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STRATEGIC DEVELOPMENT OF MSMEs: COMPARISON OF POLICY FRAMEWORK AND INSTITUTIONAL SUPPORT SYSTEMS IN INDIA AND SELECT COUNTRIES

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EXECUTIVE SUMMARY

INTRODUCTION

The role of SMEs in developing and emerging economies is undisputed and is well recognized. Contributing significantly to the employment generation (as a group, SMEs provide greater level of employment than large firms), poverty alleviation and rural development (SMEs are capable of pushing economic reforms and modernization of local economies), SMEs are considered to be the engine of growth, the world over. SMEs stimulate innovative ideas / business methods, and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply situations; help in diversifying economic activity, and make a significant contribution to industrial development and exports. Thus, it is not surprising, that the establishment and promotion of SME's across the globe has assumed strategic importance.

Definition of MSMEs

Countries across the globe do not use the same definition for classifying their SME sector. Nor does a universal definition appears to be necessary. The definitions in use depend on the purposes for which they are meant, and are required to serve the policies that govern the SME sector thus defined. Major parameters generally applied by most countries, singly or in combination, in defining SME sector include:

- Capital investment on plant and machinery;
- Number of workers employed;
- Volume of production or turnover of business.

Definition of MSMEs in India

Earlier, industrial units in India, based on investment ceiling on the installed plants and machinery, were classified as small scale and large scale units in broad terms. Within small-scale sector, there were sub-classifications such as ancillary units, tiny units, women enterprises, and small scale services and business units. The medium scale units were not earlier defined in India. However, following the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, enterprises in

India are being broadly classified into micro units, small units, medium units and large units.

Manufacturing Sector

Within the manufacturing sector micro enterprises are classified as those with investment in plant and machinery not exceeding ₹ 25 lakhs. While investments in plant and machinery for a small enterprise has been kept in the range between ₹ 25 lakhs and ₹ 5 crores, a medium enterprise is defined with investment in plant and machinery in the range between ₹ 5 crores and ₹10 crores.

Services Sector

The definition of MSMEs in the services sector based on investments in plant and machinery classifies micro enterprise where investment in equipments does not exceed ₹ 10 lakhs; small enterprise where investment in equipments falls between ₹ 10 lakhs and ₹ 2 crores; and a medium enterprise where investment in equipments falls between ₹ 2 crores and ₹ 5 crores.

Evolution of MSME Policies in India

Since independence, the Government of India has formulated several industrial policy resolutions/ statements with a view to promote industrial growth in the country. The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1990: During this period, due recognition was given to the micro and small enterprises, with the objective of expanding employment opportunities, ensuring equitable distribution of the national income and facilitating effective mobilization of private sector resources of capital and skills. During this period, the Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organization (SIDO)], the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were established, to provide supportive measures that were required to nurture MSEs. During this period, policy measures were introduced to protect the MSEs in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. Several MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] across the country were set up to train youth in skills/

entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centres were set up all over the country.

1991-1999: The new Policy for Small, Tiny and Village Enterprises of August 1991, laid the framework for government support in the context of liberalisation, which sought to replace protection with competitiveness to infuse more vitality and growth in MSEs in the face of foreign competition and open market. Supportive measures were focused on improving infrastructure, technology and quality. Testing Centres were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernisation Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set up mini industrial estates for small industries.

1999 onwards: The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The Policy Package announced in August 2000 was introduced to address the problems relating to credit, infrastructure, technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSME sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to ₹1 crore (US$ 0.20 million) and a Market Development Assistance Scheme for MSMEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the Government enacted the MSMED Act. In March 2007, a Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment.

The Ministry of MSME also had taken a view to do away with the restrictive ceiling of equity holding of 24%, prescribed for industrial undertakings, both domestic and foreign, in the MSMEs. A Limited Liability Partnership Act (where the liability of at least one partner is unlimited and that of the other partners are limited to the capital invested) as a new legal form of business organization is being envisaged, thereby enhancing greater level of corporatisation of SMEs and attracting fresh equity capital.

Policy of Protection / Reservation

Protection and reservation has been extended to Indian MSEs, in select sectors, with the specific objective of providing competitive platform and lead time to relatively uncompetitive sectors. The policy for protection and reservation has been reviewed periodically, and considering an appropriate timeframe for breeding efficiency into the system, the Government of India has been gradually withdrawing the policy protection measures (reservation) of MSEs. Starting 1997 and until 2001, the Government de-reserved only 39 items. This has been followed by gradual thrust for de-reservation, year after year. In the year 2008, 93 items have been de-reserved.

At present, only 20 items are reserved for small scale sector in India. These belong to sectors such as food and allied sector, wood and wood products, paper products, injection moulding thermo-plastic products, chemical and related products, glass and ceramics, and mechanical engineering products (excluding transport equipment).

Policies towards Direction of Credit

Government of India, realizing the credit requirements of small scale units devised policies under the priority sector lending. The policy for priority sector lending sets a target of defined percentage (currently 40%) of their Adjusted Net Bank Credit (ANBC) or Off- Balance Sheet Exposure (OBE), whichever is less, to identified sectors such as agriculture, micro and small-scale industries, and certain other select sectors. The inclusion of micro and small industries in this list makes them eligible for this earmarked credit.

With regard to foreign banks, there would be a sub-target of 10% of advances to small scale units under the overall priority sector target of 32 per cent of ANBC or credit equivalent amount of OBE.

It may be mentioned that for both domestic and foreign banks, there will be a sub-target of 60% (of total advances to small-scale sector) to micro enterprises, as detailed below:

- 40% to micro manufacturing enterprises having investment in plant and machinery upto ₹ 5 lakhs, and micro services enterprises having investment in plant and machinery upto ₹ 2 lakhs;
- 20% to micro manufacturing enterprises having investment

in plant and machinery between ₹ 5 lakhs and ₹ 25 lakhs, and micro services enterprises having investment in plant and machinery between ₹ 2 lakhs and ₹ 10 lakhs.

PERFORMANCE OF MSMEs

The MSME sector contributes for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 70 million persons in over 30 million units throughout the country . There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector. MSMEs have performed well over the years. There were about 312 lakhs MSMEs in India during 2010-11 contributing to a production level of ₹ 1,095,758 crore, and providing employment to around 70 million persons.

According to the Fourth All-India Census of Micro-Small and Medium Enterprises (reference period 2006-07), the size of the registered MSMEs was estimated to be 15.64 lakh units. This comprises of 67% of manufacturing enterprises and 33% of services enterprises. About 45% of the units were located in rural areas. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89%, and 0.17%, respectively. About 90% of the registered enterprises in the MSME sector were proprietary concerns, about 4% were partnership firms, and about 3% were running as private companies and the balance were owned by public limited companies, cooperatives, trust etc. Share of women enterprises in total was around 14%.

Export Performance

The then Department of Small Scale Industries (now Ministry of MSME), Government of India used to compile data related to exports of small-scale sector in India. However, following the enactment of MSMED Act, 2006, which included the definition of medium scale sector under the overall MSMEs, the Ministry has not been collating the data pertaining to MSME exports. The latest available data on exports by MSME sector of India is for the year 2007-08, as per the Annual Report (2011-12) of Ministry of MSMEs. In the year 2007-08, the value of exports by MSME sector was ₹ 202,017 crore, a growth of little over 10%, over the export level recorded in the previous year.

Sector-wise Export Performance

It is important to analyse the sectoral orientation of SSI sector, especially in terms of exports. Ministry of

MSME, Government of India, through secondary sources compiled the export performance of Indian MSMEs. However, this data is available only till 2007-08. As per this data, in sectors such as agro-based products, marine products, leather, sports goods, and woolen products, the SSI orientation in India's exports has been very high; for some products like agro-based/processed products, and leather, SSI orientation in India's exports was about 70%; in readymade garments it was about 90%, while in sports goods, marine products, and wool products, it was 100%.

Subsequently, the Office of Development Commissioner, Ministry of MSME, Government of India, included collation of data related to export performance of MSMEs in the Fourth All India Census of MSMEs, based on the data for the year pertaining to 2006-07. The quick results of the Census were released during 2010. According to the Fourth Census, in the manufacturing sector there were 15.5 lakh registered working units which were found to be exporting goods amounting to ₹ 76,337 crores. This works out to 13.3% of India's total exports in the same year. Textiles and readymade garments was the industry which was exporting the largest with a share of 27.8% followed by agriculture and allied products (15.2%), metals and related products (10.8%) and engineering goods (10.6%).

SUPPORT SYSTEM FOR MSMEs IN INDIA

Technology Support

In India, technological upgradation needs of SMEs are being supported by a host of institutions and policies. Office of the Development Commissioner - Micro, Small and Medium Enterprises (DC-MSME), Ministry of Micro, Small and Medium Enterprises, Government of India, serves as an umbrella organization for plethora of support provided to MSME sector in India. A network of 30 MSME Development Institutes (MSME - DIs); 28 Branch MSME-DIs; 4 MSME Testing Centres (MSME-TCs); 7 Field Testing Stations (MSME-TSs); 18 Autonomous Bodies - which include 10 MSME Tool Rooms (MSME-TRs); 6 MSME Technology Development Centres (MSME-TDCs); 2 MSME Footwear Training Institutes (MSME-TDC-CFTIs); and 2 Departmental Training Institutes (MSME-TIs), function under DC-MSME. Policy guidelines have been issued by the Ministry of MSME, Government of India for technological support of MSMEs through programmes such as National Manufacturing Competitiveness Programme (NMCP), and through organisations such as KVIC and NSIC (National Small Industries Corporation Limited).

Under the National Manufacturing Competitiveness Programme (NMCP), technology development is being inculcated through the Lean Manufacturing Competitiveness scheme, which aims to reduce manufacturing waste, thereby, increasing competitiveness and productivity of the MSMEs. The broad activities planned under the scheme include Total Productive Maintenance (TPM), 6S (Sigma), Visual Control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke, etc. In addition, through the Design Clinic Scheme, design experts are engaged to provide expert advice and cost effective solutions to manage the real - time design challenges of MSMEs.

Khadi and Village Industries Commission (KVIC) undertake R&D activities through in-house research and also by sponsoring projects to other R&D organisations. The main objectives of the R&D programme are: increase in productivity and wages of the workers; improvement in quality; efficient use of local skills and local raw materials and reduction of human drudgery.

Entrepreneurship Development Support

MSME-DIs are imparting varieties of 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), Entrepreneurship Development Programmes (EDPs), Entrepreneurship Skill Development Programme (ESDPs), Management Development Programmes (MDPs), Business Skill Development Programme (Tailor made Course), and Entrepreneur-cum-Skill Development Programme (ESDP) on Biotechnology.

The Ministry of MSME initiated the Small Industry Clusters Development Programme (SICDP) which is a broad based programme for holistic and integrated development of micro and small enterprises through interventions such as capacity building, marketing development, export promotion, skill development, technology upgradation, exposure visits, etc. and for setting up of common facilities.

Marketing Support

DC (MSME) has been providing Marketing Development Assistance Scheme to MSMEs in order for them to get exposure in the international market, and with the objective of exploring the possible export opportunities for their products by exhibiting them through participation in International Trade Fairs under MSME-India umbrella. KVIC has been granted the status of 'deemed' Export Promotion Council (EPC) by the Department of Commerce, Ministry of Commerce and Industry, Government of India, for availing support under Market Development Assistance (MDA) / Market Access Initiative (MAI) on the pattern of an umbrella EPC, like Federation of Indian Export Organisations (FIEO), for participation in international exhibitions/fairs, organization of buyer-seller meets, etc.

Vendor Development Programmes (VDPs) are being organized by MSME-DIs in every nook and corner of 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, and 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, Government departments such as Defence, and Railways, in indigenising a number of products which hitherto had been imported.

Financial Support

Small Industries Development Bank of India (SIDBI) was established in 1990 with the mandate of promoting, financing and developing small scale sector, and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing the small scale sector. SIDBI has been providing refinance to institutions such as State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), and Commercial Banks against the loans granted to small-scale sector. However, the need was also felt to make SIDBI as principal financial institution for the small-scale sector, with the task of financing small-scale projects directly on a selective basis. A Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been established jointly by SIDBI and the Government of India to provide the much needed comfort to banks and other lending institutions for extending credit facilities to micro and small enterprises sector. SIDBI also operates a Credit Linked Capital Subsidy Scheme, aiming at facilitating Technology Upgradation of Micro and Small Enterprises. The Scheme provides for 15% capital subsidy on institutional finance availed by the

MSEs for induction of well-established and improved technology in approved subsectors/products. SIDBI has also established SIDBI Venture Capital Fund Ltd (SVCL) for supporting incubation projects of small scale units in the IT and related business such as data communication, multi-media and value added telecommunication services. SIDBI, along with Dun & Bradstreet Information Services India (P) Ltd., and many leading Indian banks, has established SME Rating Agency of India Ltd (SMERA). The rating scale and rating process of SMERA has been developed with the objective of enhancing the market standing of SMEs enabling flow of faster credit on better terms. SIDBI along with Union Bank of India, Bank of Baroda, and SIDBI Venture Capital Ltd., has floated Indian SME Asset Reconstruction Company Ltd with the objective of unlocking the idle assets for productive purposes, thereby facilitating greater flow of credit from the banking sector to MSMEs.

