster agencies. The analysis of achievements and lessons is derived from the synthetic review of project documents, summary of which is captured in the table below:

### Study on Achievements and Learning of MSMEFDP at the Cluster Level

Score Card					
No.	Areas of Assessment	2008/09	EOP-2011	Key Achievements	Key Lessons
1.	Access to finance /infrastructure	1.4	3.3	Clusters have seen efforts for facilitating linkages of MSMEs with SIDBI and other bank branches. As per one estimates, due to the project, more than ₹393.5 crore enquiries have been generated and MSMEs linked for ₹ 242 crore. Many SPVs (like RTPSHCL for relocation of firm in Rourkela cluster) and consortia's (like Ahmedabad Dyechem manufacturers Cluster Ltd.) established to ease the access to finance to MSMEs. Participating Bank officials sensitised towards MSME lending with better tools to lower transaction costs. In some cases like in Faridabad, BMOs have been capacitated to support MSMEs in accessing finance. A business correspondent model has also been devised for the purpose.	By achieving integration of BDS market development with 'access to finance' initiatives, a greater multiplier effect can be unleashed.  Every cluster has different financial needs. The banking industry generally provides similar financial products across the clusters with similar kind of conditions and compliance requirements. Leather and Pharma cluster firms, for example, need financial products that can cater well to the needs of the firm there. The terms and conditions of granting loans need to be suitably amended as well depending on the profile of cluster firms. Few attempts regarding this were done in the clusters. Access to finance can leapfrog with specific efforts by the cluster agency and specific financial products by the banking and MFI sector.

Score Card					
No.	Areas of Assessment	2008/09	EOP-2011	Key Achievements	Key Lessons
2.	HR and Mgt. system /Skill Development	1.7	3.7	Both systemic (long term) and need based (immediate term) interventions were carried out in the clusters. The focus was on 'employable skills', 'skill upgradation' and 'efficient production' skills. The interventions led to increased employment opportunities for thousands of unemployed youth from poor socio-economic background. The intervention also led to 'better skilling' of existing workers of MSMEs in the clusters. More importantly, the interventions led to improved infrastructure of skill development e.g. 9 skill development institutions are available (as against 3 earlier) now in Kanpur cluster with support from Industry and Government sponsored schemes. Overall, the project has also assisted in establishment of 12 Skill Development Centers and linking up / institutionalising of 21 Skill Development Centres.	Moving beyond traditional institutes, training models led by large firms (Kanpur and Ludhiana), industry associations (Kanpur, Tirupur), machinery suppliers (Mohali and Panipat), local bodies (Ludhiana), international experts for globally competitive product (Kolkata), industry-academia (Ganjam) etc. are also emerging as important contributors in promoting skill development. These new generation BDS providers have also led to creation of local BDS providers for sustainability.
3.	BDS Demand	2.2	4.2	BDS transactions in the clusters have increased many folds which is a clear reflection of realisation of the needs for BDS by MSMEs. Various initiatives have been used in different clusters to sensitise MSMEs and stimulate demands for BDS e.g. Voucher Scheme is an external support mechanism towards price based services of BDS providers (Consultants, Service providers) to MSME firms. It is intended to give a fillip to the demand of BDS providers from the MSMEs (firms) as an incentive scheme. Other mechanisms like Cluster Coordination Committee (for overall monitoring and to provide guidance to cluster initiatives), BDS clinic (place for msme and bds for solutions), BDS Bazaar (offering matchmaking), BDS on Wheel (reaching out to door step of beneficiary), BDS consortium (pooling BDS for enabling swift outreach to MSMEs as one stop shoppe), Exposure visits (for learnings from successes) etc. stimulated BDS demands in the clusters.	BDS demand generation requires initiation of link between BDS provider and MSME along with demonstration of mutual benefit from that linkage. Project did that effectively in different clusters. BDS providers were supported by the project to fetch initial transactions and then their transactions were supported through vouchers and other methods to demonstrate the initial success.  Earlier only the medium and large units were paying for the services of the BDS providers and now after the project intervention, micro and small units have also started paying for the same. Further MSMEs have started paying higher contribution than what was initially paid by them. For example, in Chennai cluster, initially MSMEs were paying about 30% of the cost of BDS services for energy but, now they are paying almost 50% of the cost of BDS services and the need of energy efficiency measure is increasing.
4.	BDS Supply	2.2	4.1	Project facilitated BDS supply in need based areas identified through diagnostic studies. The areas were access to finance, infrastructure, marketing, technological and production processes, energy efficiency, environmental management, Design, Quality, ICT/IPR and HR/Skill development. Different clusters received differential attention on these areas based on prioritisation by cluster agencies. The project succeeded in turning 360 passive BDS providers into active mode and further introduced another 818 vibrant BDS providers to the cluster firms. This data is for 14 out of 19 clusters (actual numbers therefore will be more).	Some BDS was transactional in nature while other was strategic. Energy efficiency, quality, skill development, clean technologies, safety are strategic issues while HR/finance may be termed as transactional. Strategic services improve the competitiveness of these industries. The BDS needs of MSMEs were generally of both transactional and strategic nature. Therefore cluster facilitator ensured services of both kinds of BDS providers to the cluster firms to achieve the desired purpose.

Score Card					
No.	Areas of Assessment	2008/09	EOP-2011	Key Achievements	Key Lessons
5	Marketing / Market Access	1.8	3.5	<p>Focused brand building, marketing promotion were done in many cluster especially the leather clusters. Marketing consortium of cluster firms have worked very well in number of clusters e.g. in Rourkela, common marketing consortia, with linkages with NSIC bid for tenders from HEC, Ranchi and got the order worth ₹ 5.72 crore. In Coir cluster in Allepey, a Federation of coir exporters association was established which played lead role in state &amp; central govt. policy issues related to coir sector. 8 WHO GMP firms in Indore cluster have taken membership in Pharma Export Council for getting export marketing services. Very effective domestic market interventions happened in Allepey, Shantiniketan and other cluster through marketing BDSPs. Further market access was consciously done through design and product diversification in Kolkata and other clusters.</p>	<p>Market access and marketing based cluster development approach can lead to a great degree of growth of cluster firms, which is well demonstrated in Allapuzha and other cluster. In Allapuzha, close to ₹ 42.5 crore (as per project's own estimations) worth of benefits were generated to MSMEs during the project period itself. The cluster developments which specifically focuses on market access and marketing aspects is a potentially successful approach as is proven from the project experiences.</p> <p>The initiative of Common brand portal for Ludhiana knitwear cluster, KNITMARK as a quality mark suggest that cluster level initiatives like this can be successful when the cluster firms see the utilitarian value in it. Developing the perception of this value require strong facilitation from the cluster agency which was done well, in this case.</p>
6.	Technological / Production processes	1.6	3.6	<p>At least 7 clusters (out of 19) saw significant technological /production processes related interventions. Technology initiatives were related to Technological up-gradation (e.g. improvisation of Tanning Drum in Chennai) for cost reduction, cleaner production technologies (e.g. common evaporating unit and treatment plant for hazardous waste and effluent in Ahmedabad Dyes and Chemical cluster), pollution reduction equipment (e.g. Multiple Effective Evaporator with latest technology in Hyderabad Pharma cluster), advanced technology for processing (e.g. cashew processing in Ganjam and Gajpati cluster), productivity enhancement technologies (e.g. Electrical Tufting Guns in Panipat cluster), drudgery reduction technologies (e.g. semi automatic spinning ratt in Allapuzha cluster) etc. Many product (fashion gloves in Kolkata cluster) and design diversification efforts (in Shantiniketan cluster) also benefitted the MSMEs enormously. Upgradation of Coupla in Coimbatore cluster to maximize the use of coal resulted in an estimated saving of approximately ₹ 112 lakh per annum. Similarly, in Ganjam, under Cashew processing, shifting from 'Roasting' technique to 'Boiling' technique decreases the wastage by 30% (which leads to saving of approximately ₹ 990 lakh per year for 36 firms).</p>	<p>Introduction of new technology when accompanied by the necessary skill development measures is most successful as the case of Electrical Tufted Guns (ETGs) shows in the Panipat Cluster.</p> <p>Design innovations ensures sustainability of cluster firms e.g. in Shantiniketan cluster, 28 new designs (surface and patterns) and 12 mock ups designs were introduced through design workshop during the course of the project with a high response from the buyers.</p>
7.	Energy Efficiency / Environmental Mgt	1.3	3.7	<p>Energy is one of the flagship area in the clusters under which project has conducted around 108 walk-through audits and 25 detailed audits. Now in clusters Energy Auditors are available and providing their services to MSMEs in the cluster. The project brought out series of Booklet on Energy Efficiency in Clusters (Fruit and Vegetable Processing, Ceramics, Foundry and Engineering). Energy efficiency measures were also undertaken through enhanced product efficiency e.g. In Rajkot engineering clusters, BIS certification and BEE star ratings initiative for submersible pump improved energy savings from the product with reduced maintenance costs.</p>	<p>Replications of energy efficiency interventions is easier with demonstration effect; in the Coimbatore cluster, for example, more than 200 firms adopted the energy efficiency measures.</p>

