

## **SMALL AND MEDIUM ENTERPRISES IN THE ERA OF GLOBALISATION**

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### **ABSTRACT**

*Micro, Small and Medium Enterprise (MSME) sector has been undergoing a metamorphosis in the era of globalisation for over a decade and a half. Many developments of relevance to SMEs (Small and Medium Enterprises) have taken place within the country and internationally. Globalisation resulting in fierce competition in various product lines has forced the SME sector to adopt strategies in tune with the global trends. A number of programmes of cluster-specific and firm-specific approaches are being pursued by all India organisations with a wide network of institutions associated with various functions supporting the SME sector at different levels. The present paper discusses a few key approaches, such as the MSMED Act, 2006, Policy of de-reservation, Greater equity participation, Cluster Development Approach (CDA), and National Manufacturing Competitiveness Programme (NMCP) which help the SME sector to reorient itself to face the challenges posed by increased competition as a result of globalisation. In an increasingly globalised competitive scenario, SMEs have to upgrade their capabilities by innovation, and adoption of advanced technologies and modern management practices.*

### **Introduction**

Micro, Small and Medium Enterprise (MSME) sector, also known as Small and Medium Enterprise (SME) sector has a prominent role to play in ensuring that growth is inclusive and regionally balanced. In the context of liberalisation from 1991, the sector has been integrating itself with globalisation and global trends in a phased manner as part of the overall strategies adopted for industry

and trade at the national level. It has been steadily reorienting itself to face the challenges posed by increased competition, domestically and internationally. SMEs with their dynamism, flexibility and innovative spirit will have to adapt themselves to the fast changing needs of the market – driven economy, where the Government acts as a facilitator and promoter, no longer as a regulator. The strategies evolved in recent years, from 2000 in particular, are to help the

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sector to become globally competitive, and graduate from micro to small, small to medium, and from medium to large. Advanced manufacturing techniques and management practices can be sourced and adopted with greater ease. As participants in the global value chain, the SMEs can gain entry into larger avenues, expand their markets, find new niche markets for their products, and become prominent in the global arena with "Made in India" brand. Gainful participation in the global value chain can be used as a strategic measure for SME development. Despite competition from large enterprises, SMEs certainly have the potential to enter global value chains provided they adapt to the market shifts globally.

The MSME sector contributes 8.7 per cent of the country's Gross Domestic Product (GDP), 45 per cent of the manufactured output, and 40 per cent of the country's merchandise exports. MSMEs provide employment to about 60 million persons through 26 million enterprises, as revealed by the Fourth All India Census on MSMEs covering registered and unregistered segments for the reference year 2006-07. As per the quick results of the Census released by Development Commissioner (MSME), registered MSMEs account for 1.56 million (6 per cent), and unregistered 24.55 million (94 per cent), totalling 26.11 million enterprises, as against the earlier projected figure of 13 million enterprises for 2006-07 based on the Third Census of Small Scale Industries (Union Ministry of MSME, *Annual Report 2011-12*).

For the first time, the present Survey includes service enterprises, apart from manufacturing and medium enterprises. The Survey covers MSMEs, Khadi and Village Industries, and Coir Enterprises, as these groups fall administratively under the Union Ministry of MSME. In these categories, registered enterprises have been covered on Census basis, and unregistered enterprises on Sample basis. Unregistered enterprises are

generally much smaller in size compared to registered enterprises; these are also referred to as informal sector enterprises; and nearly three-fourths of them are in the service sector. Out of 26.11 million total MSMEs in 2006-07, manufacturing accounts for 28.6 per cent, and the remaining 71.4 per cent are service enterprises. In the registered enterprises category, the corresponding percentages are 67.1 and 32.9; and in the unregistered enterprises, manufacturing accounts for 26 per cent, and services for 74 per cent. Manufacturing enterprises are 7.47 million [1.05 million registered (14 per cent), and 6.42 million unregistered (86 per cent)], and service enterprises are 18.65 million [0.52 million registered (2.8 per cent), and 18.13 million unregistered (97.2 per cent)]. Out of 1.05 million registered manufacturing enterprises, 94.2 per cent are micro, 5.6 per cent small, and 0.3 per cent medium enterprises. Among 0.52 million registered service enterprises, 96.9 per cent are micro, 3.1 per cent small, and 0.1 per cent medium enterprises. In respect of employment, unregistered units account for 50.3 million (84.4 per cent) compared to 9.3 million for registered units (15.6 per cent). Registered units, thus, account for nearly 6 per cent of enterprises, and 15.6 per cent of employment in the MSME sector. Out of 1.56 million MSMEs registered, 94.9 per cent are micro-enterprises (1.48 million), followed by 4.9 per cent small enterprises (76,000), and 0.2 per cent medium enterprises (3,230) as per the current definition. The corresponding percentage share of employment of the three segments out of the total registered enterprises employment is 70.2, 25.2, and 4.6, respectively. Women-promoted enterprises are 1.92 million – 0.22 million registered, and 1.70 million unregistered (13.8 per cent of registered MSMEs, 7 per cent of unregistered MSMEs, and 7.4 per cent of all MSMEs).