The Ministry of MSME has been operating a Scheme of Micro Finance Programme since 2003-04, which has been tied up with the existing Micro Credit Scheme of SIDBI. Under the Scheme, the Government of India provides funds to SIDBI under 'Portfolio Risk Fund' (PRF) which is utilized for security deposit requirements of loan from the MFIs/NGOs. The funds under PRF are to be utilized for extending loans in the underserved states like North Eastern states (including Sikkim), Bihar, Jharkhand, West Bengal, Orissa, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Jammu & Kashmir, Rajasthan and Uttarakhand and underserved pockets/districts of other States.

National Small Industries Corporation (NSIC), in addition to technological and promotional activities, has also been supporting the credit requirements of SMEs. The raw material assistance scheme of NSIC finances purchase of raw materials, both indigenous and imported raw materials. NSIC also finances marketing activities of SMEs related to domestic trade, exports, and bill discounting. In order to ensure smooth flow of credit to small enterprises, NSIC has entered into strategic alliances with commercial banks to facilitate long term / working capital financing of the small enterprises across the country. NSIC has also established arrangement with Export Credit Guarantee Corporation of India, through which it facilitates export credit insurance for SMEs. Through tie-ups with leading credit rating agencies, NSIC seeks to function as a nodal agency for credit rating of SMEs.

State Finance Corporations (SFCs) play a crucial role in the development of SMEs. SFCs provide financial assistance by way of term loans, direct subscription to equity / debentures, guarantees, discounting of bills of exchange and seed / special capital. SFCs also operate number of refinance schemes of development financial institutions like SIDBI. SFCs are also offering facilities such as equipment leasing and have entered into the fields of consultancy, merchant banking, debenture trusteeship and capital related services.

Reserve Bank of India has also been taking several measures to enhance credit delivery to MSEs. One of the major concerns of MSE sector is the inability to arrange for collateral security and or third party guarantee. As a result, new entrepreneurs find it difficult to access credit from the banking system. To counter this challenge, RBI has issued guidelines from time to time and made it mandatory for banks to grant collateral free loans up to Rs 0.5 million sanctioned to the units of MSE sector (both manufacturing and service enterprises). Further, banks have also been advised to lend collateral free loans up to Rs 2.5 million, based on good track record and financial position of the units.

Many measures were taken in the Union Budget 2012-13 as well for the development of SMEs. In order to enhance availability of equity to the MSMEs, India Opportunities Venture Fund is proposed to be set up with SIDBI with ₹ 5,000 crore. To enable greater access to finance by Small and Medium Enterprises (SME), the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) has launched their respective SME exchange platforms. The Securities and Exchange Board of India (SEBI) had permitted setting up of a stock exchange / trading platform for SMEs by a recognized stock exchange having nationwide trading terminals and had also issued guidelines and necessary amendments to the SEBI Regulations. The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) had been given final approval for launching SME platforms on 27 September 2011 and 14 October 2011, respectively. With the operationalization of SME exchanges / platforms, Indian SMEs would find an opportunity to raise funds from capital markets. Apart from this, policy requiring Ministries and CPSEs (Central Public Sector Enterprises) to make a minimum of 20 per cent of their annual purchases from MSEs has been proposed. Of this, 4 per cent is earmarked for procurement from MSEs owned by SC/ST entrepreneurs. This will help in increasing sales from MSMEs; avoid idle inventory; and lead to continuous money flow. In order to augment funds for SMEs, the Budget has proposed to exempt capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery. Also, the turnover limit for compulsory tax audit of accounts as well as for presumptive taxation is proposed to be raised from ₹ 60 lakh to ₹ 1 crore.

EXIM BANK'S SUPPORT TO MSMEs

Technology Support

Export-Import Bank of India caters to the technological development of Indian SMEs through various support services, helping them to move up in the value chain and to make them internationally competitive. Exim Banks of India and USA had signed a Memorandum of Cooperation for facilitation of import of technology and equipment from USA by Indian SMEs. Similar arrangements have been established with European Investment Bank (EIB) and Japan Bank for International Cooperation (JBIC) for import of technology and equipment by Indian firms, including SMEs. Apart from this, Asian Development Bank has approved US $ 100 million loan facility to Exim Bank for the purpose of providing medium and long term loans to export oriented SMEs in lagging states of Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chhattisgarh, Jharkhand, Rajasthan and Uttarakhand.

Sectorally, to cite few examples, Exim Bank of India was actively involved with the National Programme for Development of Indian Machine Tool Industry (NPDMI), which was a cooperative effort of UNIDO, Government of India, Exim Bank, and Indian Machine Tools Manufacturers Association (IMTMA). The objectives of the programme included strengthening the competitive position and technological and market development capacity of players, and in achieving high growth in CNC machine tool production, ushering in an era of e-commerce in machine tool trade, and establishing 'Made in India' label in machine tools. Exim Bank of India served on a Steering Committee, formed through drawing expertise from various fields to guide successful implementation of the project. The programme was successfully implemented especially in supporting the sector to modernize and upgrade their production facilities, adaptation of technology and meeting internationally acceptable standards. Facilitating technological information flow, Exim Bank of India, under its export facilitation programme, has supported the initiative of IMTMA in setting up of the Bangalore International Exhibition Centre (BIEC).

Also, under the Export Facilitation Programme (EFP), term loan was sanctioned to Traditional Ayush Cluster of Tamil Nadu (TACT) Pvt. Ltd., for part financing the cost of setting up of a SPV for common infrastructure facilities for manufacture of AYUSH products in Sriperumbudur, Tamil Nadu. The main aim of the programme was to enhance the capacity, reduce overheads, and improve quality of AYUSH products and its packaging, thereby facilitating even small scale units to enter into export business. The cluster will have state of the art facilities for testing and analysis, product validation, safety study and manufacture. Apart from upgrading the manufacturing technology of Ayurvedic drugs, a facility is being developed for the entrepreneurs to compete in the international market, and to develop a research & development centre in the field of Indian Systems of Medicine (ISM) products, especially Siddha and Ayurvedic products. To this effect, Exim Bank has supported this venture by part financing the cost of setting up of an SPV for common infrastructure.

Exim Bank is one of the nodal agencies appointed by Government of India, Ministry of Textiles to establish and approve the eligibility of the project under Technology Upgradation Fund Scheme. In the food-processing sector, Exim Bank of India has established close relationship with technological institutes like Central Food Technology Research Institute (CFTRI), Mysore. Exim Bank of India is promoting select food processing technologies, developed by CFTRI, for adaptation by SMEs, both in India and abroad.

Marketing support

Exim Bank of India has successfully implemented a number of innovative programmes focusing primarily on SMEs. The Bank supports strategic export development plans of companies by providing term loans towards supply side upgradation and financial support for their export marketing activities. Through this programme, Exim Bank of India seeks to help the Indian companies in their efforts to penetrate and retain their presence in overseas industrialized country markets. The programme was initially supported by the World Bank with Exim Bank as the Executing Agency; several SMEs from different sectors were financed for their overseas marketing activities, including acquisition of quality certification such as ISO 9001. Based on the successes achieved in the programme implemented by Exim Bank in India, World Bank, in fact, has sought Exim Bank's support to share its experience with other developing countries.

One of the programmes being implemented by Exim Bank is Export Marketing Services (EMS), which is a unique service offered to Indian firms/companies, helping them in their internationalization efforts and is provided across all the sectors like marine products, textiles, food processing, fruits & vegetables, handicrafts, automobiles etc. The major services offered under the EMS programme include: introducing the Indian company and its products to target country trade promotion bodies, associations, chambers of commerce, affiliates etc; assisting in negotiations with the identified partners; generating and following-up on export order; providing feedback on the product of the Indian company; building sustainable seller-buyer relationship; displaying products in Exim Bank's offices in India and overseas; organizing Festivals/Fairs/ Exhibitions in overseas markets and arranging for Buyers-Seller meetings on the sidelines of export marketing related conferences and seminars.

In addition, Exim Bank of India seeks to help Indian companies, particularly in the SME sector, to establish their products overseas and enter new markets by helping them in their export efforts by proactively assisting in locating overseas buyers/partners for their products/services. The Bank's programme for supporting product/ process certification aims to enhance international competitiveness of Indian companies, primarily SMEs, through adherence to international quality systems and standards. Exim Bank of India initiated a 'Clusters of Excellence' programme, jointly with NASSCOM in the past, to assist small and medium sized Indian software exporting companies in achieving international quality standards. The programme is aimed at assisting SME software companies to achieve the SEI-CMM certification, enhancing their capability and acceptance, and creating the potential for larger exports to USA and other developed country markets.

Exim Bank of India has also launched the Grassroots Initiatives and Development (GRID) to create export capabilities in rural and grass-root enterprises, and thereby enhancing purchasing power of the 'bottom of the pyramid'. GRID aims to create an enabling environment for rural grassroots enterprises to explore newer geographies, leveraging effectively upon Exim Bank's extensive institutional and trade promotion linkages.

Exim Bank of India also organises focused seminars, workshops and training programmes covering various aspects related to international trade and investment with the help of experts including international faculty. These programmes seek to increase awareness amongst SMEs, assist them in various facets related to upgradation and moving up the value chain, and to make them internationally competitive. Exim Bank of India has also brought out a publication on 'Business Practices of Successful Indian Exporters', outlining the internationalization strategies adopted by Indian firms including SMEs, facilitating transfer of successful experiences.

Financial support

Exim Bank of India seeks to create an enabling environment to promote two-way transfer of technology, trade and investments for the SMEs, and operates a wide range of lending, service and support programmes for this purpose. The Bank has a variety of loan products to cater to the financing requirements of enterprises including the SMEs. The credit facilities are available for financing at all the stages of an export cycle of Indian firms.

The Bank's Lines of Credit (LOC) extended to commercial banks, financial institutions, regional development banks, and entities overseas serve as a market entry mechanism to Indian exporters and provide a safe mode of non recourse financing option to Indian exporters. These are appropriate particularly for SMEs. LOCs enable buyers in overseas markets to import capital / engineering goods, industrial manufactures and related services from India on deferred payment terms. Apart from LOC, the Bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help companies, especially the SMEs, to offer competitive credit terms to the buyers and to explore newer geographical markets. Exim Bank of India was conferred with the 'SME Development Award – 2008' by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), for its contribution to the development of SMEs in the country. The Bank has pioneered and nurtured the concept of international factoring and forfeiting in India, serving mainly the SME constituent.

Also, Exim Bank introduced the Vendor Development Programme which is aimed to support development of backward linkages by exporters. Export/Trading Houses or manufacturer-exporters with satisfactory track record and strategic plan for development of backward linkages for exports are eligible to seek finance under this programme.

MSMEs: STRATEGIES FOR DEVELOPMENT – LEARNING FROM EXPERIENCES

Redefine the ceiling limit of medium enterprises

The MSME sector in India, with some exceptions, is characterized by low technology levels, which act as a handicap in the emerging global market. Although small and medium enterprises (SMEs) play an important role in India's economic growth, be it in terms of its contribution to manufacturing value-added, exports or employment generation, not many units have ability to access technological expertise or mobilize resources for in-house innovation. Also, the cap on plant and machinery for the purpose of classifying the units as SMEs does not encourage Indian SMEs to move up the value chain. It may be mentioned that within the manufacturing sector, micro enterprises are classified as those with investment in plant and machinery not exceeding ₹ 25 lakhs. While investments in plant and machinery for a small enterprise has been kept in the range between ₹ 25 lakhs and ₹ 5 crores, a medium enterprise is defined with investment in plant and machinery in the range between ₹ 5 crores and ₹ 10 crores. With such low level of investment ceiling, Indian MSMEs are either expanding laterally or engaging themselves in low-tech/low-value products. Since the manufacturing operations are capital intensive, investment ceiling for treatment of SMEs may be raised at least in the capital intensive sectors, benchmarking with such ceiling on investment in other countries.