Score Card					
No.	Areas of Assessment	2008/09	EOP-2011	Key Achievements	Key Lessons
8.	Collectivisation /Institutionalisation	2.1	3.8	<p>The project has supported development of cluster owned institution or strengthened the existing cluster institutions. In at least 12 (out of 19) clusters, distinct institutional entities have been established, representing the broader cluster interest and interest of a group of MSMEs. Special Purpose Vehicle (SPV) is major form of the institution established in different clusters. The purpose of these SPVs is quite different. Two SPVs established in Mohali cluster to avail of the Lean Manufacturing Competitive Scheme. RTPSHCL is SPV for relocation of firms in Rourkela cluster. In Chennai, Leather cluster, an SPV is formed for common buying of Dyes &amp; Chemicals. All the industry associations in Kanpur have now come together to form an SPV named as Jajmau Tanneries CETP company Ltd., for the implementation of the up-gradation project and expansion of CETP. In Hyderabad pharma cluster, 2 SPV are established - one on CETP and another on vocational training.</p> <p>National database of MSMEs and BDS providers established (<a href="http://msmementor.in">msmementor.in</a>)</p>	<p>Sustainability of actions is guaranteed wherever an institution has been created and wherever exit processes have been followed e.g. in Allepey cluster BDS centre is managed by consortia of BDS providers, supported by CBRC a company of 8 BDS providers, supported by a CBRC company of 8 BDS providers. BDS centre funded by the Govt., viability funded by project, and CFC scheme by Govt. Handover, wherever not proper, may not have seen enough momentum for the mechanisms to continue or strengthen the establishment of the BDS market.</p> <p>The project model of institutionalisation (which is really vast, considering the type and spread of institutions developed) need to be examined in depth for its effectiveness and impact. This can provide very useful lessons to all cluster development work in India and elsewhere.</p>
	OVERALL	1.8	4.0	<p>The MSMEFDP has seen success on many fronts. The project has addressed critical issues of financial and non financial services, being faced in each of the 19 clusters and thus MSME domain The project regularly conducted policy aligned studies for the benefit of MSMEs. A knowledge pool has been created on the project (as also SIDBI website), where all the publications are freely accessible to the users.</p> <p>The project has brought in international best practices into the clusters (vouchers and other mechanisms). The project has developed financing product related to the green and clean investments in technology as also green rating. The project supported national/ International compliances viz. adoption of social accountability standards (SA8000) by cluster firms. The project reached out to enterprises at the bottom of pyramid. It has significantly contributed to credit dispensation, credit supplementation and enhancement.</p>	<p>The MSMEFDP is landmark project in this space in India. It has done exceedingly well, in not only scaling up the cluster interventions to 19 clusters (4 Leather, 4 Engineering, 3 Pharma, 2 Knitted Apparel, 2 Fruit and vegetable processing, 2 floor covering, 1 coir, 1 Dyes and Chemicals) but also played significant role in other critical areas. The project has enormous learning to offer to the cluster development initiatives in India and internationally especially in soft infrastructure development. Project has launched and validated several international best practices as customised to Indian domain. These are expected to serve the entire MSME ecosystem.</p>

#### Scoring Scale

1. Very Poor	
2. Poor	
3. Reasonable	
4. Good	
5. Very good	

## BDS Market Development – Cluster Wise Status Report

## Annexure VI

BDS Market Development - Status Report					
Cluster	Sector	BDSP linked	BDS providers (Individual/ Institutional) brought by the project	No of MSMEs benefitted through Voucher support	MSMEs benefitted from replication
Dehradun	Pharmaceuticals	40	40	83	23
Indore	Pharmaceuticals	35	32	88	4
Bhadohi	Floor Covering	23	148	34	5
Coimbatore	Engineering	38	35	61	27
Hyderabad	Pharmaceuticals	32	76	52	24
Rourkela	Engineering	39	25	24	50
Panipat	Floor Covering	19	46	35	5
Ganjam	Fruit & Vegetable	30	51	6	0
Ludhiana	Knitted Apparel	48	63	34	20
Tirupur	Knitted Apparel	34	12	33	25
Pune	Fruit & Vegetable	56	25	123	110
Alapuzha	Floor Covering	43	41	75	105
Ahmedabad	Dyes & Chemical	38	24	35	85
Chennai	Leather	41	41	63	0
Kolkata	Leather	35	33	85	500
Shantiniketan	Leather	36	39	5	9
Kanpur	Leather	42	10	43	0
MPC	Engineering	59	59	67	36
Rajkot	Engineering	38	18	86	74
<b>Total</b>		<b>726</b>	<b>818</b>	<b>1032</b>	<b>1102</b>

## Achievements and Learning

## Annexure VII

### Engineering Clusters

The MSME-FDP was implemented in four engineering clusters. The facilitation agencies for BDS market development and cluster development are TERI and APITCO. Review of achievements and learning by sectors provide interesting opportunity to understand the similarities and differences in approaches of cluster development and in benchmarking the achievements and best practices. As is expected, the BDS emphasis in engineering clusters is on production efficiencies and technologies (lean manufacturing), energy efficiency, environmental standards and skill development. These four are strategic BDS areas in engineering clusters with heavy potential to generate multiplier effect throughout the cluster. The summary of achievements and learning from these four clusters is captured as under:



Achievements and Learnings from Engineering Clusters - Snapshot Analysis		
Cluster	Main Achievements	Main Lessons
Coimbatore	<ul style="list-style-type: none"> <li>■ Energy saving measures implemented in 10 Foundries (savings worth more than ₹ 25 lakh).</li> <li>■ 16 firms Certified with BEE Certification, as a result more than 5% sales increased.</li> <li>■ Credit linkages: 6 firms got SIDBI loans.</li> <li>■ Strengthening of 25 BDSP (marketing and management) and BMOs (accounts and HR).</li> <li>■ 13 industries got BIS certifications due to the project support.</li> <li>■ About 500 workers trained in CNC machiner operations, benefitting the firms with employable /skilled human resources.</li> </ul>	<ul style="list-style-type: none"> <li>■ Initial transactions of BDSPs needs to be supported / facilitated which can generate positive momentum in demand-supply nexus.</li> <li>■ Replication of energy efficiency interventions are easier with demonstration effect; in the cluster more than 200 firms adopted the EE measures.</li> </ul>
Mohali-Panchkula-Chandigarh	<ul style="list-style-type: none"> <li>■ 30 workers and 60 unemployed youth trained on various operations of CNC machines. The workers got increased wages and unemployed youth got goods jobs with starting salary of ₹ 4000-4500.</li> <li>■ Sam's Techno School is a unique example of a machine tools supplier becoming a trainer.</li> <li>■ Panchkula an SPV "Panchkula auto Parts Pvt Ltd" established with 23 members.</li> <li>■ Two SPVs established to avail of the Lean Manufacturing Competitive Scheme: namely, 'Mohali Alpha Engineering Cluster' (10 members) and 'Mohali Beta Engineering Cluster' (8 members). The creation of these SPVs has also resulted in a revenue generation of ₹ 50 Lakh".</li> </ul>	<ul style="list-style-type: none"> <li>■ Capacity building process to both BMOs and firms can sensitise and move these institutions towards self-catalysed actions e.g. formation of SPVs happened due to capacity enhancement.</li> <li>■ Vendor development programmes for OEM is an effective strategy of embedded BDS.</li> </ul>
Rajkot	<ul style="list-style-type: none"> <li>■ BDSPs were either not available or only public sector BDS was available. Project groomed BDS providers from various domains.</li> <li>■ Market for EE services have taken a shape.</li> <li>■ Energy efficient Divided Blast Cupola (DBC) - project supported 4 local fabricators to develop DBC. DBC have resulted in savings on many fronts viz. reduction in coke consumption, reduction in rejection rate, increase in metal temperature by 50 degree centigrade- Net savings ₹ 8850/mt of liquid metal.</li> </ul>	<ul style="list-style-type: none"> <li>■ Market can start functioning on its own once a threshold is ensured i.e. when BDSP from both private and public sector are readily available and when demand for BDS become felt needs.</li> </ul>



Cluster	Main Achievements	Main Lessons
Rourkela	<ul style="list-style-type: none"> <li>▣ Common marketing consortia in Rourkela cluster, linkages with NSIC, consortia participated in tenders of RSP and HEC, Ranchi and Received Tender value is ₹ 5.72 Crores.</li> <li>▣ Linkage among Tier 1 and Tier 2 firms was strengthened.</li> <li>▣ 37 Micro Firms are in the process of financial linkages to SBI, SIDBI &amp; local MFI (Sambandh).</li> <li>▣ Linkages established with private skill development centre.</li> <li>▣ RTPSHCL is SPV for relocation of firms (5 acre Govt. lands identified); CFC in the premises planned".</li> </ul>	<ul style="list-style-type: none"> <li>▣ Consortia approach whether in marketing or in relocation of firms works well, under facilitation of an external agency, especially when initial demonstration of benefits of working together are shown to cluster participants.</li> </ul>

**Energy efficiency** measures in Coimbatore cluster started with the four awareness programmes which led to a gap analysis survey by PSG Institute of Technology. A BDS consultant from Ahmedabad was brought in to know where exactly the interventions can be made for low cost improvements in foundry industries. Based on a pilot with few foundries, now the energy efficiency through technological improvements has been replicated with about 100 foundries. The approach adopted in MPC cluster was one of energy audit, leading to implementation of identified actions. This has been done with 52 units leading to estimated savings of ₹12 lakhs per annum. In Rajkot cluster, the focus has been on energy savings through technology up-gradation for the foundry industries for the cluster. Foundries in the Rajkot cluster use the conventional design Cupola furnace for melting iron. The project promoted the energy efficient Divided Blast Cupola (DBC) design in the cluster. The DBC has potential energy savings of around 30 to 35% during melting operation. Besides energy saving it gives 50 to 100 degree temperatures higher than the conventional cupola. Furthermore it has also provided around 33% production increase. Earlier there were several fabricators fabricating the conventional design; however none were equipped to fabricate the DBC. Training was given to 4 local fabricators on fabricating, installing and commissioning of the DBC. So far the trained BDSs have completed fabrication of DBC's for six foundries and three others are under fabrication.