In 2006-07, production of MSMEs is estimated at ₹ 7,094 billion at current prices,

fixed investment ₹ 5,008 billion, employment 59.5 million, and exports ₹ 1,825 billion (US \$40.36 billion) at current prices. In relation to all India export figure of US \$126.4 billion for 2006-07, MSME sector's contribution is 32 per cent, and has grown at 18.9 per cent over the previous year, compared to 22.6 per cent for overall exports. The estimates for 2010-11 are 31.15 million total MSMEs, ₹ 7,735 billion fixed investment, ₹ 10,958 billion production at current prices, and 73.22 million employment. Data relating to MSME exports is available only up to 2007-08. During 2007-08, MSME exports accounted for ₹ 2,020.2 billion at current prices (US \$50.25 billion), which works out to 30.8 per cent of the country's total exports of US \$163.13 billion; and has grown at 24.5 per cent over the previous year compared to 29 per cent for overall exports. From 2006-07, data relating to the newly registered medium enterprises are included in the revised estimates. For earlier years, data cover only micro and small enterprises (Union Ministry of MSME, *Annual Report 2011-12*).

In the context of enhancing competitiveness of MSME sector, it is important to recall a few landmarks / recent developments which have resulted in increased fierce competition globally, and even in the domestic market.

|            |   |
|------------|---|
| July 1991  | Announcement of liberalisation policy in industry and trade sectors   |
| April 2001 | Virtual dismantling of all the quantitative restrictions (QRs) by India permitting liberal import of goods from other countries |

January 2010 Prime Minister's Task Force on MSMEs submits its report to the Prime Minister. Vigorous action steps are being taken thereafter on various areas for overcoming the problems faced by the MSME sector. Apart from the general decline in industrial production during the period of global recession from September 2008 in the country, labour intensive export oriented small enterprises have been adversely affected to a greater degree. These include industries such as textiles, readymade garments, gems and jewellery, leather, handicrafts, handlooms, silk carpets, marine products, toys, and sports goods. Export oriented industrial enterprises have been hit hard in a number of directions such as fierce global competition because of relatively low competitiveness of some of the Indian products, and rupee appreciation apart from recession in developed countries.

#### **MSMED Act, 2006**

The Micro, Small and Medium Enterprises Development (MSMED) Act has become operational from October 2006. Being a comprehensive legislation for the promotion, development, and enhancement of competitiveness of the MSME sector, a number of measures were provided for in the Act for enhancing competitiveness of SMEs, and for enabling the enterprises to avail of the benefits of global markets.

Under the Act, the enterprises have been categorised into those engaged in (a) Manufacturing, and (b) Providing / Rendering of Services. Both categories have been further divided into micro, small and medium enterprises, based on their investment in plant

and machinery (for manufacturing) or in equipment (in case of service enterprises) as shown in Table 1.

**Table 1 : Classification of MSMEs by Investment Limit**

| Category of Enterprise | (in ₹ million)                       |                        |
|------------------------|--------------------------------------|------------------------|
|                        | Manufacturing (in plant & machinery) | Service (in equipment) |
| Micro                  | up to 2.5                            | up to 1.0              |
| Small                  | 2.5 to 50                            | 1 to 20                |
| Medium                 | 50 to 100                            | 20 to 50               |

The Act provides for a statutory consultative mechanism at the national level with wide representation of all stakeholders, and an advisory committee to assist the National Board and the central and state governments. The other features include: (a) Establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises; (b) Notifications of schemes / programmes for this purpose; (c) Progressive credit policies and practices; (d) Preference for government procurement of products and services of MSEs; (e) Problem of delayed payments to MSEs; and (f) Simplification of the process of closure of business by all the three categories of enterprises.

#### **De-reservation of Products for Manufacture in the MSE Sector, and Facilitating Greater Equity Participation Including FDI**

The policy of reservation of products for exclusive manufacture in the micro and small enterprise (MSE) (earlier SSI) sector was started in 1967. The objective of reservation was to protect the interest of the SSI sector. However, with the gradual opening up of the economy, and policy of de-reservation, there has been progressive de-reservation of a number of

items reserved for exclusive manufacture by the MSE sector. The objective of progressive de-reservation was to provide for opportunities for technological upgradation, promotion of exports, and economies of scale, in order to encourage modernisation, and enhance the competitiveness of MSEs in view of the liberalisation and globalisation of the economy. After due consultation with the stakeholders, the Advisory Committee of the Ministry of MSME de-reserved a number of items from the reserved list. The recent ones are 125 items in March 2007, 79 in February 2008, and 14 in October 2008. The total number of items continuing in the reserved list by March 2009 stood at 21. In September 2009, the remaining 21 items were also notified as de-reserved, with the condition that medium and large units entering these items with or without foreign direct investment (FDI) should commit for exporting 50 per cent of their production within a maximum period of three years. They should obtain an industrial licence. If the FDI is more than 24 per cent, big players had to obtain prior approval of Foreign Investment Promotion Board. The September 2009 Press Release removed this process of obtaining permission if the FDI in equity is above 24 per cent, and permitted FDI or participation by other businesses in MSMEs without a ceiling. This enabled MSMEs to attract FDI or investment from other companies to a greater extent. Other developments which enabled MSMEs to attract FDI or investment from other companies to a greater equity are passing of two acts, Limited Liability Partnership Act, and single person promoted companies under the Companies Act. De-reservation has, thus, led to availing the benefits of economies of scale by bigger units by using advanced technologies.