It may be mentioned that China defines SMEs as those having investment ceiling of 300 million Yuan (which is approximately US$ 64 million); Thailand has defined SMEs with a ceiling on investment capital of upto 200 million Thai Bahts (which is approximately US$ 6.5 million); Singapore has defined SMEs with a ceiling on investment capital of upto S $ 15 million (which is approximately US$ 12 million); and EU defines medium enterprises as those of having asset size of Euro 43 million, which is approximately US$ 57 million

It may be observed that some countries (such as EU and China) have positioned the ceiling on investment for medium enterprises at high level, encouraging capital intensiveness, technology upgradation, quality improvement, export orientation and employment generation. Considering the above, the ceiling on capital investment for medium enterprises in India may be increased, at least to an extent of US $ 10 million to US$ 12 million. The hike in investment ceiling for medium enterprises would encourage higher investments for technology absorption, quality upgradation, and export orientation.

Cluster Development Approach

It is recognized that SMEs can achieve high levels of competitiveness if they work in a cluster environment ensuring complementarities, common facilities, collective activities including collective sourcing and marketing. SMEs can also achieve efficiency through collective innovations. However, it is pertinent to upgrade the clusters through strengthening of linkages and creation of value chain. These can be achieved through promotion of linkages among firms, strengthening the local position within the value chains, building cluster-specific skill centers to build a cluster-specific labour force, strengthening the linkages with the local suppliers, and facilitating greater level of interactions among the stake-holders of clusters.

Though Indian financial sector has been practicing cluster based lending in the MSME sector, its approach has to be quicker, pro-active and result oriented so as to leverage the collective strength of units in a cluster. Apart from this, a critical mass of interrelated businesses also attracts venture capital investment and leads to targeted worker training programs. Even State Governments have to play a major role to promote clusters in the semi-urban and rural areas, through policies and programs.

Need for Focused Technology/R&D Institution for MSMEs

India has established a range of dedicated institutions to provide diverse support services to MSMEs, such as finance, credit guarantee, credit rating, and entrepreneurship development. There are also few technology-oriented institutions supporting the R&D activities in general, including those of MSMEs. However, there may be a need for a focused institution encouraging technology development and R&D activities in MSME sector in a coordinated manner. The suggested institution may identify thrust areas for research, new areas for technology application, opportunities for commercialization of R&D, and hand-holding of MSMEs in their R&D intensification.

Many Governments consider technology development as one of the main strategies of MSME development. Government of Japan has enacted a special 'Law on Supporting Business Innovation by SMEs', which is intended to promote creative development of SMEs. Government of Japan has established a Small Business Innovation Research (SBIR) System under which the national Government provides financial support for commercialization of R&D. Government of Korea has also launched a SME Technology Innovation programme, to foster technological innovation of SMEs. The programme part-funds technology development expenses of SMEs, and upon successful product development, a 30% contribution from Government will also be given to SMEs as technology fees. Government of Malaysia has been supporting innovation activities of SMEs through 1-InnoCERT, which will certify SMEs on the basis of innovation and commercialization achievement. 1-InnoCERTified SMEs will have preferential benefits such as tax deduction for R&D activities, as also priority procurement by Government.

Malaysia has also instituted a programme to nurture SMEs as R&D partners for MNCs and Government agencies. China has instituted the 'Spark programme', which is a kind of a national plan encouraging the technology innovation in the 'villages and towns' enterprises. The programme places significant focus on SMEs closely related to people's livelihood. China has also set up an innovation fund for small technology based firms to promote technological innovation amongst SMEs, which provides start-up capital and partial financial support. Technology Upgradation Fund for SMEs is another major programme that provides R&D grants to SMEs. Government of Singapore has instituted a Technology Innovation Programme aimed at enhancing the technology infrastructure for product and process innovations in SMEs. The programme also co-funds technology innovation projects by SMEs and support setting up of Centres of Innovation (CoIs) in industrial clusters. Thailand (One-TAMBON-One-product) and Philippines (One Town-One Product Programme) are providing technological support for development of product using the local knowledge and competitiveness. Hungary has grant schemes for establishing SME incubation houses and diffusion of appropriate technologies through university-SME linkages.

Increasing SMEs' Access to Finance

The availability of external finance for SMEs is an issue of great importance to policy makers around the world. An added issue would be the availability of lending infrastructure in a country to fund SMEs including the funding models and technology that best suit the SMEs in the country. This infrastructure may also include the regulatory framework (such as directed lending), commercial and bankruptcy laws that affect creditor rights and prudential norms, availability of specialist agencies for sharing of credit information, credit rating, and credit guarantee of SME financing. Most of these aspects are covered in India's institutional and policy framework for SME sector. However, there has been no directed lending to support the export activities of SME sector.

Export Credit Support to MSME Sector

Export credit is not a part of mandatory priority sector lending for domestic commercial banks; while foreign banks are set with a 12% sub-target for export credit under the mandatory priority sector lending. Share of export credit, though growing in absolute terms, has been falling down in terms of its share in Net Bank Credit (NBC), over the years – from a level of 9.8%

as of end-March 2000 to 4.2% as of end December 2011.

SMEs are estimated to be contributing about 40% of India's total exports. Hence they require enhanced level of export credit support. A Working Group constituted by the RBI (July 2008) for fixing a target export credit for MSME sector has delineated that commercial banks have extended around 38% of their total export credit to MSME sector. The Working Group further suggested that 50% of export credit of commercial banks to be provided to MSME sector as a desired target level. The export credit as a share of NBC was 4.2% as of end December 2011. Assuming that the desired level (50% of export credit to MSME sector) has been achieved by now, export credit share to MSME sector should have been around 2.1% of NBC.

The share of export credit to MSMEs should be doubled (4.2% of NBC) to support the export credit needs of MSME sector. It is suggested that RBI may consider fixing a mandatory target of 4.2% of NBC as export credit to MSME sector, under the overall priority sector target of 40%, and for foreign banks under the 12% mandated export credit target. This measure will also help improve the overall export credit to around 8.5% of NBC, if non-MSME sector is continued to get support at the same level.

Assessing non-financial parameters of MSMEs

Banks and financial institutions are generally adopting conventional lending structure and norms for SME financing. It may be mentioned that the challenge of low access to institutional financing for SMEs is further accentuated due to information asymmetry between the SMEs and loan officers in the banks. The international norm, Basel II, requires financial institutions to implement an enterprise-wide risk management framework that encompasses operational risks. In this context, enhancing credit flow to the SME sector has always been a challenge to the banking sector. Traditional method of credit assessment based on past financials may not be the most appropriate method of assessing credit needs of the SME sector. The screening methodology of financing institutions needs to consider non-financial parameters and management competencies, while evaluating loan proposals from SME units.

One such non-financial parameter is the technological competency of MSMEs. Government of Korea has instituted Korea Technology Finance Corporation (Kibo) which appraises technological expertise of SMEs thereby enabling the banks to accept technology as collateral for extending financial support. Kibo has also launched a technology guarantee services programme, which covers the losses incurred when borrowers default on loans. Such a policy measure could also be introduced in India.

Developing Mezzanine Financing in India

The market for mezzanine financing in India is not well developed; some form of mezzanine financing is available to the upper strata of enterprises, but not to the lower strata. Mezzanine financing in India is generally availed by firms that have sound track record, stable cash-flows, experienced management team, and financial and business information reporting capabilities allowing the financing agencies to monitor the key risks and success drivers. Thus, a market for mezzanine financing needs to be developed in India, including appropriate financial tools.

The Working Group, constituted under the chairmanship of Dr. K C Chakrabarty, then Chairman and Managing Director, Punjab National Bank, to suggest measures improving credit flow to the SME sector, has also suggested for examining the feasibility of bringing in additional capital through alternative routes, such as equity, mezzanine/ venture financing. In addition, the Working Group has also suggested: a) an independent Rehabilitation Fund for rehabilitation of sick, micro, small and medium enterprises with a corpus of ₹ 1000 crores; b) a Fund for contributing to the margin money required to be brought by the promoters of SME units taking up technological upgradation; c) a Marketing Development Fund, which could provide financial assistance in setting up distribution and marketing infrastructure / outlets; and d) a National Equity Fund Scheme to support the greenfield and expansion projects.

Access to alternate sources of capital

Alternative sources of capital like angel funds/risk capital are not available to Indian MSMEs. Access to equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector. Absence of equity capital may pose a serious challenge for development of knowledge-based MSMEs, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. Several countries have policies and programmes to stimulate equity capital in the MSME sector. Australian Government has been supporting Venture Capital Limited Partnerships (VCLPs), and Pooled Development Funds (PDFs) with tax incentives for providing equity capital to growing SME sector in Australia. Italian Private Equity and

Venture Capital Association, and the Italian Business Angels Network are supported by Government of Italy for providing necessary funds, equity seed capital and start-up financing to new SME ventures. Though not as advanced as developed markets in terms of depth and liquidity, Thailand has established a Market for Alternative Investment (MAI) to enable access to capital for smaller companies. MAI serves as a much needed avenue to facilitate equity financing in Thailand SMEs.

India also needs to develop programme that would support SMEs to access alternate sources of capital. There was a felt need for developing a dedicated stock exchange for the SME sector so that SMEs can access capital markets easily, quickly and at lower costs. The National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) have launched their respective SME exchange platforms. Such dedicated SME exchange is expected to provide better, focused and cost effective service to the SME sector. It will also help to provide platform for trading of stocks belonging to SME's and enable them raise funds at relatively cheaper rates.

Promoting Entrepreneurship

Improvements in skill formation and learning mechanisms in SME sector have a substantial impact on productivity and value addition. The task of promoting skills and entrepreneurship development cut across wide range of policy areas, institutional boundaries, both at national and global level. Government of **Malaysia**, through several institutional networks, has been improving management and business practices of SMEs, especially in generating economic value creation. SME Corp, an agency established by the Government of Malaysia, is implementing skills development programme aimed at enhancing the skills and capabilities of workers of SMEs at technical, supervisory and managerial levels. SME Corp will finance 80% of the training cost paid by employers to train their employees in accredited training centres. In order to support the packaging and branding capabilities of SMEs, Government of Malaysia is instituting training to its SMEs through collaboration with universities. **Singapore** is supporting its SMEs by empowering local small enterprises so that they can compete more effectively with MNCs and large companies both within and outside Singapore. Under the Local Enterprise Association Development (LEAD) programme, the Government together with 14 industry associations committed for industry capability development projects. Other initiatives taken by Government of Singapore include: Capability Development Programme (CDP) that supported SME-upgradation projects in specific sectors. International Enterprise (IE), Singapore administers the International Business Fellowship Programme (IBF) which will enable companies to train their employees in emerging markets allowing them to gain firsthand knowledge of the new business environment, and has set up the advisory Portal, where SMEs can log on, and get access to advice from around 180 international experts for all their overseas expansion needs, ranging from market setup to legal, tax and financial advice. Government of **Pakistan** has been encouraging the establishment of Institutes of Small and Medium & Entrepreneurship Development (INSMED) in select business schools and encourages the use of technical training infrastructure by the private sector. Government of Pakistan is also incentivizing investment in setting up of SME training facilities. **Mexico** Government has established The Micro and Small and Medium Enterprises Support Fund (FAMPyME) with the objective of increasing the competitiveness and knowledge development of SMEs. Support is being provided through this Fund for activities related to consultancy, training, studies, innovation and technology development.

On these lines, India may also institute the skill development and entrepreneurship promotion strategy that should go beyond the public sector and its agencies, encompassing the private sector and its organizations, including academic institutions and non-governmental organizations. MNCs/large enterprises that source their requirements from SMEs should also be encouraged to take a lead role in infusing enterprise education, skill upgradation, and management induction programmes of SMEs.

Increase the support to enhance export competitiveness of MSMEs

Indian MSMEs have harnessed the opportunities presented by the opening up of the markets, since the establishment of the WTO, and contribute a sizeable percentage to India's export basket. However, the proportional growth in exports by MSMEs that was expected to follow the reduction in tariffs and the dismantling of quantitative restrictions, has not taken place. Country experiences suggest that most of the countries have programmes to harness the export competitiveness of MSME sector. Some countries have innovative programmes that may require adaptation in India. For example: Government of **Malaysia**, through MATRADE, provides grant support (to an extent of RM 1 million per company/per brand) to Malaysian SMEs to develop and promote Malaysian brands, both in products and services. Government of Malaysia also provides concessional financing (maximum of RM 3 million) through Malaysia Industrial Development Finance (MIDF) to undertake branding/rebranding exercises of SMEs.