In Rajkot Cluster, though several BDS providers were offering services for BIS certification of pumps but there were no BDS providers rendering support in obtaining BEE star rating. Mr. Shailesh Goswami, a local BDS provider was invited to BEE in New Delhi and trained in various technical issues and e-filling of applications for BEE labeling. Today he has benefited more than 15 units who have obtained BEE star rating for over 200 pump models and another 200 models are under the process. The BDS has managed to open a new office and has now trained another BDS under him. BDS star labeling was supported for 12 models in the cluster - today over 200 models have received star labeling and another 200 are in the pipeline.

There was only one NSIC lab (not NABL) in Rajkot before the project started. However, facilities for conducting a number of important tests such as metallurgical microstructure analysis, NDT (non-destructive testing) analysis such as magnetic particle testing, X-ray and Radiography) and so on were not available. This resulted in MSMEs sending their samples to Ahmedabad for testing, leading to delays in supplies and additional cost burdens. The project assisted in uniting the pump manufacturers association by apprising them off the potential benefits of setting up a common testing center in Rajkot and initiated formation of an industry lead SPV as a first step towards establishment of the Common Facility Centre (CFC) "Rajkot Engineering Testing & Research Center". The project has now registered the SPV under the companies

act and REA has agreed to allocate land for the premises of the CFC. 4 BDSP are involved in undertaking this activity.

Rourkela cluster is different from other engineering cluster in that there is no specific product and it is treated as one of highly matured cluster. As the Engineering Sector is growing significantly, the focus is more on brand image and export development of their products. More Number of BDS are required in the area of Marketing than on production and technology as was the case with other engineering clusters. In Rourkela, there is heavy demand and need to concentrate on developing infrastructure facilities to attract the major clients within India and abroad. Overall growth of the Cluster turnover can be enhanced based on two functional BDS areas i.e. Marketing and Technology.

### Leather Clusters

The MSME-FDP was implemented in four leather clusters. The facilitation agencies for BDS market development and cluster development are IL&FS Cluster Development Initiative Limited and EDII. Review of achievements and learning by sectors provide interesting opportunity to understand the similarities and differences in approaches of cluster development and in benchmarking the achievements and best practices. As is expected, the BDS emphasis in leather clusters is on social and environmental challenges, in addition to production and institutional challenges. 5 BDS providers were introduced in Chennai cluster in the area of SA-8000 which is most widely recognized global standard for managing human rights in the work place. With the intervention, the unit has become socially accountable and is in a position to reduce accident and improve the cleanliness. This new intervention has helped to enhance the export business and helped in getting more enquiries from new buyers. To address the environmental challenge, all the industry associations came together in Kanpur cluster to form an SPV named as Jajmau Tanneries CETP company Ltd. for the implementation of the up-gradation project and expansion of Common Effluent Treatment Plant (CETP). Similarly in Kolkata, upgradation of CETP indirectly benefitted 300 tanneries from the intervention. Skill development is another area crippling the growth of these clusters. For this purpose, in Kanpur cluster, 9 skill development institutions are available (as against 3 earlier) now with support from Industry and Government sponsored schemes. More than 500 candidates are being trained every month from these training centers. Similar, though at a low scale, initiatives are seen in Kolkata and Shantiniketan clusters. The summary of achievements and learning from leather clusters under MSME-FDP are given as under:



Achievements and Learnings from Pharmaceutical Clusters - Snapshot Analysis		
Cluster	Main Achievements	Main Lessons
Chennai	<ul style="list-style-type: none"> <li>■ 37 BDS providers introduced for the first time.</li> <li>■ SPV for common buying of Dyes &amp; Chemicals (140 tanneries; cost saving of ₹ 7 to 8 crore per annum).</li> <li>■ Energy efficiency led to increase in profitability (5 to 10%) of 15 MSMEs.</li> <li>■ Technological up-gradation (improvisation of Tanning Drum) for cost reduction.</li> <li>■ Promotion of cleaner production technologies (CPT) for compliance to statutory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>■ Leather clusters face social, environmental challenges in addition to economic and institutional challenges like in other clusters. Therefore implementation of social accountability standards and environmental management norms acquire added importance in leather cluster. With these interventions, the profile and profitability of firms in the clusters get raised enormously and they are able to access global and premium markets.</li> </ul>

Cluster	Main Achievements	Main Lessons
	<ul style="list-style-type: none"> <li>■ 5 BDS providers introduced in the area of SA-8000 which is most widely recognized global standard for managing human rights in the work place. With the intervention, the unit has become socially accountable and is in a position to reduce accident and improve the cleanliness. This new intervention has helped to enhance the export business and helped in getting more enquiries from new buyers.</li> </ul>	
Kanpur	<ul style="list-style-type: none"> <li>■ All the industry associations have now come together to form an SPV named as Jajmau Tanneries CETP company Ltd., for the implementation of the up-gradation project and expansion of CETP.</li> <li>■ 9 skill development institutions are available (as against 3 earlier) now with support from Industry and Government sponsored schemes. More than 500 candidates are being trained every month from these training centres.</li> <li>■ Product development and diversification with unorganised sector artisans.</li> <li>■ Most of the 375 functional tanneries in Jajmau have committed to adopt advance technology as per the requirement at individual tannery level.</li> <li>■ The Government of Uttar Pradesh has approved the establishment of Testing Lab in Kanpur. There shall be a one-time grant assistance of ₹ 8 crore (80%). Industrial shall contribute ₹ 2 crore (20%). The land for the project purpose has been purchased by SPV.</li> </ul>	<ul style="list-style-type: none"> <li>■ Access to finance to leather industries, being seen as polluting industry is relatively weak. Access to working capital finance is difficult for these firms and therefore cost of capital is high. Better compliances can potentially reduce this currently unfavourable situation.</li> </ul>
Kolkata	<ul style="list-style-type: none"> <li>■ Focussed market promotion, brand building and value addition in the MIPEL fair at Italy.</li> <li>■ Diversification into fashionable gloves, benefiting MSMEs worth ₹ 47 lakhs...more will follow.</li> <li>■ Design development training of trainers - 16 designers.</li> <li>■ A co-operative society by the name 'Janbazar Leather Artisans Industrial Co-operative Society Ltd' (registered) has been formed with 30 members.</li> </ul>	<ul style="list-style-type: none"> <li>■ International brand building through systematic planning and participation in an international fair and exposure to best practices in the field can generate benefits both at the level of the firm and at the cluster. This provides the cluster firms added opportunities to leverage their strength, improve their confidence, diversify their markets and increase their profits. This also improve cluster image and provide increased opportunities to youth to become better designers, workers and employees in the cluster firms.</li> </ul>
Shantini-ketan	<ul style="list-style-type: none"> <li>■ Institutionalising SDP/ASDP and Design Development.</li> <li>■ Domestic marketing and developing marketing BDSPs.</li> <li>■ GI promotion and brand building.</li> <li>■ Making CFC functional.</li> <li>■ Productivity, quality, raw material bank and technical support.</li> </ul>	<ul style="list-style-type: none"> <li>■ Design innovations ensures sustainability of cluster firms. 28 new designs (surface and patterns) and 12 mock ups designs were introduced through design workshop during the course of the project with a high response from the buyers. ToT on design conducted to emphasis grooming the MCM of the cluster on design. This is a much replicable model.</li> </ul>

One of the remarkable achievements of the leather clusters is the institutionalisation or establishment of cluster organisations. In the Chennai cluster, 2 BMOs were introduced namely; Pallavaram Tannery Cluster Company Pvt. Ltd.(PTCCPL) an SPV to procure bulk qualities of Dyes, Chemicals and Farmic acid and an Association of Footwear Components, Accessories Machinery Manufacturers of India (AFCAMMI) to fill

the gap among the leather products units in South India. A Special Purpose Vehicle (SPV) was established in Kanpur and corpus for 50 lakh was constituted through contribution from industry. The SPV was named as Kanpur-Unnao Leather Cluster Development Company Ltd (KLC). The SPV identified establishment of a Multi-Skilled Development Center, establishment of a Testing Lab facility, Feasibility study for under taking upgradation/expansion of CETP at Jajmau as the priority areas.