#### **Cluster Development Approach**

For over a decade, the cluster approach is being implemented as a potent tool for

achieving the overall development of clusters or groups of SMEs, covering artisan and micro-enterprises as well. Various ministries and departments of the Centre are adopting the cluster approach as a pivotal strategy for enhancing productivity and competitiveness as well as capacity building of SMEs in the country. The primary characteristic of the cluster-based approach consists in nurturing the value-chain through a range of carefully crafted demand-side and supply-side policy interventions. Key benefits of a cluster-based approach to developing the SMEs are : (a) Networking among enterprises, (b) Strengthening of the human capital, (c) Technology and skill upgradation, (d) Lowered costs, (e) Improved bargaining power, (f) Global visibility, (g) Easier access to finance, (h) Greater government support, and (i) External players within the value chain.

Under the scheme of cluster development, the benefit of a whole variety of interventions, ranging from exposure to skill development, from credit to marketing, and from technological improvements to better designs and products is given to concentrations of enterprises in a contiguous belt. With the government funding and participation of cluster actors, developmental interventions are carried out for a period of 3-5 years to enhance the competitiveness and collective efficiency of the clusters, and to integrate them with the global economy, and global supply chain in addition to addressing the need for enhancing domestic marketing.

The Micro and Small Enterprises Cluster Development Programme (MSE-CDP) was reviewed in 2006-07 to accelerate holistic development of clusters, including provision of common facility centres, developed sites for new enterprises, upgradation of the existing industrial infrastructure, and provision of exhibition grounds / halls, and also for the creation and management of infrastructure-

related assets in public-private partnership mode. The ceiling on project outlay for infrastructure development has been raised to ₹ 10 crore per cluster. From October 2007, the scope of the scheme has been enlarged to include provisions for development / upgradation of physical infrastructure also. Modifications made to the scheme are : (a) The scheme of 'Integrated Infrastructure Development Centres' has been subsumed under the cluster development programme, with all its existing features and funding pattern. Assistance under the scheme will also be available for the following purposes : (b) for setting up new clusters / industrial estates, and for improving infrastructure in the existing industrial estates; (c) for clusters developed exclusively for MSEs operated, and / or owned by women; and (d) to associations of women entrepreneurs for establishing exhibition centres at central places for display and sale of products of women-owned MSEs. The guidelines of the MSE-CDP were revised in February 2010 with enhanced funding and simplification of procedures. In the recent years, the cluster approach has been made an integral part of most of the schemes being implemented by the Ministry of MSME, covering all components of the National Manufacturing Competitiveness Programme (NMCP). Other Union ministries such as Textiles, Food Processing Industries, etc. have also implemented the cluster approach in respect of the product lines covered by them. Provisions under different phases of MSE-CDP of the Ministry of MSME are briefly recalled here.

Under MSE-CDP, financial assistance is provided as grant-in-aid by the Government of India (GoI), Ministry of MSME, and administered by the Office of Development Commissioner (MSME), and its field offices for five identified phases of the cluster development programme.

1. For preparing a Diagnostic Study Report (DSR) for a cluster of MSEs, Gol grant per cluster is a maximum of ₹ 2.5 lakh;
2. For soft interventions like awareness generation, capacity building, exposure visits, technology upgradation, market development, brand equity, trust building, business development, etc., Gol grant is 75 per cent of the sanctioned amount of the maximum project cost of ₹ 25 lakh per cluster [90 per cent for North Eastern & Hill States, and clusters with more than 50 per cent (a) micro/village, (b) women owned, and (c) SC/ST enterprises];
3. For the preparation of a Detailed Project Report (DPR), Gol grant is up to ₹ 5 lakh per cluster;
4. For hard interventions such as setting up of a Common Facility Centre (CFC), Gol grant is 70 per cent of the cost of the project, i.e., a maximum of ₹15 crore [90 per cent for NE & Hill states, and clusters with more than 50 per cent (a) micro/village, (b) women owned, & (c) SC/ST enterprises]. Hard interventions include creation of tangible assets like testing facility, design centre, production centre, effluent treatment plant, training centre, R&D centre, raw material bank / sales depot, product display centre, information centre, and any other need based facility; and
5. For infrastructure development in a cluster, Gol grant is 60 per cent of the cost of the project, i.e., a maximum of ₹ 10 crore, excluding the cost of land [80 per cent for NE & Hill States, and industrial estates / areas with more than 50 per cent (a) micro, (b) women owned, & (c) SC/ST enterprises]. For existing clusters, upgradation proposals will be

based on the actual requirement. The state / UT governments will provide suitable land for the projects. In the estimated cost to set up an infrastructure development project (excluding cost of land), Gol provides grant-in-aid. The remaining amount may be obtained as loan from SIDBI/ banks / financial institutions or equity from state / UT government. The state / UT government will meet the cost in excess of ₹10 crore or any escalation in cost. Office of the Development Commissioner (MSME) with the approval of the Steering Committee, may appoint Competent Programme Management Service Providers (PMSPs) for facilitating formation of various proposals and their implementation.