Government of **Vietnam**, through pilot projects, help integrate specific enterprise-related training modules into education schemes at high schools, colleges and universities with the objective of fostering entrepreneurial spirit and entrepreneur culture. Government of **Mexico**, through the Implusoras Programme provides tailor-made consultancies to inform SME exporters about technical specifications, regulations and quality requirements in target markets. Mexico has also established a Consolidation of Exportable Goods Support Fund (FACOE) to enhance competitiveness of export oriented SMEs.

Participation in exports provides MSMEs a reliable barometer of its competitiveness and also gives exposure to global trends, new ideas and designs. The export competitiveness of Indian MSMEs has not improved significantly, because the MSMEs have limited awareness regarding changing dynamics of product safety and standards requirements in the importing countries, or have limited ability to understand the technicalities of these requirements. For example, European Commission's regulation, called REACH (applicable to chemical sector), requires manufacturers and importers of chemicals, to register the physiochemical, health and environmental properties of the chemicals being imported by them, with the European Chemicals Agency, and also to provide information on how the substance can be used safely. The MSME exporters are neither fully-equipped to provide all the information required under the regulation, or unable to do so due to high cost of compliance associated with testing and certification, licensing and registration requirements. Hence, efforts are required to create adequate awareness on the regulations that are taken globally, so that Indian MSMEs are enabled to export their products in compliance with global standards.

Apart from this, role of packaging in exports has also gained much significance in view of trends in the world markets. The need for better and scientific packaging for exports from MSME sector has been recognized since long back. With a view to acquaint MSME exporters of the latest packaging standards, techniques etc. training programmes on packaging for exports need to be organised in various parts of the country to generate the much needed awareness in the industry and to help educate the entrepreneurs regarding the scientific techniques of packaging.

Promoting Synergy

In most of the countries, there is a tendency of keeping a ‘decentralized arrangement’ for SME development, which is the case too in India. It is essential to achieve integration with regard to institutions and programmes, in order to achieve desired outcomes. Thus, the requisite mantra should be ‘achieving synergy’ in the various programmes and institutions meant for SME development. This means that when introducing new programmes/ institutions, synergy should be reinforced with the existing offerings. In all cases, duplication of existing delivery mechanism and institutional support system may be avoided.

Exit Policy for MSMEs

An exit route for non-viable units is necessary to manage industrial sickness in MSME sector. As on March 2011, the number of units identified as potentially viable as a percentage to total sick MSE units is only around 8%, while the number of units placed under nursing as a proportion to the total number of sick units stood at only around 5%. The remaining units are considered to be unviable sick units. The major causes for sickness in MSMEs are limited financial resources, limited organisational, financial and management skills and expertise, non-availability of power supply, shortage of raw materials, marketing difficulties, obsolete technology, inadequate infrastructure, etc. Business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. Keeping these aspects in mind, many countries have put in place mechanisms to handle insolvencies and bankruptcies for the industrial units in general. The present exit policy for firms in India is archaic. The existing legislations may have to be toned up so as to provide for efficient liquidation of non-viable businesses.

Strengthening Sub-Contracting Relationships

In general, several Governments have been giving special treatment for SMEs when it comes to public procurement. However, dealing with Government may be expensive for SMEs as there are challenges associated with understanding procurement guidelines, and procedural delays. In this context, it may be recognized that the sustainability and growth of SMEs would largely depend on their capacity to become part of the strategies of larger firms in the global and national arena. This is particularly important for technology oriented SMEs, which serve as sub-contractors for large enterprises in sectors such as

IT, biotech, pharmaceuticals, light engineering, electronics and auto components. For e.g. in the European Union, about 3.7 million SMEs are engaged as subcontractors. They represent 17% of all SMEs in the EU. This reinforces the need for strengthening capabilities in the SME sector to meet the global quality standards and delivery mechanisms. Strategies to establish and strengthen linkages between MNCs and Indian SMEs are critical in this context. MNC-SME linkages may not be misconceived with the foreign direct investments in SMEs. MNC-SME linkage means improving the flow of information about supply opportunities and persuading MNCs to develop 'SME-friendly' tendering policies. MNCs may also be encouraged to assist SMEs to upgrade them to meet the quality standards that may be required by them. Government may consider working with MNCs, donor organizations, and other such intermediaries to develop capacity building programmes for SMEs, and facilitate backward linkages and other positive spillover benefits.

There are also debates about the impact of product reservation on the capabilities of SMEs in undertaking their sub-contracting jobs. A section of analysts view that product reservation enhances the sub-contracting activities in a closed market; however, product reservation may restrict subcontracting activities in a liberalized market, as the competition becomes intense. Thus, there would be a need for strengthening the SMEs' capabilities of undertaking subcontracting activities, as India proceeds towards a de-reservation era.

IN SUM

Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs across the globe. Many countries have a range of programmes in diverse areas of SME development, viz., financing, technology, innovation, managerial ability, market information, and developmental assistance, aimed at improving the working environment for SMEs.

In the context of India, MSME development requires a cross-cutting strategy that touches upon many areas, which can help the sector to improve and create a niche for itself in the Indian economy. Gaining from the experiences of other countries, India needs to suitably adapt its approach, policies and programmes for MSME development, and implement a set of measures to enhance the potential of this sector.

1. INTRODUCTION

Globalization is a fact of life for all firms in the world, including Small and Medium Enterprises (SMEs). The rapid pace of globalization and liberalization has created numerous opportunities for the SME sector, both in the home market and in foreign markets. At the same time, SMEs also face new competition from foreign firms in their home markets.

The role of SMEs in developing and emerging economies is undisputed and is well recognized. Contributing significantly to the employment generation (as a group, SMEs provide greater level of employment than large firms), poverty alleviation and rural development (SMEs are capable of pushing economic reforms and modernization of local economies), SMEs are considered to be the engine of growth, the world over. SMEs stimulate innovative ideas / business methods, and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply situations; help in diversifying economic activity, and make a significant contribution to industrial development and exports. Thus, it is not surprising, that the establishment and promotion of SME's across the globe has assumed strategic importance.

DEFINITION OF MSMEs

Countries across the globe do not use the same definition for classifying their SME sector. Nor does a universal definition appears to be necessary. The definitions in use depend on the purposes for which they are meant, and are required to serve the policies that govern the SME sector thus defined. Major parameters generally applied by most countries, singly or in combination, in defining SME sector include:

- Capital investment on plant and machinery;
- Number of workers employed;
- Volume of production or turnover of business.

DEVELOPMENT OF MSMEs

Development of MSMEs should be considered primarily as an imperative phenomenon - guided, but not determined, by policy interventions. Development of MSMEs requires a crosscutting strategy that touches upon many areas, as for instance, the ability of governments to implement sound macroeconomic policies, capability of stakeholders to develop conducive microeconomic business environments, inter alia, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable infrastructure, supportive education, sufficiently healthy and flexibly skilled labour, as well as through capable public and private institutions, enhancing the ability of SMEs to implement competitive operating practices and business strategies. Access and integration into local, national, and global markets require substantial investments in sustainable institutional and physical infrastructure development and service delivery to SMEs in all areas, including those that are rural and/or remote. Continued dialogue and partnerships between stakeholders into implementation and review of supportive measures, particularly, those related to capacity building in executing institutions, yields improved outcomes. Thus, MSME development strategies must be integrated in the broader national development strategy, and/or poverty reduction, and growth strategy of developing countries.

Keeping these issues in mind most of the countries have designed various approaches in order to make their SME sector more competitive in the era of globalization so that they can reap the maximum benefits from this critical sector. Emerging countries like India should ensure that the best SME policies from across the globe are inculcated and a cohesive and a strategic plan of action is unveiled to create a conducive environment for the long term growth of SMEs in the country.

2. MSMEs IN A GLOBAL CONTEXT

Despite the non-prevalence of single universal definition, MSMEs as a class are clearly distinguishable in any country, be it a developed or a developing country. The features that set them apart may broadly be classified into qualitative and comparative. On the qualitative side the features may include the decision-making processes, financial practices, internal management structures, trading styles, etc. Most of the MSME firms are run by a single or few individuals or may be by their family or relatives. There is a narrow line of demarcation between private and business assets, and subjective and personal factors play a larger role in decision-making. The personal stakes of SME entrepreneurs in their businesses are much higher than those of corporate executives in their companies. While this feature enhances the risks associated with a venture, it also enables the entrepreneurs to commit strongly to the success of their ventures.

The comparative features have to do with the way MSMEs are positioned vis-à-vis the large enterprises. They are small and medium-sized in comparison with the large corporate entities with which they share a given economic space. MSMEs, therefore, come in varying sizes; MSMEs in one country may well be larger than the large companies defined in another country. The interesting feature is that, notwithstanding their absolute sizes, the challenges confronting MSMEs appear to be similar in most countries whether developing or developed. It is these challenges, which set them apart as a distinct group, and not the quantitative definitions, which are common and have universal applicability.

However, a quantitative definition of MSMEs in a national context is, however, advantageous, as it makes it easier to target macro policies to a specific group of enterprises. The quantitative definition also facilitates the provision of technical assistance and the channeling of benefits under various policies, fiscal and financial concessions, and other incentives. It makes feasible the identification of MSMEs on the micro-level, and encourages the formation of MSME associations at the macro-level, and thereby facilitating better articulation of the problems and prospects of the sector.

EU

MSMEs form the backbone of the European economy. European Commission (EC) felt the need of defining SMEs with a uniform definition in the region, in order to identify their needs and to develop efficient policies to compensate for the specific problems linked to their size. This has been identified as one of the vital areas for enhancing the competitiveness of an enlarged European Union, its growth and employment. The European Commission has redefined MSMEs to promote growth and competition in the Community in the year 2005. In the EC, the new definition applies to all Community Acts and funding programmes as well as in the field of State Aid, where MSMEs can be granted higher intensity of national and regional aid than large companies.

According to European Commission (EC) definition, a micro enterprise can still have up to 10 staff, a small one up to 50 staff, while a medium enterprise must have less than 250 staff. Staff in professional training or on parental or maternity leave is not counted in the staff ceilings in order to promote vocational training and a life-work balance. The definitions to be identified as SME relate to both turnover and balance sheet totals. A micro enterprise, which previously had no financial ceiling to comply with, is now limited to a turnover or balance sheet total of Euro 2 million.

Table 1: SME Thresholds

Enterprise Category	Headcount	Turnover	Balance sheet total
Medium sized	<250	Less than equal Euro 50 mn (In 1996: 40 mn)	Less than equal Euro 43 mn (In 1996: 27 mn)
Small	<50	Less than equal Euro 10 mn (In 1996: 7 mn)	Less than equal Euro 10 mn (In 1996: 5 mn)
Micro	<10	Less than equal Euro 2 mn (Previously not defined)	Less than equal Euro 2 mn (Previously not defined)

Source: European Commission

A small enterprise, which formerly had ceilings of a Euro 7 million turnover or a Euro 5 million balance sheet total, now has a ceiling of Euro 10 million for both turnover and balance sheet size. Medium sized enterprises see their ceilings lift from Euro 40 million turnover to Euro 50 million, and from Euro 27 million to Euro 43 million in their balance sheet size. The European Commission expects the revisions to facilitate equity financing for SMEs by granting favourable treatment to regional funds, venture capital companies and business angels.

OECD

The Organization for Economic Cooperation and Development (OECD) has 34 member countries. The members include 25 European countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK, Czech Republic, Estonia, Poland, Slovak Republic, Hungary, Turkey, Iceland, Norway, Slovenia, Switzerland) and 9 non-European countries (Australia, Canada, Chile, Israel, Japan, Korea, Mexico, New Zealand and the United States). The OECD adopts the following definition for categorizing SMEs, which provides for an increase in the financial ceilings. According to OECD definition, the turnover of medium sized enterprises (50-249 employees) should not exceed Euro 50 million; that of small enterprises (10-49 employees) should not exceed Euro 10 million, while that of micro firms (less than 10 employees) should not exceed Euro 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed Euro 43 million, Euro 10 million, and Euro 2 million, respectively.

MIGA (Multilateral Investment Guarantee Agency)

Multilateral Investment Guarantee Agency (MIGA) of World Bank Group has developed a guarantee programme called the Small Investment Programme (SIP) that is specifically designed for Small and Medium Enterprises (SMEs). MIGA helps the SME sector in emerging economies in two ways:

- directly, by providing political risk insurance (guarantees) to foreign investors who wish to invest in SMEs, and
- indirectly, by providing political risk insurance to financial institutions that will then lend to small and medium-size businesses through local affiliates. MIGA's SIP offers a standardized package of risk coverages including currency inconvertibility and transfer restriction, expropriation, and war and civil disturbance.