## Pharmaceutical Clusters

The MSME-FDP was implemented in three pharma clusters. The facilitation agency for the Pharma clusters was APITCO Ltd. Review of achievements and learning by sectors provide interesting opportunity to understand the similarities and differences in approaches of cluster development and in benchmarking the achievements and best practices. The BDS emphasis in Pharma clusters is placed on quality compliance (GMP-WHO), export marketing, clean technologies for pollution and waste management. In Hyderabad cluster, solvent extraction and best waste management technologies were examined with a pre-audits in 10 firms on water management & water cycles. Based on the recommendation of the pre-audit M/s Archimedes labs Pvt Ltd, Choutuppall, Nalgonda District came forward and implemented the technology by establishing Multiple Effective Evaporator (MEE) by spending around ₹ 70 Lakh from their own funds. Facilitating agency organised BDS Clinic and disseminated the information and sensitised on recovery, results which were duly approved and appreciated by Pollution Control Board. Till date, 10 firms have adopted the same green and clean technology due to which processing cost per liter of effluent reduced from ₹ 11 to ₹ 4 with no end effluent. Furthermore salt recovered from waste will generate additional income as a byproduct to the pesticide manufacturing firms. Summary of pharma clusters achievements and lessons are given as under:



Achievements and Learnings from Pharmaceutical Clusters - Snapshot Analysis		
Cluster	Main Achievements	Main Lessons
Dehradun	<ul style="list-style-type: none"> <li>■ 30 New BDSPs improved their network with BMOs / MSMEs. BDSPs are providing services directly to MSMEs without project support.</li> <li>■ MSMEs realised the importance of Energy efficiency for economics of scale.</li> <li>■ WHO GMP firms (22 Units) taken membership in PHARMEXCIL and availing their services in export marketing : 25% of the units enhanced their GMP compliance levels.</li> <li>■ Common Analytical Testing laboratory &amp; training centre with E library, in the process of establishment with support from MSME ministry.</li> </ul>	<ul style="list-style-type: none"> <li>■ MSME that uses ERPs have learnt the benefits of integration of planning, production, inventory, quality control, financial, depts., and enhancing the efficiency of inventory management, Planning, Procurement, etc.</li> <li>■ Quality compliance is a key issue in the pharma sector as it impact the health and well being of the people. Cluster development /BDS market development therefore need to address issues related to quality compliance.</li> </ul>
Hyderabad	<ul style="list-style-type: none"> <li>■ More than 243 MSMEs (about 15%) realized the importance of GMP BDSPs, fresh graduate trained.</li> <li>■ 6 MSMEs are adopting pollution reduction equipment.</li> <li>■ 75 New BDSPs improved their network with BMOs / MSMEs.</li> <li>■ Technical skills of the existing personnel (343) has been enhanced through trainings resulted in improved product quality, decline in rejection rate besides obtaining more business.</li> <li>■ One firm adopted Multiple Effective Evaporator with latest technology: A downscaled version of a pilot for solvent extraction has proved successful.</li> </ul>	<ul style="list-style-type: none"> <li>■ Pharma cluster firms have to be highly quality conscious and at the same time ensure environmental compliances like pollution and safety norms. With the BDS provisions, the cluster firms were able to look at solution like "Primary Treatment Plant" (PTP) to tackle the pollution related issues which were hampering the growth of MSMEs adversely.</li> </ul>

Cluster	Main Achievements	Main Lessons
Indore	<ul style="list-style-type: none"> <li>■ 8 WHO GMP firms taken membership in PHARMEXCIL and getting export marketing services (2 firms achieved COPP-WHO; 18 are under implementation).</li> <li>■ Quality &amp; Skill development in GMP, Marketing, Lean manufacturing.</li> <li>■ Energy saving Assessments on regular basis.</li> <li>■ 15 Units got membership in Pharma Export Promotion Council (Pharmaexcil).</li> </ul>	<ul style="list-style-type: none"> <li>■ Pharma sector needs appropriate financial product for GMP, GLP and export marketing.</li> </ul>

Another strategic BDS issue in pharma clusters was poor adherence to quality compliance norms. In Indore cluster, 20 firms improved their cGMP Compliance level. 3 firms Improved their compliance level as per WHO-GMP and 15 firms improved their compliance level as per cGMP. 2 firms achieved WHO-GMP certification by self support. The cluster agency improved the linkage among Quality BDSP (14) with Cluster Firms (80). The Excellent Services of BDS Provider increase the Compliance as well as product Quality which led to the Business Growth of Pharmaceutical Units. Similarly in Dehradun, this exercise took about 6-8 months and ultimately 4 enterprises achieved 'fully GMP compliant' status by mid 2011. WHO GMP compliance measures have been completed in 8 enterprises and the process of certification will be taken up shortly.

Another aspect of BDS market development was low level of exports, Low institutional marketing, & Limited local market. In Indore cluster, through awareness and capacity building workshops, 10 new cluster Firms started Exporting through Merchant Exporter or directly. The firms were motivated to become part of Pharma Export Council (Pharmexcil), MITCON, and Other Marketing BDSPs. Similarly in Dehradun, WHO GMP firms (22 Units) taken membership in PHARMEXCIL and availing their services in export marketing.

### Other Clusters

The MSME-FDP was implemented in eight other clusters. These were knitted apparel (Tirupur and Ludhiana), floor coverings (Panipat and Bhadohi), Fruits and Vegetables (Pune and Ganjam), Coir (Allepey), Dyes and Chemicals (Ahemedabad). The cluster facilitation agencies were Cluster Pulse, EDII, APITCO, APEX and ACCESS. Review of achievements and learning by sectors provide interesting opportunity to understand the similarities and differences in approaches of cluster development and in benchmarking the achievements and best practices. Marketing is the common denominator across these clusters. So the cluster agencies focused on various ways of linking marketing, marketing BDSPs with the cluster firms. In Allepey, for example, international market development support through website development and brochure development was provided to 10 MSMEs which helped them beg export order worth ₹ 1.5 crore. Market access and marketing based cluster development approach can lead to a great degree of growth of cluster firms, which is well demonstrated in Allepey and other cluster. In Allepey, close to ₹ 42.5 crore (as per project's own estimations) worth of benefits were generated to MSMEs during the project period itself. Common branding and marketing approach as KNITMARK was adopted by the Ludhiana cluster. In Pune, linking of micro firms from the cluster with known retail chains has been a successful activity. This

has given the micro firms an exposure and safe customers. The cluster development which specifically focuses on market access and marketing aspects is a potentially successful approach as is proven from the project experiences.

The summary of achievements and learning in these clusters are given as under:

Achievements and Learnings from other Clusters - Snapshot Analysis			
Cluster	Sector	Main Achievements	Main Lessons
Ahmedabad	Dyes & Chemicals	<ul style="list-style-type: none"> <li>■ Upgradation of Primary Treatment Plant as per the effluent norms of CETP; for on a pilot scale with 5 firms to create the demonstration effect in the cluster.</li> <li>■ Cleaner production in the cluster adopted by 10 units.</li> <li>■ Establishment of common evaporating unit and treatment plant for hazardous waste and effluent (45 units)".</li> </ul>	Integration with other clusters was well achieved. Cluster inter-dependencies shall be explored as mutually beneficial relationships can be established. Ahmedabad cluster worked with Ludhiana, Kanpur, Chennai and other cluster to bring technology and more business to the cluster firms.
Alleppey	Coir	<ul style="list-style-type: none"> <li>■ 43 BDS providers actively engage the coir cluster in Alappuzha.</li> <li>■ Created linkages for coir MSMEs with local and international buyers.</li> <li>■ Trained 39 MSMEs on domestic market promotion.</li> <li>■ Developed Mobile VAN for promotion of coir products in domestic market.</li> <li>■ International market development support through website development and brochure development-10 MSMEs received export order worth ₹ 1.5 crore.</li> <li>■ Training on Coir mats and matting export to Turkey: Export order worth ₹ 15 Lakh.</li> <li>■ World's Longest Door Mat: (Branding Initiative).</li> <li>■ Developed new semi automatic spinning ratt which can save electricity, energy and avoid drudgery faced by women and increased daily income.</li> <li>■ Over ₹ 5 crore business generated by first B2B portal <a href="http://www.totalcoir.com">www.totalcoir.com</a>".</li> </ul>	Market access and marketing based cluster development approach can lead to a great degree of growth of cluster firms, which is well demonstrated in Alleppey and other cluster. In Alleppey, close to ₹ 42.5 crore (as per project's own estimations) worth of benefits were generated to MSMEs during the project period itself. The cluster development which specifically focus on market access and marketing aspects is a potentially successful approach as is proven from the project experiences.
Bhadohi	Floor Coverings	<ul style="list-style-type: none"> <li>■ Three BMOs formed and registered under Society Act.</li> <li>■ 5 MMFs upgraded from usage of manual to electrical tufting guns.</li> <li>■ 3 BDSPs got an order of 100 ETG worth of ₹ 8 lakh.</li> <li>■ 10 MMFs adopted modern latexing practices.</li> <li>■ 10 New BDSPs improved their network with BMOs / MSMEs related to ICT, HRD and Marketing.</li> </ul>	Artisan cluster needs are very different than the conventional SME cluster. Here weavers and vendor firms are operating in unorganised mode and serving micro and small units. Collectivisation and institutionalisation in artisan clusters is much more needed and beneficial as that can effectively bring in collective strength of decision making and support to each other besides providing economies of scale.