In the present scenario of knowledge-based economy, formation of consortia, self-help groups, dynamic associations may yield benefits for pursuing issue-based strategic interventions in industrial clusters. A critical mass of MSEs can join hands under the umbrella of a formal entity called cluster led by a group of beneficiaries (Special Purpose Vehicle – SPV). Confidence building and trust building are the two main pillars of building up cluster development initiatives. Guidelines under MSE-CDP have been published in *Laghu Udyog Samachar* (LUS), November 2010, pp. 3-22.

### **Dimensions of Manufacturing Competitiveness**

The MSE-CDP was the major initiative geared to enhancement of collective efficiency of firms and for promoting collaborative efforts among firms located in the vicinity. The rationale is that the thinning of promotional initiatives among a large number of individual firms would imply a significant erosion of the intended benefits. A decade of experimentation in the collective

efficiency models indicates this. While these models have contributed to enhancement of overall productivity of firms under clusters, manufacturing capabilities of the country have suffered. It was in this context that the National Manufacturing Competitiveness Programme (NMCP) was launched in 2005. The NMCP mainly deals with firm level competitiveness. The broad elements of manufacturing competitiveness policy are: (a) Technology and innovation enhancement, (b) Protection of intellectual property rights (IPRs), and (c) Entrepreneurship policy.

The National Manufacturing Competitiveness Council (NMCC) was set up in 2004, as an inter-disciplinary and autonomous body to energise and sustain the growth of the manufacturing industry. Broadly, the objectives of the Council are: identification of manufacturing sectors having globally competitive potential, as also their problems and constraints with respect to structure and size, technology gaps, modernisation needs, etc., and evolving sector-specific strategies for enhancing the competitiveness of manufacturing sectors. Its functions would, *inter alia* include: sectoral and enterprise level initiatives, innovation and technology development (R&D), entrepreneurship promotion, infrastructure and enabling facilities, trade and fiscal policies, and employment generation. The NMCC has helped a number of enterprises in sunrise sectors such as food processing, textiles and garments, pharmaceuticals, leather, and information technology (IT) in increasing their capabilities for global competitiveness, minimising technological gaps, providing infrastructure and enabling facilities, and supporting with trade and fiscal policies.

Globalisation of businesses has increasingly drawn SMEs into global value chains through different types of activities. The networking of globalisation has been developed in recent years through joint efforts

in selling, buying, technological development, quality standards, learning networks, and market research. Many SMEs are trained to establish collaborative linkages with global suppliers in which the role of the government is important in promoting the network. The MSMEs Development Act, 2006 has been designed to solve the constraints and problems faced by SMEs, and enable the enterprises to avail of greater market opportunities arising from globalisation in the World Trade Organisation (WTO) - administered foreign trade.

The NMCP that started in 2005 covers 10 components of the SME sector. The coverage and main aspects of these components are explained here. Guidelines for implementing each of the components of NMCP are periodically published in *Laghu Udyog Samachar* (LUS) by Development Commissioner (MSME). The relevant issues of LUS in which guidelines for each of the schemes have been published are indicated at appropriate places in subsequent paragraphs. Some of them have also been released as booklets. Website [www.dcmsme.gov.in/schemes](http://www.dcmsme.gov.in/schemes) of Development Commissioner (MSME) furnishes provisions of various schemes of the Ministry of MSME.

*Marketing Support and Assistance to MSMEs through Bar Coding (Bar Coding)*: Bar code is a series of parallel vertical lines (bars and spaces), that can be read by Bar Code scanners. It is used worldwide on the product packages, as price tags, carton labels, and even on credit card bills. When it is read by scanners, the restored information on product profile and its other attributes is made available to the consumer, and this facilitates better marketing of products. The Bar Coding is a unique, universal, and international concept which can be recognised anywhere in the world. Bar Coding is essential in many ways, *inter alia*, to eliminate delays and inaccuracies

inherent in manual checking / identification of each category of goods indicating price and other essential details, maintaining simultaneous inventory entries, management and control, ordering timely replacements, rapid issuing of printed memos, and receipts after accounting, etc. Bar Coding has become a pre-requisite for all suppliers and buyers in today's digitalised market, and Indian MSEs will have opportunities to grow by adopting it. Bar Coding enables higher price realisation at the exporter's end, instead of at the buyer's end; and helps promote Indian value added products globally. Using international digitalised numbering standards represents a small but significant step in accessing global and ever growing domestic markets (LUS, February 2010, pp. 12-13).

Bar Coding is an important marketing tool having wide global acceptability. In order to encourage units in the sector to adopt bar coding, a provision for reimbursement of 75 per cent of one-time registration fee from January 2002, and annual fees for the first three years from June 2007 paid to Global Standard One (GS1) India (formerly EAN India) (an autonomous body under the Ministry of Commerce and Industry) by MSEs for adoption of Bar Coding has been made under SSI-MDA (Market Development Assistance) Scheme. Besides, there is a provision for organising a one-day sensitisation awareness programmes, and preparation of publicity material for MSEs and other stakeholders concerned.