Small Investment Programme (SIP) guarantees have a term of up to 10 years (three years minimum), with the possibility of an extension of up to five years at the end of the original term, at MIGA's discretion. SIP covers up to 90 percent of the investment for equity and up to 95 percent for debt. For guarantee requests above this amount, investors may apply for coverage under MIGA's regular guarantee program. MIGA defines SMEs that are eligible for coverage under this programme as units having:

- Not more than 300 employees;
- Total assets should not be more than US $ 15 million;
- Total annual sales should not be more than US $ 15 million.

ASIA

China

SMEs are the major growing force behind China's prominent success in terms of their contribution to scale of assets, diversification of products, and the creation of employment. China's manufacturing sector has enjoyed high and sustained rates of growth. The emergence of dynamic small and medium enterprises (SMEs) is, above all, one of the most important outcomes of the entire reform process. Today, there are five recognized SME sectors in China – industrial, construction, retail, transportation and hospitality.

The definition of SMEs in China classifies SMEs based on number of

Table 2 : Definition of SMEs in China

Size/Category	Industries	Employment-based	Total assets	Business revenue
Small	Industry	<300	< RMB 40 million	< Yuan 30 million
	Construction	<600	< RMB 40 million	< Yuan 30 million
	Wholesale	<100		< Yuan 30 million
	Retail	<100		< Yuan 10 million
	Transport	<500		< Yuan 30 million
	Post	<400		< Yuan 30 million
	Hotel and restaurant	<400		< Yuan 30 million
Medium	Industry	300-2000	< RMB 40 – 400 million	< Yuan 30 mn – Yuan 300 mn
	Construction	600-3000	< RMB 40 – 400 million	< Yuan 30 mn – Yuan 300 mn
	Wholesale	100-200		< Yuan 30 mn – Yuan 300 mn
	Retail	100-500		< Yuan 30 mn – Yuan 300 mn
	Transport	500-3000		< Yuan 30 mn – Yuan 300 mn
	Post	400-1000		< Yuan 30 mn – Yuan 300 mn
	Hotel and restaurant	400-800		< Yuan 30 mn – Yuan 300 mn

Note: SME should meet one or more of the conditions. Medium enterprises should meet three conditions and the others are small enterprises employees, total assets and business revenue. Specific criteria apply to industry, construction, wholesale and retail business, transportation, post and hotel and restaurant. Guidelines for SMEs in the industrial sector required SMEs to employ maximum of 2000 people, while medium enterprises has between 301 and 2000 employees, small enterprises has less than 300. Annual revenue of SMEs should not exceed RMB 300 million and total assets should not exceed RMB 400 million. In the case of medium enterprises, annual revenue of SMEs should be between RMB 30 million to RMB 300 million and total assets should be between RMB 40 million to RMB 400 million. Annual revenue of small enterprises should not exceed RMB 30 million and total assets should not exceed RMB 400 million. Consequently, an SME in China maybe quite large, relative to an SME in other countries.

Japan

SMEs in Japan account for about 95% of manufacturing firms; the SMEs in Japan provide employment to over 30 million people (about 70% of total employment). The SME Agency, under the Ministry of Economy, Trade and Industry (METI) is responsible for devising policies in Japan. The country has enacted a new Small and Medium Enterprise Basic Law which emphasizes not only the need to create and support a better business climate for SMEs, but also propogate the importance of venture, start-ups and other new business creation and business innovation, strengthening the education and training foundation of SME restructuring and conducting research and education programmes.

A unique element of Japan's corporate organization is its elaborate 'pyramid' structure of subcontracting relationships, where SMEs play a crucial part. Large 'parent' firms tend to outsource their work to some other firms which handles outsourced operations, which again may be outsourced to the next in the value chain, which is generally an SME. The whole process involves specialization of work and cost curtailing exercise and simultaneously reducing the time.

Japan has also enacted a separate law to facilitate the creation of new businesses, with the objective of doubling the number of new startups in five years. Under this law, efforts are being made to strengthen areas, such as financing mechanisms, provision of information, training of personnel, technology upgradation, besides provision of other support services to new businesses and venture start ups.

Table: 3 : Definition of SMEs in Japan

Industries	Capital Size (million Yen)	Number of employees
Manufacturing and Others	300 or less	300 or less
Wholesale	100 or less	100 or less
Retail	50 or less	50 or less
Services	50 or less	100 or less

Source: SME Agency, METI, Japan

Malaysia

A specialized agency known as Small and Medium Industries Development Corporation (SMIDEC) was established in 1996 to spur the development of small and medium enterprises (SMEs) in Malaysia by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Further, in 2004, the National SME Development Council (NSDC) was established, which became the highest policy making body which formulated strategies for SME development across all economic sectors; coordinated the tasks of related Ministries and Agencies; encouraged partnership with the private sector and ensured effective implementation of the overall SME development programmes in the country. In 2007, NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs, and thus SMIDEC has been established to assume the role and was transformed into Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) in 2009.

Like many other countries, Malaysia too follows different benchmarks for the SME firms operating in their country. An enterprise is considered as an SME in each of the respective sectors based on annual sales turnover or number of full-time employees as shown in Table: 4. On the basis of employees, a company is categorized as micro enterprise, if it employs less than five persons, irrespective of the sector. Small enterprises are those, which have employed between 5 and 19 people in the case of primary agriculture and services sector, and between 5 and 50 people in the case of manufacturing sector. Medium enterprises are those that have less than 50 employees in agriculture or services, and in case of manufacturing firms, they should employ less than 150 employees. On the basis of turnover, the micro

Table: 4 : Definition of SMEs in Malaysia

Sectors	Microenterprise	Small Enterprise	Medium Enterprise
Manufacturing, Manufacturing related services and Agro-based industries	Sales turnover of less than RM 250,000 or fulltime employees less than 5	Sales turnover between RM 250,000 and less than RM 10 million or full-time employees between 5 and 50	Sales turnover between RM 10 million and RM 25 million or fulltime employees between 51 and 150
Services, Primary agriculture and Information and Communication Technology (ICT)	Sales Turnover of less than RM 200,000 or fulltime employees less than 5	Sales Turnover between RM 200,000 and less than RM 1 million or fulltime employees between 5 and 19	Sales Turnover between RM 1 million and RM 5 million or fulltime employees between 20 and 50

Note: RM: Malaysian Ringgit, Source: SME Corp. Malaysia

enterprises have a turnover of less than Ringgit (RM) 200,000 in case of agriculture and services and RM 250,000 in the case of manufacturing companies. Medium enterprises are those that have sales between RM 1 million and RM 5 million in the agriculture and services sectors, and between RM 10 million and RM 25 million in the manufacturing sector.

Pakistan

Pakistan is an economy comprising mainly of SMEs. The significance of SMEs role is clearly indicated in various statistics. According to more recent estimates there are approximately 3.2 million business enterprises in Pakistan. Enterprises employing up to 99 persons constitute over 95% of all private enterprises in the industrial sector and nearly 78% of the non-agriculture labour force. SMEs contribute over 30% to the GDP, ₹ 140 billion to exports, and account 25% of exports of manufactured goods besides sharing 35% in manufacturing value added. SMEDA is the flagship organization of Pakistan which is providing the necessary services to help SMEs overcome the weaknesses that are endogenous to their very nature. It is an autonomous body working under the umbrella of the Ministry of Industries & Production and contributes towards the growth and development of SMEs in Pakistan through the creation of a conducive and enabling regulatory environment, development of industrial clusters and the provision of Business Development Services to SMEs in all areas of business management.

Table 5 : Definition of SMEs in Pakistan

Category	Employment Size	Paid Up Capital	Annual Sales
Small & Medium Enterprise (SME)	Up to 250	Up to Pk Rs. 25 Million	Up to Pk Rs. 250 Million

Source: Small and Medium Enterprises Development Authority

Table: 6 : SME Definitions Used by Various Institutions in Pakistan

Institution	Small	Medium
SME Bank	Total Assets of Pk Rs. 20 million	Total Assets of Pk Rs. 100 million
Federal Bureau of Statistics	Less than 10 employees	N/A
Punjab Small Industries Corporation	Fixed investment. up to Pk Rs. 20 million excluding land and building	N/A
Punjab Industries Department	Fixed assets with Pk Rs.10 million excluding cost of land	
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Pk Rs.10 million including land & building	
State Bank of Pakistan (SME Prudential Regulations)	An entity, ideally not being a public limited company, which does not employee more than 250 persons (manufacturing) and 50 persons (trade / services) and also fulfills one of the following criteria: (i) A trade / services concern with total assets at cost excluding land and buildings up to Pk. Rs 50 million. (ii) A manufacturing concern with total assets at cost excluding land and building up to Pk Rs 100 million. (iii) Any concern (trade, services or manufacturing) with net sales not exceeding Pk Rs 300 million as per latest financial statements.	

Source: Small and Medium Enterprises Development Authority, Pakistan

Small & Medium Enterprises in Pakistan are defined as given in Table - 5, as approved in SME Policy, 2007.

However, in Pakistan, various institutions are using diverse SME definitions in their operations. These are highlighted in Table – 6.

National Committee on Small and Medium Enterprises (NCSMEs) was formed to review the implementation of Small and Medium Enterprise Policy, and decide on how the specific measures for enterprise development will take shape, and how the existing measures need to be adjusted in line with developments and in the interest of continuous improvement. The Committee also serves as a mechanism to improve coordination between different stakeholders and resolve differences which may exist between them. SMEDA will function as the Secretariat to the Committee. Provincial Committees on Small and Medium Enterprises (PCSMEs) are Committees which support the National Committee on Small and Medium Enterprises (NCSMEs) by assembling expertise from all fields as necessary in order to prepare, develop, and improve Small and Medium Enterprise Policy, including but not limited to, specific support measures and improvements in the enabling environment. It prepares recommendations for approval by NCSMEs as necessary. SMEDA Provincial Offices will function as the Secretariat to each of the Provincial Committees.

Philippines

Small and medium enterprises (SMEs) play a crucial role in the development of the Philippine economy. They represent 99.6 per cent of all businesses registered in the country and employ 69.9 per cent of the total labour force.

According to Small and Medium Enterprise Development (SMED) Council Resolution No. 01 Series of 2003 dated 16 January 2003, Micro, Small, and Medium Enterprises (MSMEs) are defined as any business

Table 7 : Definition of MSME in Philippines

Type of Enterprise	No of employees	Asset Size (Philippine peso)
Micro	1-9	Upto P 3,000,000
Small	10-99	3,000,001 – 15,000,000
Medium	100-199	15,000,001 – 100,000,000
Large	More than 200	> 100,000,000

Source: Companion note for MSME Country Indicators, IFC and World Bank activity/enterprise engaged in industry, agri-business/services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the categories as given in Table: 7.

Singapore

In Singapore, SMEs typically consist of: export-oriented industries like apparel, supporting industries like auto components and traditional cottage industries like handicrafts. The development of SMEs in the region was critical and vital as success in this collective and individual efforts will go a long way in reducing regional and domestic income gaps thereby creating a balance of income and employment and securing a more sustainable human and social security in the midst of rapid economic growth in income and output.

During 2007, the SME community contributed 42% of Singapore's GDP, and employed more than half of Singapore's workforce and as a group, the top 500 SMEs here have increased total turnover by 30% to S$13.5 billion and almost doubled net profits to S$ 630 million over the past 5 years. Among the top 500 SMEs ranked by sales, 53 companies (10.6% of top 500 companies) have achieved a turnover of US $ 50 million or more; and furthermore, 30 (6%) of these companies have average monthly turnover of above S$ 5 million per month, no small feat by most measure. The highest increase comes from the manufacturing and wholesale sectors, where the average number of employees in these two sectors increased by 33% and by 56% respectively compared to 2006; and in terms of employment, the top 500 SMEs ranked by sales currently employ a total of 24,294 employees, representing a 41% increase compared to those ranked in 2006. In their profit generating ability, SMEs in the Holdings, Finance and Property sectors take the top three spots in terms of average profit margin, and while the number of companies in these three sectors form only a small percentage of the top 500 SMEs, they are able to generate an average net profit of S$ 1.3 million. Over the years, SMEs have increased value-added by a cumulative 7.4% over the last five years and account for 46% of total value added in the Singapore economy with many developing their competitive strategies broadly based on the "3MK" key success factors – Money, Markets, Management and Know-how .

Small and Medium Enterprises in Singapore are defined as follows:

- In the manufacturing sector, SMEs are enterprises with net fixed assets investment less than S$15 million.