Cluster	Sector	Main Achievements	Main Lessons
Ganjam - Gajpati	Fruits and Vegetable Processing (cashew and Kewada)	<ul style="list-style-type: none"> <li>■ During project intervention 38 entrepreneurs were exposed to Mangalore and Kollam cluster to learn best practices and advanced technology for processing. The initiatives resulted in converting 36 units from traditional roasting method to boiling processing and other 20 is in verge of shifting.</li> <li>■ The growth of business of BDSPs: Financial advisers, Tax consultants &amp; other technical service providers also earned around ₹ 10 lakh from the cluster.</li> <li>■ Unit linked with the financial institutions".</li> </ul>	<ul style="list-style-type: none"> <li>■ Membership based Trust can be more effective form of collectivisation as like minded individual and firms can come together and serve common interests for mutual benefit. It might be difficult to organise all or many of cluster firms within a single umbrella and therefore small trusts become a useful via media towards bringing growth and competitiveness to the MSME cluster.</li> </ul>
Ludhiana	Knitted Apparel	<ul style="list-style-type: none"> <li>■ Common branding and marketing approach adopted by cluster.</li> <li>■ Widespread Energy efficiency exercises and abundant BDS for the same in cluster, with involvement of large number of BDSPs.</li> <li>■ Improved designing capabilities of cluster firms</li> <li>■ 12 BDS have introduced new models of training to provide need based training.</li> </ul>	<ul style="list-style-type: none"> <li>■ The initiative of Common brand portal for Ludhiana knitwear cluster, KNITMARK as a quality mark suggest that cluster level initiatives like this can be successful when the cluster firms see the utilitarian value in it. Developing the perception of this value require strong facilitation from the cluster agency which was done well, in this case.</li> </ul>
Panipat	Floor Coverings	<ul style="list-style-type: none"> <li>■ Services of Indian Institute of Carpet Technology (IICT) initiated in the cluster.</li> <li>■ 52 firms procured 710 Electrical Tufting Guns and increase in wages of 550 workers by 30%.</li> <li>■ 19 new BDSPs introduced in the areas of technology, quality, process improvement, finance and HRD.</li> <li>■ One Designer consortia formed with 11 designers namely "The Designer Group.</li> <li>■ 8 firms linked with banks / FIs for financial assistance (out of 8, 6 firms linked with SIDBI).</li> </ul>	<ul style="list-style-type: none"> <li>■ Introduction of new technology when accompanied by the necessary skill development measures is most successful as the case of Electrical Tufted Guns (ETGs) shows in the Panipat Cluster.</li> </ul>
Pune	Fruits and Vegetable Processing	<ul style="list-style-type: none"> <li>■ Introduction of Mobile Testing Facility (Mobile Van) in the cluster.</li> <li>■ skill upgradation in cluster with introduction of QA., QC level course, some started own testing facilities in the cluster.</li> <li>■ Technology Support through CFTRI and AFSTI .</li> <li>■ Connected micro firms with retail chains with brand facilitation.</li> <li>■ Evolved NAFARI as an umbrella BDSP in the cluster in self sustainable way".</li> </ul>	<ul style="list-style-type: none"> <li>■ Institutions within a cluster if revived or strengthened can become sustainable vehicles of BDS delivery as the case of NAFARI shows.</li> <li>■ Regulatory panel is important for fruit and vegetable clusters and food processing regulations are critical to adhere to for survival and growth of the industry.</li> </ul>
Tirupur	Knitted Apparel	<ul style="list-style-type: none"> <li>■ Productivity improvement trainings.</li> <li>■ Entrepreneurs clubs.</li> <li>■ Design development through international designers support.</li> <li>■ Energy audits and savings: huge response from the MSMEs.</li> <li>■ Training programmes for women".</li> </ul>	<ul style="list-style-type: none"> <li>■ Women are main workers in the garment industry. Their personal advancement and career enhancement therefore is a major responsibility.</li> </ul>

## Issues raised by PM Task Force and Project contribution for addressing the same

APPROACH OF MSMEFDP TO ATTEND THESE THROUGH CLUSTER INTERVENTION					
S. No.	Issues identified by PM's Task Force	North Zone	East Zone	South Zone	West Zone
1.	Lack of availability of adequate and timely credit, collateral requirement and high cost	79 units were assisted through loan amount of ₹ 8.01 crore.	180 firms got loan worth ₹ 28 crore including 19 Women SHGs.	73 firms availed ₹ 64.3 crore from banks through TL and Working capital loan.	347 firms sanctioned loan worth ₹ 119 crore.
A pool of BDS providers were strengthened. Capacity Building of SMERA/CIBIL/CGTMSE for credit supplementation was supported. Industry association (FSIA, Faridabad) model was promoted extending link to 50 MSMEs for over ₹ 17 crore. Being replicated in Gujarat. SPVs (in Rourkela) and Consortia model in Ahmadabad for access. A MFI in NCR was handholded/ mentored for reaching out to 60 MEs (impacting lives of 12000 persons). Downscaling (doing small loans profitably) piloted by SIDBI MF branches.					
2.	Procurement of raw materials at a competitive cost	The firms started procurement of material from M/s. Ahmedabad Dyes & Chemicals Company, a network created in Ahmedabad		22 units estimated savings of 30-40 % through SPV formation for common procurement of environment friendly chemicals from ahemdabad.	SPV formed and registered - Common purchase to begin
3.	Problems of storage, designing, packaging and product display	150 household units in the unorganized sector through designs impacting 900 women artisans.  116 new designs received during design competition participated by 30 designers. In addition to this 150 designs and samples developed by 8 firms with the support of 5 designers. Designers consortia was formed in the name of "Designer Group" to cater to the design needs of cluster  2 designers' association Bhadohi designers association and Khamaria designers association with 40 and 60 members respectively and 8 of them have undergone training and recruitment. Association has its own infrastructure for future training activities	Benefited 210 units	42 firms benefited through designers club and associations	Benefited 31units through training and introduction of new product



APPROACH OF MSMEFDP TO ATTEND THESE THROUGH CLUSTER INTERVENTION					
S. No.	Issues identified by PM's Task Force	North Zone	East Zone	South Zone	West Zone
4.	Lack of access to (global) markets	<p>Market Survey done for national market and market potential assessed.</p> <p>76 micro firms provided marketing linkages.</p> <p>2 market consortiums of firms formed.</p> <p>22 firms trained on Export marketing procedures.</p> <p>2 firms initiated exports by registering with Carpet Export Promotion Council (CEPC).</p>	<p>185 firms exposed to international markets and created business of ₹ 14.1 crore.</p>	<p>30 units got benefited through SA certification and other business portals and created business of worth ₹ 5.5 crore.</p>	<p>195 firms through marketing linkages and generated business of ₹ 2 crore so far.</p>
		<p>60 websites of MSMEs supported. A study how to link with retail chains conducted. World longest coir mat placing coir on world map as a natural fiber was experimented successfully. BDS Van was used for BDS and MSME product marketing.</p>			
5.	Inadequate infrastructure facilities, including power, water, roads, etc.	<p>₹ 15 crore mobilized for 2 infrastructure projects-namely Multi skill development centre and Testing Laboratory.</p> <p>4 training centers created- 2 by two designer association for designs and 2 by two local firms for ETG.</p> <p>SPV created and registered for a testing Laboratory-DPR submitted to State Govt.</p>	<p>Benefited 30 units.</p> <p>3 SPV formed for CFC formed and registered.</p>	<p>Feasibility report prepared for Green Tirupur movement (GTM) for developing ETP for dyeing units.</p> <p>1 Business Development Centre created.</p>	<p>272 units were benefited through NAFARI and mobile testing Van.</p> <p>CFC for testing -SPV formed.</p>
6.	Low technology levels and lack of access to modern technology (including energy savings, quality, certification, measures).	<p><b>Energy Savings</b>-115 firms have estimated savings of ₹ 10 crore p.a. through energy audits and process audits.</p> <p><b>SA 8000 Certification</b> 7 have already been certified and 5 are under process.</p> <p><b>ERPs-19 units</b> Adoption of lean manufacturing and vendor development programme.</p> <p>25 Units-benefits accrued- ₹ 76 lakh 50-80%.</p> <p><b>CGMP Compliance</b> through Project in 7 units and 5 Units go for WHO GMP Compliance through Project Supports.</p>	<p>Benefited 305 firms through adoption of energy audits and trainings and saved ₹ 64 lakh per annum.</p>	<p>Benefited 106 through energy audits and saving of ₹ 13.5 crore per annum through energy audits, quality up gradation etc</p> <p>Quality upgradation done through ISI &amp; BEE certification done for 50 firms. 1 model of pump design standardized.</p>	<p>The project commissioned 10 models of DBC. Coke saved in these units is 450 tons P.A.</p> <p>330 pump design models are under BIS approval.</p> <p>216 models got BEE Star rating which is now a standard practice in the cluster.</p> <p>Quality (GMP) – 20 ERP – 8 firms.</p> <p>Energy Saving in 13 firms for ₹ 18 lakh P.A.</p>