*Support for Entrepreneurial and Managerial Development of MSMEs through Incubators (Business Incubator)*: The concept of business incubation is relatively new for MSMEs. The Incubator scheme makes available a new window for supporting and nurturing business based on new ideas. The idea is to promote development of knowledge-based technological innovative ventures, and to improve the competitiveness and survival strategies of MSMEs. Incubation of ideas under

the guidance of an incubator will facilitate sustainable development. Under the scheme, knowledge institutions like engineering colleges, research laboratories, and university science and technology departments are provided financial assistance up to ₹ 6.25 lakh for incubating each of the new ideas. The incubator institution provides technology guidance, workshop and laboratory support, and linkages with other agencies for the successful launching of the business, and guides the entrepreneurs in running the business for about three years. During the 11th Plan period up to March 2012, provision of ₹ 135 crore has been made by Gol for incubating 2000 ideas (LUS, January 2011, pp. 23-27).

Under the scheme, 100 'Business Incubators (BIs)' are to be set up under technology (host) institutions over a 4-year period at 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 ₹ 4-8 lakh per idea / enterprise nurtured by them, limited to a total of ₹ 62.5 lakh for 10 units. In addition, ₹ 4 lakh will be provided for the upgradation of infrastructure, orientation / training, and administrative expenses, resulting in a total of ₹ 66.5 lakh for promoting 10 enterprises.

*Setting up of Mini Tool Room and Training Centres (Mini Tool Room)*: Mini Tool Room and Training Centres will be promoted on Public-Private Partnership (PPP) Model for providing technological support to MSMEs by creating capacities in the private sector, for designing and manufacturing quality tools, and for providing training facilities in related areas. Total project cost for the scheme for the 11th Plan period is ₹ 210 crore including Gol's contribution of ₹ 135 crore. Implementation is planned in three ways: (a) Private Partner



(Centre PPP Model); (b) SPV set up by the states in partnership with private partners (State PPP Model); and (c) State or state agency other than NGOs (Centre-State Model). The objectives of Mini Tool Rooms are as follows (LUS, December 2010, pp. 9-16).

- \* to improve the competitiveness of the MSMEs engaged in manufacturing activity by creating capacities in the private sector for designing and manufacturing quality tools;
- \* to bridge the gap between demand and supply of trained manpower in the industry; &
- \* to encourage Research and Development, and optimisation of cost and quality of delivery, leading to enhanced competitiveness of the manufacturing sector.

In Model I (Centre PPP Model), the project is to be set up and operated by a private partner. Financial assistance will be given by Gol to meet the viability gap on a case-to-case basis, and it will be restricted to 40 per cent of the project cost (not exceeding ₹ 9 crore). In Model II (State PPP Model), the project is to be set up by the state government in cooperation with NGOs (SPVs), who will run the project on mutually agreed terms. Financial assistance will be equal to 90 per cent of the cost of machinery, restricted to ₹ 9 crore. However, in order to retain a say in the management, at least 26 per cent of the share should be with the state government. This Model can be considered if Model I is not found to be feasible. In Model III (Centre-State Model), project is to be set up and managed by the state government / state government agency. Financial assistance will be equal to 90 per cent of the cost of machinery, restricted to ₹ 9 crore. Financial assistance equal to 75 per cent of the cost of machinery, restricted to ₹ 7.5 crore can also be sanctioned for

upgradation of an existing state tool room. This Model could be resorted to only where both Model I and Model II are not found to be practicable. First preference will be to adopt Model I. Others can be considered in the sequence stated above. Project sponsor's contribution should be at least 15 per cent of the overall project cost.

*Building Awareness on Intellectual Property Rights (IPRs)* : The objective is to create and enhance awareness about IPRs among units in the sector so as to enable them to take appropriate measures for protecting their ideas and business strategies, and also avoiding infringement of the intellectual property belonging to others. IP refers to legal rights that result from intellectual activity in the industrial, scientific, literary, and artistic fields to preserve the innovations and R&D efforts of individuals and companies. It could be in the form of patents, trademarks, geographical indications, industrial designs, layout designs of integrated circuits, plant variety protection, and copyright. Utilisation of IPR tools will enhance the competitiveness of MSMEs through technology upgradation. These initiatives are proposed to be developed through PPP mode to encourage economically sustainable models for the overall development of MSMEs. The scheme provides for financial assistance for taking up the following identified initiatives on a cluster basis: (a) Awareness / sensitisation programmes on IPRs; (b) Pilot studies in selected clusters / groups of industries; (c) Interactive seminars / workshops; (d) Specialised training; (e) Assistance for grant of patent / GI registration; (f) Setting up of IP Facilitation Centre; and (g) Interaction with international agencies (LUS, February 2011, pp.11-20).