- For non-manufacturing sectors, SMEs are enterprises with employment size less than 200 workers.

South Korea

SMEs in South Korea represent a major segment of the economy playing an important role in strengthening both the forward and backward linkages in the nation's industrial development, particularly through their support to larger companies (also called chaebols) including the MNCs.

The Economic Policy Coordination Meeting in 2005 adopted a new definition for the small and medium enterprises (SMEs), which has been enacted through a Framework Act on SMEs (Table 8). In general, an SME in Korea is defined to be an enterprise employing less than 300 personnel and of varying size, sector and type. As of 2008, the number of SMEs in Korea was more than 3 million, including 99,391 medium enterprises (with 50~300 employees), 258,572 small enterprises (with 10~50 employees) and 2.62 million micro-enterprises (with less than 10 employees). As the main component of the Korean economy, SMEs represent around 99.9% of all enterprises (3 million SMEs), and 88% of total employment (11.46 million employees) (Table: 9). The Korean government set up the

Table 8 : Definition of SMEs in South Korea

Sector	SMEs		Small Business	Micro Enterprises
	No of workers	Capital & Sales	No of workers	
Manufacturing	Less than 300	Capital worth US $ 8 million or less	Less than 50	Less than 10
Mining, construction and transportation	Less than 300	Capital worth US $ 3 million or less	Less than 50	Less than 10
Retail and Hotel	Less than 300	Sales worth US $ 30 million or less	Less than 10	Less than 5
Fishery, film, hospital	Less than 200	Sales worth US $ 20 million or less	Less than 10	Less than 5
Wholesale	Less than 100	Sales worth US $ 10 million or less	Less than 10	Less than 5
Other sectors	Less than 50	Sales worth US $ 5 million or less	Less than 10	Less than 5

SOURCE: Small and Medium Business Administration, South Korea

Table - 9 : Number of Korean SMEs & Employees

Year	Nation's Total (A)		SMEs (B)		Ratio (B/A)	
	No. of Firms	No. of Employees	No. of Firms	No. of Employees	No. of Firms	No. of Employees
1994	2382571	10217910	2365318	7677089	99.3	75.1
1995	2622259	11098018	2601753	8263684	99.2	74.5
1996	2648261	11270466	2629049	8412554	99.3	74.6
1997	2689557	10796804	2670625	8272648	99.3	76.6
1998	2622356	9878045	2605224	7672392	99.3	77.7
1999	2758627	10425398	2739783	8283269	99.3	79.5
2000	2729957	10768597	2707805	8680694	99.2	80.6
2001	2658860	10876418	2649691	9176237	99.7	84.4
2002	2861830	11737640	2856913	10154095	99.8	86.5
2003	2939661	11870358	2934897	10308574	99.8	86.8
2004	2927436	11824074	2922533	10210629	99.8	86.4
2005	2867749	11902400	2863583	10449182	99.9	87.8
2006	2940345	12234160	2936114	10677789	99.9	87.3
2007	3049345	12818280	3046839	11343707	99.9	88.5
2008	3046958	13070424	3044169	11467713	99.9	87.7

Source: Korea National Statistical Office (KNSO), Small and Medium Business Administration, South Korea Republic

Table 10 : Korean SME Exports

(US $ million)

Category	2005		2006		2007		2008	
	Exports	%Change	Exports	%Change	Exports	%Change	Exports	%Change
SMEs	92128	1.9	104152	13.1	118774	14	130527	9.9
Large Enterprises	192056	17.7	220967	15.1	282715	14.2	291483	15.3
Others	234	11.4	346	47.9	-	-	-	-
Total Exports	**284418**	**12**	**325465**	**14.4**	**401489**	**14.1**	**422010**	**13.6**

Source: Small and Medium Business Administration, South Korea Republic

Table 11 : Korean SME Exports by Products

(US $ million)

Item	2007	2008	% Growth	% share in 2007	% share in 2008
Total Exports	**118774**	**130524**	**9.9**	**100.0**	**100.0**
Electronics & Electrical	33649	33709	0.2	28.3	25.8
Machinery	26560	32957	24.1	22.4	25.2
Chemical Industry	17279	18495	7.0	14.5	14.2
Steel & Metals	12606	16450	30.5	10.6	12.6
Textiles	16274	11895	-26.9	13.7	9.1
Plastic, Rubber & Leather	4351	5758	32.3	3.7	4.4
Mining Products	5430	3885	-28.5	4.6	3.0
Agricultural & Fishery Products	2836	3215	13.4	2.4	2.5
Living Goods	2450	2427	-0.9	2.1	1.9
Miscellaneous Goods	855	1733	102.7	0.7	1.3

Source: Small and Medium Business Administration, South Korea

Micro-enterprise Assistance Center in 1999 as a professional organization dedicated to providing counseling, advice and information on the start-up and improvement of business.

In the year 2008, SMEs accounted for 31% of national exports; item -wise exports by SMEs in Korea show that electronics and electrical products held the largest share (26%) in exports by SMEs followed by Machinery (25.2%), Chemicals (14.2%) and steel and metals (12.6%) (Table: 11).

Taiwan

SMEs continue to play a critical role in the Taiwanese economy. Through the interaction of a well-developed network of business associations and government agencies, and through strategic clustering, SMEs in Taiwan have formed tightly meshed alliances with large enterprises.

According to the Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs, the definition of SMEs (revised and issued on July 5, 2005) is as follows: "An SME shall refer to an enterprise that has completed company registration or business registration in accordance with the requirements of law, and which conforms to the following criteria:

- In the manufacturing, construction, mining and quarrying industries, a paid-in capital of NT$80 million (US$2.42 million) or less.
- In the agriculture, forestry and

fisheries, water, electricity and gas, commercial transportation, warehousing and communi-cations, finance, insurance and real estate, industrial and commercial services or social and personal services industries, sales revenue of NT$100 million (US$3.03 million) or less in the last year".

Depending on the nature of the business for which they are providing guidance, government agencies may base their definition of an SME on the number of regular employees as noted below :

- In the manufacturing, construction, mining and quarrying industries, the number of regular employees must be less than 200.
- For enterprises in the following industries, those enterprises with less than 50 regular employees are classified as small and medium enterprises: agriculture, forestry, fisheries and animal husbandry; water, electricity and gas; wholesaling and retailing; hotel and restaurant operation; transportation, warehousing and communications; finance and insurance; real estate and leasing; professional, scientific and technical services; educational services; medical, healthcare and social welfare services; cultural, sporting and leisure services; other service industries.
- Micro enterprises refer to SMEs with fewer than 5 persons employed on a regular basis.

According to the Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs, the number of SMEs in Taiwan was nearly 1.23 million at the end of 2009, accounting for 97.91 percent of all enterprises. They employed 8.1 million workers, or 78.47 percent of the total work force. SMEs' sales of goods and services comprised 30.65 percent of all sales, and made up 16.87 percent of total export value. (Table: 12)

The breakdown of the SME sector by industry, in 2009, shows that there were 989,906 SMEs in the service sector, accounting for 80.24% of all SMEs; this figure represented a decline of 1,356 enterprises (0.13%) compared to 2008. The number of SMEs in the manufacturing and construction sector stood at 230,990 in 2009, accounting for 18.75% of all SMEs in Taiwan, and representing a 0.66% decline compared to 2008. There were 11,129 SMEs in the agricultural sector in 2009 (0.90% of all SMEs), 1.41% increase from 2008. (Table: 13)

Table 12 : Number of Enterprises in Taiwan 2009

(In %)

Indicator/ Enterprise size	All enterprises	SMEs	Large enterprises
No of Enterprises (Nos)	**1,258,260**	**1,232,025**	**26,235**
• Share of total	100.00	97.91	2.09
• Annual growth rate	-0.44	-0.22	-9.84
Total annual sales (NT $ million)	**29,981,803**	**9,189,463**	**20,792,340**
• Share of total	100.00	30.65	69.35
• Annual growth rate	-14.92	-12.17	-16.08
Domestic Sales (NT $ million)	**22,179,910**	**7,873,111**	**14,306,799**
• Share of total	100.00	16.87	83.13
• Annual growth rate	-17.67	-19.96	-17.19
Export Sales (NT $ million)	**7,801,893**	**1,316,352**	**6,485,541**
• Share of total	100.00	16.87	83.13
• Annual growth rate	-17.67	-19.96	-17.19
No of persons employed ('000 persons)	**10,279**	**8,066**	**1,173**
• Share of total	100.00	78.47	11.41
No of paid employees ('000 persons)	**7,889**	**5,679**	**1,171**
• Share of total	100.00	71.98	14.84

Note: The figures (and percentages) given in the table for the number of employed persons and number of paid employees working in all enterprises include 1,040,000 government employees, accounting for 10.11% of all employed persons and 13.18% of all paid employees.

Source: Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs, Taiwan.

Table 13 : Sector-wise Share of SMEs in Taiwan

(in %)

Sector/Year	2004	2005	2006	2007	2008	2009
All SMEs (in Nos)	**1,176,986**	**1,226,095**	**1,244,099**	**1,237,270**	**1,234,749**	**1,232,025**
Annual Growth Rate	**2.60**	**4.17**	**1.47**	**-0.55**	**-0.20**	**-0.22**
Total All Sectors	100.00	100.00	100.00	100.00	100.00	100.00
Agricultural sector	0.91	0.91	0.88	0.87	0.89	0.90
Industrial sector	18.24	18.11	18.13	18.79	18.83	18.75
• Manufacturing	11.31	10.94	11.64	10.77	10.68	10.55
• Construction	6.76	7.01	7.34	7.37	7.47	7.51
Service sector	80.85	80.98	80.99	80.33	80.28	80.24
• Wholesaling & retailing	53.25	53.14	52.86	52.87	52.51	52.13
• Hotel & restaurant	7.81	8.33	8.62	8.79	8.92	9.21

Source: Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs, Taiwan.

Vietnam

SMEs have played an important role in the national economy. The sector has long been a major source of employment generation and a main vehicle for poverty alleviation particularly in rural areas and narrowing development gaps among provinces, urban, and rural areas. In addition, SMEs helped maintain the high flexibility of the labor market. It also contributed significantly to absorb the “shocks” associated with the transition from a centrally planned economy to a market-oriented one especially after the collapse of the socialist bloc in Eastern Europe

Definition of SMEs :

According to Government Decree 90/2001/ND-CP, dated 23 November 2001, SMEs in Vietnam are defined as independent production and business establishments, which make business registration according to the current law provisions, each with registered capital not exceeding VND 10 billion or annual labor not exceeding 300 people. On the basis of the concrete socio-economic situation of each branch or locality, in the course of implementing the support measures and programs, both or either of the above-mentioned criteria on capital and labor may be applied in a flexible manner.

This Decree shall apply to SMEs, including:

- Enterprises set up and operating under the Enterprise Law;
- Enterprises set up and operating under the State Enterprise Law;

- Cooperatives set up and operating under the Cooperative Law;
- Business households making registration under the Government Decree No. 02/2000/ND-CP of the Government of February 3, 2000 on business registration.

UAE

SMEs in the UAE are the backbone of the UAE's economy and the increasing contribution of SMEs to UAE's economy mandates its protection, not only to ensure growth and prosperity and provide diversification, but also to ensure that this sector would continue to play its extremely significant role through employing large number of people. In UAE, a SME is defined as an entity in an economic activity, with a legal form and meets the thresholds of employee headcount and turnover as applicable to the industry group (trading/manufacturing/services) it belongs to.

Within trading, a micro business is an enterprise with less than or equal to 9 employees and a turnover of less than or equal to AED 9 million; a small business has employment between 10 and 35 employees, and a turnover of AED 10 million to AED 50 million; and a medium enterprise is one with a turnover of AED 51 million to AED 250 million, employing 51 to 250 persons.

Within manufacturing, a micro business is an enterprise with less than or equal to 20 employees and a turnover of less than or equal to AED 10 million; a small business has employment between 21 and 100 employees, and a turnover of AED 11 million to AED 100 million; and a medium enterprise is one with a turnover of AED 101 million to AED 250 million, employing 101 to 250 employees.

Within services, a micro business is an enterprise with less than or equal to 20 employees and a turnover of less than or equal to AED 3 million; a small business has employment of 21 to 100 employees, and a turnover

Table 14 : Definition of SMEs in UAE

Enterprise	Trading		Manufacturing		Services	
	Employees	Turnover in AED million	Employees	Turnover in AED million	Empolyees	Turnover in AED million
Micro	<=9	<=9	<=20	<=10	<=20	<=3
Small	10 to 35	10 to 50	21 to 100	11 to 100	21 to 100	4 to 25
Medium	36 to 75	51 to 250	101 to 250	101 to 250	101 to 250	26 to 150

Source: Mohammed Bin Rashid Establishment for SME development of AED 4 million to AED 25 million; and a medium enterprise is one with a turnover of AED 26 million to AED 150 million, employing 101 to 250 persons.