APPROACH OF MSMEFDP TO ATTEND THESE THROUGH CLUSTER INTERVENTION					
S. No.	Issues identified by PM's Task Force	North Zone	East Zone	South Zone	West Zone
					<p>Bar coding implemented for 3 units and Testing became a standard practice for 111 units</p> <p>50 units were benefited through implementation of Primary treatment plants and Cleaner production accruing benefit of ₹ 1.15 crore per annum.</p>
7.	Lack of skilled manpower	<p>7000 persons received training for various activity Increase in employment and productivity – 20-30%.</p> <p>17 BDSPs have been introduced.</p>	<p>1600 persons received training including women and BPL category.</p>	<p>1910 persons were trained.</p>	<p>615 persons were trained.</p>
8.	Corporate governance and management skills to handle business strategy	<p>7 Training centers created with private sector lead out of which 4 were supported by the project.</p> <p>1016 weavers' family covered under medi-claim insurance.</p> <p>A Network of Haryana Carpet Manufacturers Association linked with MSME-DI, DC-Handicrafts, DIC, NABARD, SIDBI and banks to continue the various activities initiated.</p> <p>Bhadohi Hasth Shilp Kaleen Vikas Sanstha and Bhadohi designers association and Khamaria designers association created</p>	<p>170 firms benefited through training and programmes</p>		

CLUSTER PROFILES - BDS CLUSTERS									
Cluster	Sector	Facilitator Agency	Spread of the Cluster	Total Units (No's)	Aggregated Employment	Estimated Turnover (Rs. In crore)	Products	Major Stakeholders	Major BDS Providers
Ahmedabad	Dyes & Chemicals	EDII	Municipal Corporation limits of the City of Ahmedabad in the central region of Gujarat in the GOLDEN corridor	1200	40000	10000	There are more than 1200 different dyestuffs (colouring matters) derived from a vast variety of chemicals. The chemicals have a wide range from organic to inorganic substances.	ACTI, ATIRA, CIPET, IGTR, BIS, GPCB, ITI, GITCO, NSIC, CETPs, Central Excise, Sales Tax	Financial and Legal consultants, Patents and Trademark, Quality, Designers, Export Consultant, Technical Consultant, Testing Lab, Environmental Auditor
Alleppey	Coir	Cluster pulse	Alleppey	400	200000	1800	Coir products	TCMMA, ICA, CSC & ICEC etc	A:Existing Earlier: Finance, Production, Business organization, Market access B:Introduced by Project: Marketing, Mechanisation, Quality, Technology up-gradation, ISO Certification
Bhadohi	Floor Coverings	APITCO	Bhadohi and Mirzapur	1820	300,000	1,500	Knotted Carpets, Tufted Carpets, Shaggy Durries and Nepali & Pit Loom Durries		Skill, Technology, Marketing
Chennai	Leather	EDII	Chennai including nearby districts in the State of Tamil Nadu	1150	40000	2000	Semi finished & Finished leather, Men's foot-wear, Leather Goods (gloves, belts, ladies hand-bags, travel goods, etc.), Leather Garments (jackets, sports-wear, fashion-wear)	AISHTMA, IFLMEA, TANSTIA, ILPA etc.	Taxation and audit, Finance (access to Conventional institutional credit), Legal services related to labour (through BMOs)
Coimbatore	Engineering	APITCO	Coimbatore	9704	129500	2000	Multi sectoral cluster with large number of pumps & motors manufacturing units and light engineering enterprises, in addition to the large number of foundries	There are several stakeholders like CII,ICCI, SIEMA etc	Auditing Firms, Technical Institutes, Training Institutes, Foundry Consultants, Designers, Labour contractors, Rating agencies, Raw material suppliers etc
Dehradun	Pharmaceuticals	APITCO Limited	Dehradun, Haridwar, Roorkee	302	18074	3248	Tablets, capsules, liquid, orals, ointments & injectables	Manufacturers, Government & support Institutions, Raw material suppliers, M/C suppliers, Support Firms, Financial Institutions and bankers	Testing Labs, Financial consultants, CGMP auditors, Technical Institutes etc
Ganjam - Gajpati	Fruits and Vegetable Processing	Access Development Services	Ganjam and Gajapati	260	12650	240	Cashew & Kewda	Producers, aggregators, processors, Govt. agencies, NGOs	A. Existing BDSPs: Transporters, Traders, Equipment Suppliers, Raw Material Suppliers B. BDSPs: Marketing, Technology Information & Communication, Quality, Finance, Legal

CLUSTER PROFILES - BDS CLUSTERS									
Cluster	Sector	Facilitator Agency	Spread of the Cluster	Total Units (No's)	Aggregated Employment	Estimated Turnover (Rs. In crore)	Products	Major Stakeholders	Major BDS Providers
Hyderabad	Pharmaceuticals	APITCO	Hyderabad, Nalgonda, Rangareddy & Medak Dist	391	18500	2500	Bulk drugs & formulations	Bulk Drug Manufacturers, Formulations Manufacturers, Government & support Institutions, Raw material suppliers, M/C suppliers, Support, Firms & Financial Institutions and bankers	GMP Consultants, Technology Consultants, Transporters, Energy and environment consultants, Lean Consultants, ICT consultants, Safety Consultants, IICT, Testing Labs, CCMB, NIPER, HCU etc.
Indore	Pharmaceuticals	APITCO Limited	Indore, Dewas, Ujjain, Pithampur (Dhar)	256	14000	2500	Tablets, Capsules, Syrup, I.V.Fluid, Ointment, Eye drops	Manufacturers, Government & support Institutions, Raw material suppliers, M/C suppliers, Support Firms, Financial Institutions and bankers	Testing Labs, Financial consultants, CGMP auditors, Technical Institutes etc
Kanpur	Leather	IL&FS Cluster Development Initiative Limited	This cluster includes geographical boundaries of district Kanpur (urban) and Unnao town and Banthar leather complex situated in Unnao district.	1600	125000	42000	Tanneries, Footwear & components, Saddalary, Leather gloves, Garments & Leather goods	- Central Leather Research Institute (CLRI) and Council for Leather Exports (CLE); Harcourt Butler Technological Institute (HBTI), Government Leather Institute (GLI) and IISTEM, IIT, 10 engineering & mgt colleges and management	A. Existing Earlier : 1. Few CAs in areas of taxation, audit and loan syndication 2. Suppliers of chemicals/machines and buyers 3. Few government support institutions B. Introduced by Project: 1. Marketing 2. Skill development 3. Energy 4. Productivity 5. Social Compliance 6. Infrastructure and IT 7. ISO certification 8. Design inputs 9. Brand promotion
Kolkata	Leather	Entrepreneurship Development Institute of India	Geo boundaries of Kolkata as well as the Calcutta Leather Complex situated at Bantala (majority situated there). Kasba, Topsia and Tangra are the focal points for the leather goods manufacturing units.	4024	62440	4430	Finished leather, Leather goods like bags, wallets & cases, Footwear (closed & open), Industrial gloves; The cluster includes the geographical boundaries of Kolkata as well as the Calcutta Leather Complex situated at Bantala. Majority of the tanneries are located at the newly developed Calcutta Leather Complex.	CLE, ITPO, CLRI, WBPCB, GCELT, NIFT, FREYA Design Studio etc.	Existing Earlier: Machine suppliers, CFTC (Central Footwear Training Centre) Project Introduced: Marketing, Testing, Training, Environmental Compliance, Infrastructure, Financial Assistance

Cluster	Sector	Facilitator Agency	Spread of the Cluster	Total Units (No's)	Aggregated Employment	Estimated Turnover (Rs. In crore)	Products	Major Stakeholders	Major BDS Providers
Ludhiana	Knitted Apparel	APEX	Two major industrial belts of Punjab, viz., Ludhiana-Jalandhar and Ludhiana-Amritsar	14000	400000	5000	Knitted wears & grey fabric		BDS providers like training Institutes, Marketing agencies, Software vendors, Financial Institutions & banks, certificate agencies, market and branding agencies, technology consultants, Quality and management consultants etc and many more exist in cluster
Mohali-Panchkula-Chandigarh	Engineering	TERI	Mohali-Panchkula-Chandigarh	2410	21000	1028	Chandigarh has two industrial estates, Phase-I and Phase-II, separated by a common road. Nearly 2950 SME units, of which about 40% are ancillary units producing components for the tractor industry.	Chandigarh Industrial and Tourism Development Corporation Limited (CITCO), Industry associations, Vocational and technical training institutes, Central tool room etc.	It includes several Private and public BDS provider