*Application of Lean Manufacturing Techniques (LEAN)* : The focus is on helping MSMEs adopt Lean Manufacturing (LM)

techniques so as to enhance their productivity, efficiency and competitiveness by reducing or eliminating manufacturing waste, and streamlining the system through application of various LM techniques, e.g., 5S System, Visual Control, Standard Operating Procedures (SOPs), Just in Time (JIT), KANBAN System Cellular Layout, Value Stream Mapping, Poka Yoke or Mistake Proofing, Total Productive Maintenance (TPM), etc. Worker empowerment is also emphasised. Initially the scheme will be implemented in 100 mini clusters (each of a group of 10 enterprises) for one year at a total cost of ₹ 30 crore. The scheme is in operation from July 2009. Later it will be extended to 300-500 clusters in a few years. Results will be in the form of improved process flows, reduced engineering time, proper personnel management, better space utilisation, scientific inventory management, etc. These will improve the quality of products and reduce costs. LM counsellors appointed for a few clusters will identify and implement appropriate LM techniques. The effort will bring about improvement in the quality of products at lower costs, which will enhance the competitive ability of enterprises. National Productivity Council, New Delhi has been appointed the National Monitoring and Implementation Unit for the pilot project. The MSME-Development Institute at the state level has nominated the nodal officer for coordination with NPC at the local / field level. Awareness programmes will be conducted in the clusters. Consultant's fee for each cluster up to 80 per cent will be borne by Gol, and 20 per cent by the beneficiary enterprises (LUS, November 2009, pp.6-8).

*Quality Management Standards (QMS) and Quality Technology Tools (QTT)* : This was launched during 2008-09, with a budget provision of ₹ 40 crore for four years. The scheme aims at improving the quality of products in the MSME sector, and inculcating quality consciousness among units of the

sector. The major activities envisaged under the scheme are: (a) Introduction of appropriate modules for technical institutions with a target coverage of 2000 technical institutions; (b) Organising awareness campaigns every year for MSMEs; (c) Organising competition-watch (c-watch) every year in the two sectors; (d) Implementation of QMS and QTT in 100 selected MSEs every year; and (e) Monitoring at least two international study missions per year. The focus is on sensitising and encouraging MSMEs to adopt the latest QMS and QTT techniques so as to strengthen their operations, and to keep a watch on the sectoral developments in the country by undertaking defined activities (LUS, October 2009, pp. 16-19).

*Energy Efficiency and Quality Certification Support (Energy)* : The focus is on sensitising enterprises and spreading an awareness about the need and benefits of adopting energy efficient technologies and using different quality certification measures for reducing emission of green house gases (GHGs), and improving the quality of products at reduced costs so as to improve the competitiveness of the enterprises in the global arena. The following initiatives are being pursued under this scheme: (a) Conducting awareness programmes on energy efficient technologies, availability of energy efficient equipments, and benefits from energy efficient techniques and clean development mechanism (CDM); (b) Supporting energy audits in sample units in clusters; (c) Promoting replication of model energy efficient technologies (EET) after preparing detailed project reports in the clusters, and implementation of the cluster plan; (d) An innovative concept of cluster-based carbon credit aggregation centres (CCACs) has been planned under the scheme to initiate MSMEs to CDM benefits; and (e) MSMEs are encouraged to acquire product certification / licences from national / international bodies, and adopt other

technologies mandated as per global standards (LUS, March 2011, pp. 16-25).

The activity will be implemented through SIDBI which will function as the implementing agency. Both technical and overall project appraisal by SIDBI / other Bank will be taken into consideration prior to the sanction of assistance in the form of grants by the Ministry of MSME. About 390 units will be supported for implementing EETs in MSMEs in potential clusters under this activity. While 25 per cent of the project cost will be provided as subsidy by Gol, the balance amount is to be funded through loan from SIDBI / other banks / financial institutions. The minimum contribution as required by the funding agency will have to be made by the MSME. Besides reducing energy cost, the activity will also enable the implementing enterprises in obtaining credits, which are tradable in the National and International Commodity Exchanges. Clusters for setting up the Carbon Credit Aggregation Centres (CCACs) for introducing and popularising Clean Development Mechanism (CDM) will be identified on the basis of the CDM implementation potential in the cluster or applications received from the stakeholders.

*Marketing Assistance and Technology Upgradation (Modern Marketing Techniques) :* Competitiveness in marketing is sought to be improved through Marketing Assistance and Technology Upgradation Scheme, by using the latest techniques and technologies suitable for specific product groups on a cluster basis. The broad activities under the scheme include technology upgradation in packaging, development of modern marketing techniques, competition studies, state / district exhibition, corporate governance practices, marketing hubs, etc. Under the scheme introduced in 2010, ten product groups have been identified for studies on packaging.

Further, 140 units have been identified for participation in industry fairs and exhibitions (LUS, February 2011, pp. 7-10).

*Promotion of Information and Communication Technology Tools (ICT Tools) :* The scheme envisages that SME clusters, which have quality production and export potential, shall be identified, encouraged and assisted in adopting ICT applications to achieve competitiveness in the national and international markets. The activities planned under the scheme include: identifying target clusters for ICT intervention, setting up of E-readiness infrastructure, developing web portals for clusters, skill development of MSME staff in ICT application, preparation of local software solution for MSMEs, construction of e-catalogue, e-commerce, etc. and networking MSME cluster portal on the national level portals in order to outreach MSMEs into global markets. The scheme launched in 2010 will initially be implemented in 100 clusters (LUS, February 2011, pp. 7-10).