Laos PDR

SMEs play a very important role in Laos' economy. The Ministry of Industry and Handicrafts (MIH) uses a quantitative definition to classify the size of SMEs in Laos. In 1996, MIH-GTZ defined small enterprises as units having one to nine workers, medium-sized enterprises as units having 10 to 29 workers, and large enterprises as units having more than 20 workers. In 2000, MIH changed SMEs' definition when it gave definitions for factories in the processing industry. The changed definition is: a unit employing 10 – 50 workers (or 10-50 horsepower) as small enterprise, 51-200 workers (or 51-200 horsepower) as medium-sized enterprise, and more than 200 workers or 200 horsepower as large enterprise.

According to the Prime Minister's Office (2004), SMEs are independent enterprises that are legally registered and operating according to the prevailing laws of the Laos and are classified into the following size categories:

- Small enterprises are those having an annual average number of employees not exceeding 19 people or total assets not exceeding two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip.
- Medium sized enterprises are those having an annual average number of employees not exceeding 99 people or total assets not exceeding 1.2 billion kip or an annual turnover not exceeding two billion kip.

Table 15 : Definition of MSMEs in Laos PDR

Enterprise category	No of Employees	Annual Turnover (million kip)	Asset value (million kip)
Micro	1-4	<100	<70
Small	5-19	<400	<250
Medium	20-99	<2000	<1200

Source: Prime Minister's Office, Companion note for MSME Country Indicators, IFC and World Bank

LATIN AMERICA

Argentina

According to Ministry of Small and Medium Enterprises and Regional Development, Micro, Small and Medium Enterprises will be considered as those who register to the next highest level of total annual sales, excluding Value Added Tax added and excise tax that may be applicable, expressed in US Dollar, as detailed in Table 16.

Brazil

The features and basic premises of the Brazilian enterprise support measures include; emphasis on micro companies rather than small and medium enterprises; geographical dispersion of industrial production; and support to achieve international competitiveness. In addition, in order to support all MSMEs, the government is making efforts to transform the informal sector into the formal sector.

In Brazil, small enterprises are defined on the basis of number of employees; a company is categorized as micro enterprise if it employs less than 9 persons; small enterprises are those, who have employed between 10 and 49 people, medium enterprises are those which have between 50 and 249 people; and large enterprises are those having more than 250 employees.

Table 16 : Definition of SMEs in Argentina

(Annual Sales In USD)

Enterprise	Agri-cultural	Industry and Mining	Trade	Services	Constru-ction
Micro enterprise	456,000	1,250,000	1,850,000	467,500	480,000
Small Business	3,040,000	7,500,000	11,100,000	3,366,000	3,000,000
Medium Business	18,240,000	60,000,000	88,800,000	22,440,000	24,000,000

Source: Companion note for MSME Country Indicators, IFC and World Bank

Table 17 : Definition of SMEs in Brazil

Enterprise	No of employees
Micro enterprise	0-9
Small enterprise	10-49
Medium enterprise	50-249
Large enterprise	>250

Source: Companion note for MSME Country Indicators, IFC and World Bank

Jamaica

MSMEs are regarded as high priority on the national agenda of Jamaica as the sector serves as a catalyst for transforming the economy to achieve the vision articulated in the National Development Plan 2030.

The Ministry of Industry, Investment and Commerce (MIIC) in Jamaica looks after the MSME sector, and the Ministry acknowledges that there is a need for continuous and comprehensive studies to provide in-depth information on the size and characteristics of MSMEs. The majority of businesses operating in Jamaica are micro and small enterprises.

Several MSME definitions co-exist in the Jamaican environment. Even the MSME Policy does not prescribe a common definition but provides guidance as to what is accepted as a description of micro, small and medium enterprises in the Jamaican context:

- Micro enterprises are generally defined as having one (1) to three (3) employees and/or an annual turnover less than J$10,000,000.
- Small enterprises are described as having between four (4) to ten (10) employees and/or an annual turnover of over J$10,000,000 but less than J$40,000,000.
- Medium enterprises are categorized as having between eleven (11) to fifty (50) employees and/or an annual turnover that falls between J$40,000,000 and J$150,000,000.

MSMEs are also considered as incubators for the development of entrepreneurial skills across all economic sectors. The Government of Jamaica, through the Ministry of Industry, Investment & Commerce and its agencies, remains committed to providing support for micro and small enterprises. This will be done through programmes which facilitate entrepreneurial development through financial and non-financial support. The drive to secure resources, through

Table 18 : Definition of MSMEs in Jamaica

Type of enterprise	No of Employees	Turnover (Jamaican Dollar)
Micro enterprises	1-3	Less than J$10,000,000
Small enterprises	4-10	Between J$10,000,000 and J$40,000,000.
Medium enterprises	11-50	Between J$40,000,000 and J$150,000,000.

Source: Ministry of Industry, Investment and Commerce (MIIC) multilateral and bilateral agencies will be continued as the Government of Jamaica seeks to facilitate capacity building in credit institutions and businesses in an effort to improve efficiency and productivity throughout the sector.

Mexico

SMEs play an important role in the economy of Mexico. SMEs account for over 90% of all enterprises, generating more than one-half of the national GDP and accounting for almost three-fourth of total employment. In Mexico, small enterprises are defined as firms employing less than 50 employees and medium enterprises are defined as firms employing between 50 and 250 employees.

Micro firms in Mexico, employ around 8 million persons; on an average each SME firm employs around 3 persons. Micro firms in Mexico are mostly family-run and family-owned business, their output being oriented towards local markets. About nine-tenths of these firms are located in retail, services, and agriculture. Only a small share of micro firms is involved in manufacturing.

AFRICA

South Africa

In South Africa, it is estimated that at least two-thirds of small, medium and micro enterprises are in the informal sector. It is further estimated that about 80% of the formal business sector and 95% of the total business sector (including informal) can be considered to be SMEs.

The definition of SMEs in South Africa is based on a combination of characteristics, such as number of employees, gross asset value and turnover value. Further the units are

Table 19 : Definition of MSMEs in Mexico

Sector	Criteria
Micro enterprises	Less than 10 employees in manufacturing and services
Small enterprises	Between 11 & 50 employees in manufacturing and services, and upto 30 employees in retail
Medium sized enterprises	Between 51and 250 employees in manufacturing, and 31 and 100 employees in retail, 51 and 100 employees in services

Source: SMEs in Mexico, OECD

Table: 20 Thresholds for the Classification for Micro, Very Small, Small and Medium Enterprises in South Africa

Sectors or subsectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rand million) (Less than)	Total gross asset value (fixed property excluded) (Rand million) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and MotorTrade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering, Accommodation and Other Trade	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

Source: Annual Review of Small Business in South Africa, Department of Trade and Industry

Note: Schedule 1 to the National Small Business Act of 1996, as revised by the National Small Business Act as amended in 2003 and 2004 classified in to five major categories, viz., micro enterprises, very small enterprises, small enterprises, medium enterprises and large enterprises. As mentioned earlier, quantitative definition of SMEs, in a national context, enables to target macro policies towards development of SME sector.

Kenya

In Kenya, the MSME Bill 2009 has used two criteria to define SMEs in general: a) number of people/ employees, and b) the company's annual turnover. For enterprises in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital.

Table 21 : Definition of SMEs in Kenya

Entity	No of Employees	Annual Turnover Limit	Investment in Plant and machinery	Equipment Investment+ registered capital
Micro enterprise	Less than 10 people	Not exceeding KSh 500,000	Not exceeding KSh 10 million	Not exceeding KSh 5 million
Small enterprise	More than 10 but less than 50	Between KSh 500,000 to KSh 5 million	More than KSh 10 million but less than KSh 50 million	More than KSh 5 million but less than KSh 20 million
Medium enterprise	More than 50 but less than 100	Between KSh 5million to KSh 800 million	Not specified	Not specified
Micro, Small and Medium enterprise (MSME)	Not less than 100			

Note: KSh: Kenyan Shilling (KSh)

3. SUPPORT SYSTEMS FOR MSMEs IN SELECT COUNTRIES

MSMEs across the world contribute significantly to employment generation, manufacturing value-added, national exports and rural development, and thus are engines of econo-mic growth. In today's global economy, MSMEs face an increasingly competitive trade and production environment. MSME competitiveness encompasses many factors, such as technological competence, managerial ability, productivity, performance, operational environment, infrastructure and organizational support. Considering the importance of MSMEs in the economy and national exports, Governments in various countries have established a range of institutions and support programmes to strengthen the MSMEs in their respective countries. These are broadly categorized under technological support, financing support and marketing support. A brief analysis of MSME support systems in select countries is given in this chapter.

ASIA

JAPAN

Technology Support

Government of Japan and its agencies are introducing range of programmes to strengthen the technological development capabilities of Japanese SMEs. These include low-interest loans for business innovation; special dispensation under taxation for SMEs involved in technology development, including development of new products; reduction of fees while patenting business innovations of SMEs; and financing support to SMEs for undertaking business innovations.

The Government has also established a Small Business Innovation Research (SBIR) system under which the national government provides financial support for commercialization of R&D.

Marketing Support

In order to support business innovation and new business development arising from internationalization of SMEs, Government of Japan, through various institutions, provides strategic information and advisory services (entry into foreign markets, tie-ups, and trade related information with foreign enterprises) that help the SMEs in their internationalization efforts.

Japan External Trade Organisation (JETRO), through various promotional activities (business partnering events, trade fairs, exhibitions) helps the Japanese SMEs in their globalisation efforts. JETRO has developed a Business Matching Database (Trade Tie-up Promotion Programme - TTPP) that supports the SMEs' search for potential partners across the world.

The Small and Medium Enterprises Agency has instituted three types of SME support centers to undertake business support activities for the SME sector. These include: SME – Venture Business Support Centres, Prefectural SME Support Centres, and Regional SME Support Centres. These centers provide one-stop information concerning SME support strategies and over the counter consultations.

Entrepreneurship Development Support

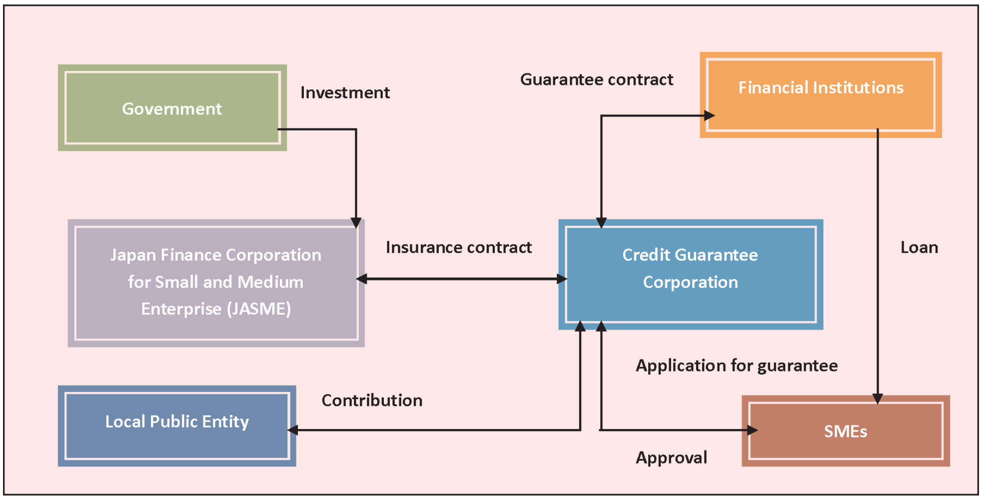
A special 'Law on Supporting Business Innovation by Small and Medium Enterprises' has been enacted which is intended to promote creative development of SMEs. Business innovation lectures and basic skill development seminars are also held to strengthen the innovative skills of SME units.

Financial Support

In order to facilitate financing for SMEs, the Japanese Government has developed the credit enhancement system in the economy to undertake proper lending for SMEs. Competitive funding is provided through major Government financial institutions such as Japan Finance Corporation for Small and Medium Enterprise (JASME), National Life Finance Corporation (NLFC), and Shoko Chukin Bank. To supplement the credit availability of financial institutions, suitable provisions have been made under the credit supplementation system, which include Credit Guarantee Corporations. The credit guarantee system aims to facilitate fund supply through the guarantee of loan debts by Credit Guarantee Corporations for SMEs that have difficulty in borrowing funds under normal channel. Moreover, Japan Finance Corporation for Small Business and Medium Enterprise (JASME) supplements the risk in Credit Guarantee Corporations throughout the country through re-insurance. Credit Guarantee Corporations (52 public institutions set up under the Credit Guarantee Corporation Law) have been established in Japan, to make easier availability of finance to SMEs.