CLUSTER PROFILES - BDS CLUSTERS									
Cluster	Sector	Facilitator Agency	Spread of the Cluster	Total Units (No's)	Aggregated Employment	Estimated Turnover (Rs. In crore)	Products	Major Stakeholders	Major BDS Providers
Panipat	Floor Coverings	APITCO	Panipat & Karnal distt.	331	50000	1010	Carpets - tufted, shaggy; durries	Export Manufacturers, Composite Manufacturers, Tufting Firms, Skilled and Semi-skilled workers, Government & support Institutions, Raw material suppliers, Machinery suppliers, Support Firms & Financial Institutions and bankers	WSC,S GS, Trace Makers, Banks & FIs, NITRA, CAD/ CAM Firms, NIFT/ NID, IICT,ITI, PIET, Private Training Institutions, Textile Committee, NGOs, IT firms, Transporters, Shipping agents etc
Pune	Fruits and Vegetable Processing	APEX	Pune/ Panchgani- Mahabaleshwar (District Satara)	550	13000	800	Fruit & Vegetable Processing Cluster	Includes 7 banks, 17 firms and 25 BDS	Existing Earlier: Marketing, Training, Advisory and legal services B: Project Introduced: NAFARI, Packaging material and suppliers, Training institute, Marketing consultant agencies, Transporters, Testing and analysis lab, Software vendors
Rajkot	Engineering	TERI	Vasahat, Bhaktinagar Industrial Area, Mavdi Plot, Samrat Industrial Area and Atika Industrial Area areas in Rajkot	666	24700	3000	The geographical spread of the cluster includes Aji Vasahat, Bhaktinagar Industrial Area, Mavdi Plot, Samrat Industrial Area and Atika Industrial Area areas in Rajkot. Based on focused discussions with stakeholders, two sectors have been selected for BDS interventions in the Rajkot cluster: (1) foundries and (2) pump sets.	There are about 500 foundry units in the cluster out of which 125 are members of IIF (Institute of Indian Foundry men) and about 400 are member of REA (Rajkot Engineering Association).	a.) Finance and loan services b.) Technical service providers c.) Quality certification and registration service providers d.) Environment and energy related service providers e.) Administrative and regulatory services f.) Marketing service providers g.) Testing laboratories h.) Research and Development i.) Training and skill development
Rourkela	Engineering	APITCO	Rourkela (Machining & Fabrication Units) and Kalunga (Fabrication Units)	220	5750	150	Machining & Fabrication	Orissa Young Entrepreneurs Association, Orissa Assembly of Small and Medium Enterprise, District Small Scale Industries Association and Rourkela Chamber of Commerce	i) Government support institution ii) Industries association iii) Private agencies/ individuals.
Shantiniketan	Leather	Entrepreneurship Development Institute of India	Birbhum district of West Bengal - 150 kms from Kolkata	60	1200	5.5	- Bags like shopper's bag, clutch bag, umbrella bag, pouch bag etc. - Small leather goods like wallet, coin pocket, purse, mobile cover etc. 3.Pasted items like ornament box, pencil box, photo frame etc.	CLE, ITPO, CLRI, WBPCB, GCELT, NIFT, FREYA Design Studio etc.	<b>A. Existing Earlier:</b> a. Cas b. Cost accounts c. Tax consultants d. Few public BDS e.NGOs <b>B: Introduced by Project:</b> 1. Marketing 2. Testing 3. Promotion of Handicrafts 4. Training 5. Finance 6. MSME support services like training, incubation, fair participation and handholding
Tirupur	Knitted Apparel	Apex		2000	300000	40000	Bleaching unit, compacting and calendering units, Dyeing units, Embroidery units, Fabric printing, knitting units	around 700 active exporters and 1700 domestic garment suppliers at Tirupur	

## Briefs on Projects under Advocacy Challenge Funds

## Annexure VIII

On the lines of international best practices, MSMEFDP has set up a Challenge Fund for Advocacy in MSME Sector (ACF) which aims to promote ownership through involvement of beneficiaries / stakeholders. Under ACF, support is extended towards action oriented research based initiatives that have tested or can be tested / scaled up (backed by lesson learned / research findings). Under MSMEFDP supported following initiatives:

### MSME Solutions Centre

#### Highlights

- Implemented by a BMO- Industries Association of Uttarakhand (IAU) in underserved region.
- Thrust on retired skilled personnel's (retired from banks, research institutions, PSUs etc.)
- A separate website [www.msmesolutions.org](http://www.msmesolutions.org) was launched and a dedicated "helpline service" was introduced.



In order to channelize the talent of many Retired / Senior Citizens / VRS experts in the state and help to bridge the demand supply gap of BDS for MSMEs in the state, 'MSME Solutions Centre' was established by IAU with support from ACF. The centre provided a platform to help match these experts with assignments from small business that need short-term consultants (Business Development Service providers).

#### Success

- During project support period, 8(+5 events) workshops were conducted, more than 459 queries received under "Helpline Service", database of 350 MSMEs and 30 BDS providers created and 58 matchmaking interventions were made.
- The project implemented by IAU a state level BMO leveraged qualitative benefits in terms of visibility among Government, Policy Makers and other stakeholders.
- The Chief Minister of State participated in one of the programme conducted under the project and appreciated the initiative. The project has enabled the association to create visibility and leverage it for few unique initiatives such as:
  - Design Clinic under MoMSME-NMCP Programme.
  - FINANCIAL linkage model (placing a financial consultant) wherein new/existing units (around 60) fetched better terms from banks.
  - Free EDPs for potential entrepreneurs
  - Enabling MSMEs to file Pollution Control Board forms online. They have outsourced a consultant who sits every week in association office to help them do this filing.

## MSME Business Confidence Index

### Highlights

- MSME focused Micro and Macro Parameters, sample survey of more than 650 enterprises constructed across 7 industry sectors across 4 zones based on 11 indicators (classified as “Present Situation” and “Future Expectation”), capturing responses on continuous basis.
- Results dissemination through online platform on which various indicators may be searched and analyzed individually.
- Capture trends on employment, business growth, profitability, credit growth etc. as also on MSME initiative on emerging areas viz. CSR, Energy Efficiency etc.



The MSME Business Confidence Index is created by Indicus Analytics Pvt. Ltd. and as such fulfills the objective of developing a sustainable framework - a real time micro level monitoring system on capturing MSMEs performance and expectation.

The project envisaged helping the policy makers respond with facilitating policy measures and ultimately help MSMEs respond faster to market conditions as follows:

- Credit Agencies such as Banks, FIs, RBI, etc. are able to obtain the latest insights on developments in the MSME sector, ahead of the monetary policy formulation.
- The MoMSME obtains timely Qualitative/Quantitative data.
- The MoF, GoI obtains robust data on the MSMEs to aid it in its fiscal policy making.
- It enabled Advocacy groups to make their case with credible data backing their arguments. It facilitated to instilling a more reasonable and guided private advocacy.

### Success

- Focused on MSMEs only whereas other indices survey capture data on overall private and public companies. This feature would enable policy makers to formulate focused policies for MSMEs and take appropriate actions on the basis of the expectations of the MSME sector.
- In depth analysis and ease in navigation i.e. segregation of output / result quarterly, sectorally and geographically. This feature allows key insights into the performances of the MSME sector across regions and industries as well on a pan India basis.
- Query enabled web based system to monitor micro level results of the policy interventions in a timely manner. Three quarter's results have been released. While two quarters results being part of the Advocacy Action assignment released through the project support, the results for Q3 (Apr – Jun, 2011) were released by M/s. Indicus from its own resources.



## Green Dhaba Project

### Highlights

- Promotion of eco-friendly, energy efficient and hygienic eateries in the underserved region in Uttarakhand.
- Target 40-60 road-side eateries on Badrinath / Gangotri highway. The 30 selected dhabas implemented Green Dhaba framework on “Responsive Dhaba Green Commitment” towards waste management, use of local resources, water conservation etc. to create awareness on Environment Protection, Energy Conservation etc.
- Encouraging Green Dhabas on adoption of energy efficiency measures, use of renewal energy etc. and develop them as environmentally and socially responsible and sustainable ventures.
- Establishing a hygienic and environment friendly chain of restaurant serving quality food.
- Facilitating integration of financial and non-financial assistance viz. linking MSMEs with Banks / FIs.

### Success

- A lead TV group captured this as a story for one of its documentary feature.
- The project creates a sustainable framework for scale-up and replication to other areas of the country.
- Encourage agenda of Green Commitment.



**green dhaba RESTAURANT** Green Dhaba/ Restaurant Campaign

An appeal to the visitors

**Dear visitors,**  
we welcome you in the sacred origin place of the Ganga and Yamuna Rivers.  
**Your Demand can change!** By making right choices you can contribute in keeping it clean and conserving the environment.

**Demand local food items!** It requires lots of fuel burning to transport the food items to these high altitude places which pollutes the pristine environment of the region. The local food items can be fresh and organic.

**Promote use of alternative energy!** While buying services and goods in the region please give preference to the businesses using CFL/LED bulbs, solar energy and other energy saving devices/technology.

**Dispose garbage in garbage bins only!** The rubbish thrown on roads, jungle and water streams go directly to the holy water of Ganga and Yamuna. Please prefer hotel/dharmshalas and dhabas/restaurants which use proper garbage disposal system.

**Do not tear down the flowers, tree saplings and their branches.** This practice destroys the forests and harms the local environment.

**Demand clean toilet!** Defecation and urination in open is disgraceful for you as well as for the Devbhumi and it can spread diseases.

**Please discourage the practice of child labor** by avoiding use of services of the Dhaba/Restaurants and Hotels which have deployed children below age of 16 years in work. These children should be encouraged to go to school.