*To Bring Design Expertise through Design Clinics (Design Clinic) :* The scheme brings design experts on a common platform to enable MSMEs to access expert advice and solutions for their real time design problems, resulting in continuous improvement and value addition to the existing products. It also aims at developing value added cost-effective solutions. The scheme introduced in 2010 comprises two major parts – design awareness, and design project funding. The design awareness stage comprises activities like seminars, workshops, diagnostic studies of clusters. In design project funding, projects of students, consultants / designers, and consulting organisations are assisted by Gol by providing 60 per cent of the project cost by way of grant. The scheme will initially be implemented in 200 MSME clusters (LUS, February 2011, pp. 7-10).

## Conclusion and Suggestions

SMEs in the competitive environment need to plan for globalisation as part of their strategy to enhance competitiveness, and not as a reaction to venture into new markets. Based on the experiences of recent years in the country and the recommendations of various studies, including the Prime Minister's Task Force on MSMEs, whose recommendations are currently being implemented, a few suggestions are made for improving the environment for SMEs in the globalisation context. Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs.

*Promoting Entrepreneurship and Skill Development:* Private sector organisations and non-governmental organisations (NGOs) need to be involved to a greater degree with appropriate trainers' training programmes to equip them to shoulder the responsibility on PPP mode. The corporate sector may take the lead role in infusing enterprise education, skill upgradation, and management induction programmes. Promoting synergy is necessary to achieve integration in order to attain the desired goals by involving public sector and private sector organisations. Encouragement should be given for private corporate sector to establish business incubation support network, as also institutional framework and policy framework for business-turn around, for the benefit of SMEs.

*Upgradation of Clusters and Creation of Value Chain:* SMEs can achieve high level of competitiveness if they work in a cluster environment ensuring complementarities, common activities, and institutional stability. Collective innovations should flow from these efforts. Through strengthening of linkages and creation of value chain, clusters can be upgraded. These can include linkages among firms, strengthening the local position within the value chains, building cluster-specific skill

centres to develop cluster-specific labour force, strengthening the linkages with the local suppliers, and facilitating greater level of interactions among the stakeholders of clusters.

*Strengthening Sub-contracting Relationships within the Region / Other Parts of the Country / Other Countries:* Sustainability and growth of SMEs would largely depend on their capacity to become part of the strategies of larger firms in the national and global arena. This is particularly important for technology oriented and export-oriented SMEs, which serve as sub-contractors for large enterprises in sectors such as IT, biotech, pharmaceuticals, light engineering, electronics, and automobile components. SMEs should be equipped to meet the global standards and delivery mechanisms.

*Focussed R&D Institutions for SMEs:* There is need for focussed institutions encouraging R&D activities in the SME sector in a coordinated manner. They may identify thrust areas for research, new areas for technology application, opportunities for commercialisation of R&D, and hand-holding of SMEs in their R&D intensification. This can lead to higher level of technology intensive firms coming up in various product lines in thrust areas.

*Linking SME Strategy with Regional Trading Arrangements:* Linking the SME development strategy with regional trading arrangements would encourage learnings from regional and cross-continental peer groups. Multi-national corporations (MNCs) may be encouraged to assist SMEs to upgrade them to meet quality standards that may be required by them. They should become SME-friendly by developing suitable tendering policies.

*Increasing SMEs' Access to Finance:* The screening methodology of financing

institutions needs to consider non-financial parameters and management competencies, while evaluating loan proposals of SME units. Export-Import Bank of India, Mumbai in collaboration with International Trade Centre, Geneva has implemented an unique enterprise management development services programme, which is an IT-based tool, loan.com to enable SMEs to prepare business plans with international market in focus. This is implemented as a pilot project for SMEs at present, and needs to be extended to more regions. The working group on credit flow to SMEs under the chairmanship of K.C. Chakrabarty and the Prime Minister's Task Force on SMEs have suggested a number of measures for sustained development of the SME sector. These included establishment of a

few funds in the SME sector for specific purposes. Action is to be initiated on a priority basis to implement these recommendations.

*Pro-active Role of Industry Associations / Cluster Associations* : It is suggested that the key associations at the state level / cluster associations at the cluster level should take the lead in implementing various programmes in the interest of their members. Pro-activeness from their side will enable the institutions concerned to perform in an appropriate manner, review the performance of a programme in various locations periodically, and bring out lessons for the future. Periodic monitoring and review of implementation of programmes is to be pursued regularly. Interaction across states is also necessary.

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**APPENDIX I**
**Select Websites of National Organisations and others  
of relevance to MSME Organisations and MSMEs**