**Please contribute in reducing air pollution** by not using the over-polluting vehicles.

**Please say yes to the cloth bags! Say no to the plastic bags!**

Supported by RACHNA Society  
under MSME Financing and Development Project.  
[www.rachnaonline.org](http://www.rachnaonline.org) [www.homeinthehimalayas.org](http://www.homeinthehimalayas.org)

**green dhaba RESTAURANT**  
ग्रीन डाबा रेस्टोरेंट



**green dhaba RESTAURANT** ग्रीन डाबा/ रेस्टोरेंट अभियान  
Green Dhaba/ Restaurant Campaign

अपना भोजन, स्वच्छता, शुद्ध पिबजल  
Good Food, Clean & Hygienic, Pure Water  
शौचालय सुविधा, पर्यावरण संरक्षण  
Toilet Facility, Environment Conservation

**green dhaba RESTAURANT** Green Dhaba/ Restaurant Campaign

Our Commitment

As a Green Dhaba/ Restaurant Campaign member we are committed to take the following action:

- Maintain good hygienic conditions in the dining area, kitchen and around it.
- Take utmost care of the environment and minimize waste of energy, food material and water.
- Provide clean and hygienic toilet and garbage disposal facility.
- Provide better living and working conditions for staff and do not deploy child labor.
- Use high-grade spices, oil and food grains.
- Serve purified drinking water and establish facility for refilling water bottles to reduce the use of plastic water bottles in the region.
- Promote use of CFL/ LED bulbs, solar water heater and green fuel for cooking.
- Promote roof-top rainwater harvesting and other methods of water conservation.
- Discourage use of plastic and encourage use of recyclable items and packaging.
- Promote sale of local cuisine, agriculture and handicraft products.
- Train the staff for responsiveness on emergency situation.

Supported by RACHNA Society  
under MSME Financing and Development Project  
[www.rachnaonline.org](http://www.rachnaonline.org) [www.homeinthehimalayas.org](http://www.homeinthehimalayas.org)

**green dhaba RESTAURANT**  
ग्रीन डाबा रेस्टोरेंट

## Developing CSR Framework for Indian MSMEs

### Highlights

- Analyzing CSR policies /practices followed by Chinese textile industry vis-à-vis Indian Textile Industries.
- Based on learning's and feedback develop a framework for replicating the model CSR in India.

The project was implemented by India China Economic and Cultural Council (ICEC). The idea is to promote CSR in Indian Textile Industry based on best international CSR /ESR practices to make them more competitive and responsible business ventures.

### Success

- A Model CSR Framework for Indian Textile MSMEs was developed.

## E-Procurement

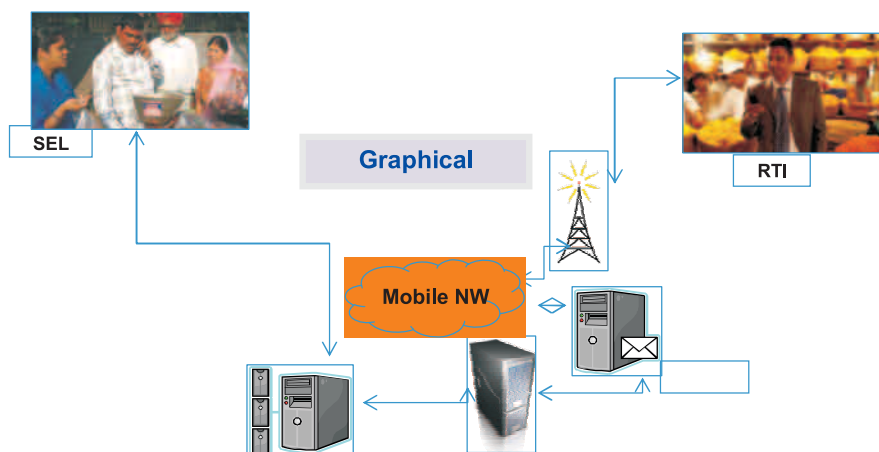
### Highlights

- Pilot was aimed for linking MSMEs with paper and chemical wholesalers in NCR such that they achieve value for money and get price quotes/match make their deals through server emanated SMS and responses.
- IT (Mobile/Cell Phone) based low cost model.
- Transparent (no involvement of third party) & Real Time.
- The platform is based on the adaptation of already available, proven and scalable technologies.
- Up-scaling the pilot model into a full scale sustainable digital market platform for the cluster.

Leveraging IT platform as a potential marketing access tool for e-procurement for MSMEs and “tapping markets and customers in the most cost-effective manner” was intended. It aimed to address one of the key challenges faced by MSMEs. The uniqueness of the initiative lied in enabling assorted micro and small entrepreneurs to access and widen to reach to newer arena both in terms of market and procurement by using simple IT, through their mobiles and internet.

### Success

- Pilot Testing was done successfully for paper wholesaler and MSMEs in NCR, but the roll out plans were differed due to the provisions of new TRAI Regulation which came into force with effect from Sep 27th 2011. However, Ace Global has based on inquisitive response of MSMEs plans to take this agenda forward in future for both paper and chemical wholesaler.



This book is an outcome of assignment to Catalyst Management Services Private Limited to capture the MSME framework, emergent themes as also analyse the achievements under MSME Financing and Development Project (MSMEFDP) implemented by Small Industries Development Bank of India (SIDBI).

**Small Industries Development Bank of India (SIDBI)** is the principal Financial Institution for the promotion, financing and development of Micro, Small & Medium Enterprises (MSMEs) in India. SIDBI reaches out to the entire value chain (Micro Finance to Missing Middle to SMEs) by extending Promotional (SETUP) and Development (STEP UP) support. It addresses the gaps in MSME eco system by offering bouquet of financial support to MSMEs covering (a) Refinance to entire gamut of financial support Institutions including banks, State entities, Micro Finance Institutions (MFIs), etc., for onward lending to MSMEs (b) Direct assistance in niche areas.

SIDBI is committed to contribute to the expectations on national goals as also Millennium Development Goals (MDGs). It continues to customise its product offerings as also processes so as to sustainably contribute to emergence of globally compliant competitive Indian MSMEs. SIDBI has devised a number of schemes catering to the financial and non-financial needs of MSMEs. It has been a pioneer in institutional solutions by setting up associates/ subsidiaries in venture capital, credit guarantee for collateral free loans, credit rating, technology bank and asset reconstruction. Its international partnership has enabled it to assimilate best practices and adopt it for Indian MSMEs.

### **MSME Financing and Development Project [MSMEFDP]**

SIDBI is implementing a multi-agency, multi-activity Project on Financing and Development of MSMEs. The Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency for the Project. The World Bank, Department for International Development (DFID) UK, KfW Germany and GIZ Germany are the international partners in the Project. The Project is aimed at making MSME lending an attractive and viable financing option as also facilitate increased turnover and employment in the sector. The Project has three major components: (A) Line of Credit from World Bank and KfW, (B) Risk Sharing Facility, and (C) Technical Assistance (TA). The Project addresses demand side issues of credit and streamlining access to qualitative financial and non-financial enterprise oriented services. Technical Assistance (TA) from DFID has been utilized for strengthening the credit information system, credit rating, structuring of innovative products, capacity building of the participating banks, policy and regulatory issues and promotion of market oriented business development services for the sector. Overall, MSMEFDP has been creating an enabling and sustainable environment for the growth and development of competitive MSME sector in India.

### **Project Snapshot**

- The Project objectives laid thrust on improving MSMEs' access to finance and market oriented Business Development Services (BDS), thereby fostering MSME growth, competitiveness, capital formation, technological up-gradation and employment creation.
- The project is unique as it attempted to attend to MDGs and national priorities particularly poverty alleviation through enterprise development.

In the year 2010, SIDBI was given an international Merit Award by Association of Development Financing Institutions in Asia Pacific (ADFIAP) towards implementation of "MSME Financing & Development project (MSMEFDP)" and particularly for the project's impact on the local economic development. In the year 2011, MSMEFDP bagged another award from ADFIAP on its Business Development Services (BDS) centric cluster initiative in 19 Indian clusters entitled 'Making Market Work for Indian MSMEs'. MSMEFDP has been consistently earning recognition from various other local, national and international platforms.

- The Project identifies that "The goal of the project is to increase income and employment for the poor in India by encouraging growth and competitiveness in Micro, Small and Medium Enterprises (MSMEs). DFID has a key role to play in identifying pro-poor aspects of MSME development that could leverage the strongest MDG outcomes. This includes: simplifying business regulation; improving access to MSME Finance; and focusing on economic sub-sectors that can create employment for the poor.
- The progress of the Project has been quite noticeable as it has so far reached out to around 1 lakh beneficiaries comprising 75% MSMEs and 25% Bankers and other stakeholders. The interventions (with thrust on market competitiveness, skill, technology, energy efficiency, environment etc.) were designed to foster competitiveness and sustainability among MSMEs. The project carried a 'role' model approach and thus several initiatives have been successful on that count. The project has facilitated improved access to critical services and an enabling policy environment for MSMEs leading them towards accelerated and sustained growth pathway.

## Small Industries Development Bank of India

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