1. Ministry of MSME, New Delhi – [www.msme.gov.in](http://www.msme.gov.in)
2. Development Commissioner (MSME), New Delhi – [www.dcmsme.gov.in](http://www.dcmsme.gov.in); and [www.smallindustryindia.com](http://www.smallindustryindia.com)
3. State level MSME Development Institute, e.g., for Hyderabad– [www.msmehyd.ap.nic.in](http://www.msmehyd.ap.nic.in)
4. National Small Industries Corporation (NSIC), New Delhi – [www.nsic.co.in](http://www.nsic.co.in); web portal for MSMEs - [www.nsicindia.com](http://www.nsicindia.com); and International portal of NSIC - [www.nsicpartners.com](http://www.nsicpartners.com)
5. Small Industries Development Bank of India (SIDBI) – [www.sidbi.com](http://www.sidbi.com); and Web portal on information on technologies - [www.techsmall.com](http://www.techsmall.com).
6. National Bank for Agriculture and Rural Development (NABARD), Mumbai – [www.nabard.org](http://www.nabard.org)
7. Export-Import Bank of India, Mumbai - [www.eximbankindia.in](http://www.eximbankindia.in)
8. Reserve Bank of India, Mumbai – [www.rbi.org.in](http://www.rbi.org.in)
9. Industrial Development Bank of India, Mumbai – [www.idbi.com](http://www.idbi.com)
10. Department of Commerce, Ministry of Commerce and Industry, New Delhi – [www.commerce.nic.in](http://www.commerce.nic.in); and Special Economic Zones (SEZ): all India - [www.sezindia.nic.in](http://www.sezindia.nic.in)
11. Ministry of Textiles, New Delhi – [www.texmin.gov.in](http://www.texmin.gov.in)
12. Ministry of Food Processing Industries, New Delhi - [www.mofpi.nic.in](http://www.mofpi.nic.in)
13. Commissioner of Industries, Andhra Pradesh, Hyderabad – [www.apind.gov.in](http://www.apind.gov.in); and SEZs of Andhra Pradesh – [www.apsez.com](http://www.apsez.com)
14. Khadi and Village Industries Commission (KVIC), Mumbai – [www.kvic.gov.in](http://www.kvic.gov.in)
15. National Institute for Micro, Small and Medium Enterprises (ni-msme), Hyderabad – [www.nimsme.org](http://www.nimsme.org)
16. Entrepreneurship Development Institute of India (EDI), Gandhi Nagar (Gujarat) - [www.ediindia.org](http://www.ediindia.org)
17. National Institute for Entrepreneurship and Small Business Development (NIESBUD), Noida (Uttar Pradesh) – [www.niesbud.nic.in](http://www.niesbud.nic.in)
18. Indian Institute for Entrepreneurship (IIE), Guwahati (Assam) - [www.iie.gov.in](http://www.iie.gov.in)
19. World Trade Organisation (WTO), Geneva – [www.wto.org](http://www.wto.org)
20. Global Information Network for SMEs covers information on SMEs in various countries – [www.gin.ne.ip](http://www.gin.ne.ip)

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**APPENDIX II****Web Portal of NSIC to enhance the reach of MSMEs in the Global Market**

Website [www.nsicindia.com](http://www.nsicindia.com) has been developed by National Small Industries Corporation (NSIC) at its headquarters in New Delhi as a B2B web portal for the benefit of MSMEs in India and abroad. It provides an excellent opportunity for the MSME fraternity to not only promote information exchange Pan-India but also enhance its reach to a large number of clients abroad, besides improving its service delivery. The Portal will also help MSMEs to enhance their inland and global trade through promotion of their products and services. The portal provides a number of helpful features such as product specific database searches, sector specific domestic and international tender notices with alert facility, business trade leads (buy / sell) from more than 200 countries, and opportunities to MSMEs to develop their products, and showcase them through the portal, and reach out to the global markets. The portal helps MSMEs in expanding their trade opportunities Pan-India and in other countries. E-commerce is becoming a global trend, the advantages of which should be accessible to the smaller entities. The comprehensive portal comprises more than 2.5 lakh MSME contacts, and helps the enterprises in reaching out to the buyers in the world from their work place by using information and communication technology (ICT) tools.

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**APPENDIX III****NSIC sets up MSME Info-call Centre at New Delhi**

The call centre can be contacted on toll free number 1800-11-1955 which works from 8.00 - 22:00 hrs. every day. This centre helps in providing the required information about the vendors and technology suppliers to the potential first generation entrepreneurs and existing small enterprises as and when required by them. Salient features of the information centre are: Customer care services and solutions including tele and internet marketing, and infomediary services. The centre has the state of the art technology computers and dedicated call centre equipment which are managed by NSIC trained staff conversant with call centre operations and telemarketing applications. Some of the activities covered by the centre are as follows:

- \* Tracking of all incoming and outgoing calls with date and time
- \* Recording the entire conversation
- \* Tele conferencing
- \* Responding to the queries through Interactive Voice Response System (IVRS)
- \* E-newsletters
- \* E-mail notifications for unattended calls
- \* Voice mails which can be forwarded to mail boxes
- \* Report generation on the basis of different criteria such as pending queries, queries concerning relevant schemes, suggestions and complaints
- \* Remote monitoring
- \* Database integration



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**APPENDIX IV****Ministry of MSME sets up Udyami Helpline at New Delhi**

The call centre can be contacted on toll free number 1800-180-6763 which works from 6:00 - 22:00 hrs., and responds in English and Hindi on all days of the year. The centre guides MSMEs in providing the requisite information for existing and prospective entrepreneurs about opportunities and facilities available under various schemes of Government of India. The relevant websites are: [www.msme.gov.in](http://www.msme.gov.in) of the Ministry of MSME, and [www.dcmsme.gov.in](http://www.dcmsme.gov.in) of Development Commissioner (MSME), New Delhi. Udyami Helpline provides assistance and guidance to entrepreneurs regarding marketing assistance, export promotion, credit support, cluster development, technology upgradation, skill development, process of setting up an enterprise, and details of various schemes of the Ministry of MSME.