To support the plans of SMEs to venture into new areas of activity, research and development, and commercialization, Government of Japan is also taking proactive steps to provide grant support, low-interest loans, and special tax concessions for eligible SMEs that conduct business

Exhibit 1 : Schematic Chart of the Credit Supplementation System for SMEs in Japan



Source: Small and Medium Enterprise Agency

in accordance with a business plan for research and development which has been approved by the Prefectural Governor under the Temporary Law concerning Measures for the Promotion of the Creative Activities of Small and Medium Enterprises. Apart from this, amid the diversification of consumer needs, intensification of price competition, and internationalization, the Law on Supporting Business Innovation of Small and Medium Enterprises aims for active development of the whole Japanese economy by support of business innovation (managerial improvement through new approaches) for development or production of new products, and development or provision of new services, which satisfy consumer needs. Further, taxation measures for projects under an acknowledged business plan for research and development or an approved business innovation plan, are prepared, such as exceptional measures (under the tax reduction for investment in equipment), extension of the deficit carrying-over period (under "the Law concerning the Promotion of Creative Activities of SMEs"), carry-back of deficits (under "the Law on Supporting Business Innovation of Small and Medium Enterprises"), and special exception to local tax application.

Following the economic slowdown, although business conditions were picking up, the Government of Japan felt that the economic situation faced by SMEs remained severe. Therefore, all possible measures were taken to support the financing of SMEs in order to prevent as many bankruptcies as possible and to protect business and jobs in SMEs. Some of the specific measures that were taken include: provision of counter cyclical emergency guarantees, safety net loans, subordinated lending, and extending support to counter high real interest rates due to deflation. Apart from these, credit guarantee corporations, Japan Finance Corporation (JFC), and the Shoko Chukin Bank were advised to continue to flexibly accommodate applications for alterations to lending conditions, etc. Also, Credit Guarantee Corporations continued to provide guarantees under the Current Asset Backed Guarantee Program using SMEs inventories and accounts receivable as collateral.

SOUTH KOREA

Technology Support

Korean Government considers technology as one of the most important assets of a business unit, determining the future of the company. Given the fact that SMEs were having shortages of capital, but skilled personnel, the Government of Korea took up the challenge of promoting technological innovation of SMEs, as top priority, to sharpen SME competitive edge, and launched the SME Technology Innovation Program. The programme part-provides funds to SMEs for technology development, and has been designed to receive 30% of the contribution by the Government as technology fees, over five years, when the product development task becomes successful. Overall, the objective of the programme is to create virtuous circle, so that the Government could use the repayments received, for furthering the technological progress of SMEs or for establishing the infrastructure. The SME Technology Innovation Program set up strategic tasks to assist high tech areas which can create a new growth engine for SMEs and the characteristics of the program lay in using new technologies and developing new products or new product models so that it could bring positive economic impacts.

Marketing Support

The Government of Korea recognizes the importance of efficient marketing support as an integral part of SME promotion. The Small Business Corporation (SBC) of Korea provides a range of marketing and support services to Korean SMEs, including assistance in networking and training. With the support of SBC, the Government of Korea has established the Korea Business Development Center Program (KBDC), which facilitates business development between Korean SMEs and their partners in various parts of the globe. The Government of Korea has also introduced another program, the IPark Program, similar to the KBDC, but exclusively for IT companies, operated through the Korea Software Industry Promotion Agency.

The Government of Korea has also introduced several promotional programmes to support marketing and export-related activities, through Korea Trade Organisation (KOTRA). KOTRA has developed a global portal, which serves as an information window for Korean SMEs for enhancing their trade and investment relations with other parts of the world. In addition, the Government of Korea has developed international cooperation programmes to strengthen international competitiveness in trade, investment and technology transfer.

Apart from this SMBA (Small & Medium Business Administration), had introduced many policy initiatives during 2010 and it includes spreading youth entrepreneurship and boosting business start-up activities, providing convenient start up environment, and facilitating overseas ventures of SMEs.

Entrepreneurship Development Support

SMBA proposes to form 'SME R&D Policy Research Institutes' in order to develop policies that actively reflect the onsite issues that may be faced by SMEs. The institutes would allow policy lobbyists to set out tasks and identify SME policies through their participation in the form of consortiums. Consisting of policy lobbyists, enterprises, and SME-related experts from universities, research institutes and academic societies, the institutes would work to reflect the needs of operating SMEs. SMBA plans to first implement a pilot project, selecting 10 institutes with a total budget of 600 million Won, and operate under two approaches viz., development of in-depth R&D, and development of general R&D. The approach will also be with a focus on linkages to medium and long-term SME R&D policy tasks, rather than achieving R&D on a standalone basis for SMEs.

Financial Support

Korea has a number of financial support programs, which helps the SMEs in the country to grow stronger and successful. Besides SMBA, Korea Development Bank (KDB) has been set up to undertake a developmental role, including promotion of SMEs in Korea. While KDB uses same risk model, which is being used in the loan approval system for large companies, KDB pays more attention to non-financial information for SMEs such as management's credibility, history, business connections, and employee strengths. To support SMEs and venture business companies which are the important growth engines of the development of Korean economy, the Government of Korea set up a special program for small businesses.

KDB, in line with this, established a comprehensive aid program of KRW 5 trillion for SMEs and venture companies in 2005. This program includes the packages to iron out the financial difficulties of promising SMEs and revitalize venture businesses.

The Government of Korea has also announced a policy change from its present strategy of direct financing support to SMEs, and established Korea Development Fund (KDF), an advance market friendly financial institution with the objective of supporting promising SMEs. The Fund would help financial institutions to identify eligible SMEs and offer indirect financing. A number of financial safety net has been established by the Government of Korea to help small businesses to overcome the financing shortage. An SME Promotion Fund has been established for restructuring sick enterprises, and to nurture business start-ups.

SBC (Small and medium Business Corporation) provides range of financing programmes targeted to SMEs, which are used for enhancement of firm-level productivity, as also for supporting business innovation. These include venture capital funding and financing for commercialization of intellectual property and R&D, financial programme for enterprise restructuring and trade adjustment initiatives. Exim Bank of Korea extends a special credit loan for SMEs that lack adequate securities, but are highly capable of carrying out export contracts. There are also insurance programs like exchange rate fluctuation insurance, and export credit guarantee by the Korea Export Insurance Corporation, which tends to provide additional support to the SME sector.

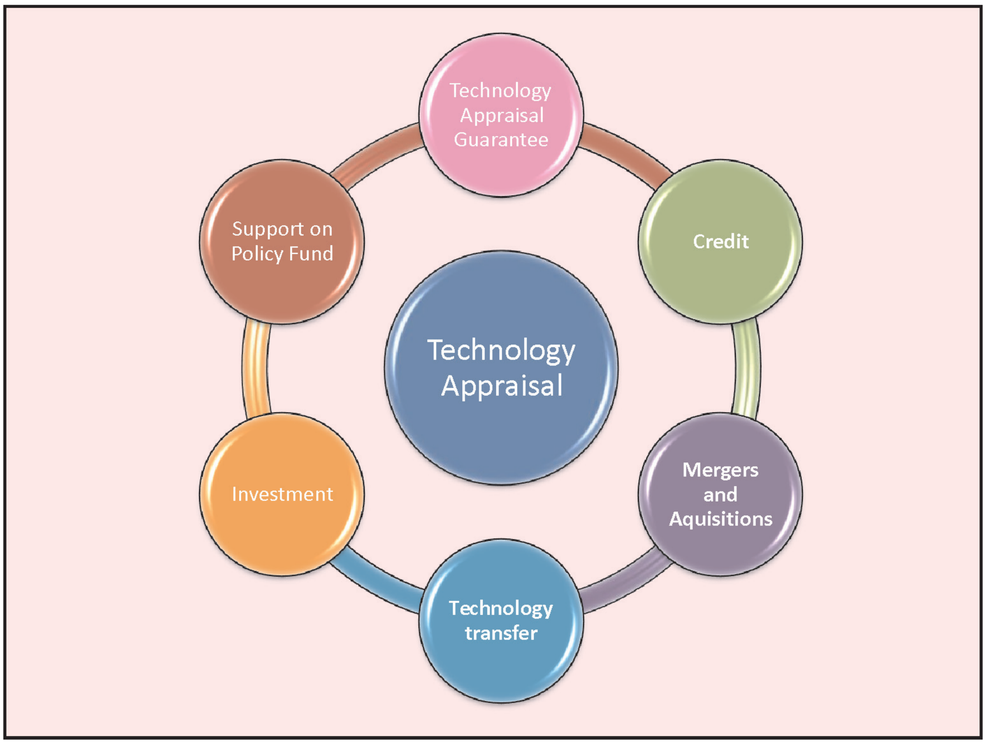
Apart from this, the SME Credit Guarantee Scheme provides guarantees for bank loans through the Korea Credit Guarantee Fund and Korea Technology Credit Guarantee Fund. The primary objective behind establishment of such funds was to provide credit guarantee services to SMEs that lack tangible collateral. The Korean Credit Guarantee Fund has been designed as an extensive risk management system to counter potential risks leading towards a higher default probability.

SMBA, in its policy initiatives for the year 2010, had included many measures to promote investment, such as expanding investment for start-up firms, green and promising growth sectors by 2012, improving venture investment operation method with focus on technological and commercial viability, nurturing 1000 green technology specialized venture companies, and expanding R&D investment. Apart from this, SMBA also took measures to expand policy financing for easy access of low income class and enhancing self competitiveness of SME wholesalers and retailers.

It may be mentioned that till late nineties, Korean Banks hardly accepted technology as collateral for extending financial support. Kibo (Korea Technology Finance Corporation, also known as KOTEC) initiated the technology appraisal service by launching Technology Appraisal Center (TAC) in 1997 in order to introduce credit guarantee facilities, which are provided based on the technological capabilities of business enterprises. Kibo's technology appraisal ensures the efficient distribution of the financial resources, and thus enhances the quality and efficiency of government policies and financial system for supporting promising SMEs and venture enterprises.

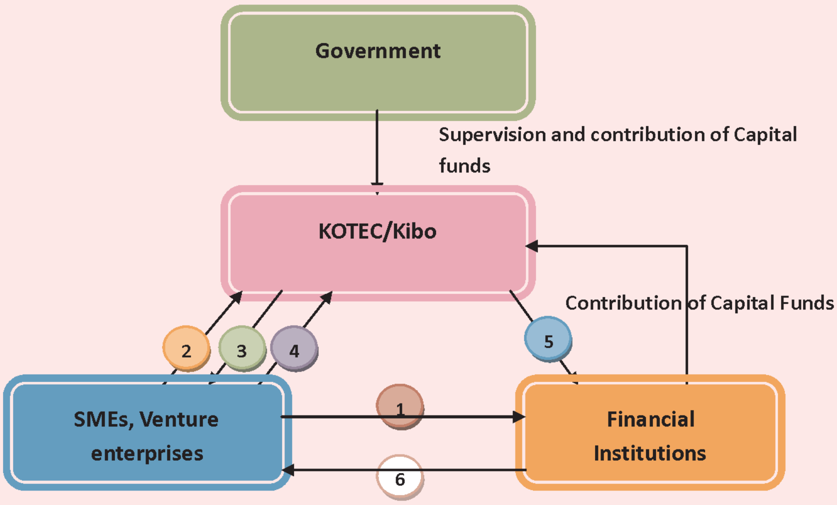
In an attempt to help SMEs overcome difficulties in financing, Kibo launched a technology guarantee services programme, which covers the losses incurred when borrowers default on loans. The purpose of such schemes is also to encourage financial institutions to lend to SMEs

Exhibit 2 : Use of Technology Appraisal in Korea



Source: Supporting Technology Innovation Companies through Technology Appraisal Guarantee Schemes of Korea, Kibo

Exhibit 3: Procedure for Technology Guarantee in Korea



1. **Application for loans**
2. **Consultation and application for Technology Guarantee**
3. **Credit investigation and evaluation**
4. **Approval of technology guarantee**
5. **Issuance of a letter of guarantee**
6. **Provision of loans**

Source: Kibo (Korea Technology Finance Corporation)

with viable projects, and good prospects of success, that are unable to provide adequate collateral or which do not have a suitable record of financial transactions to prove creditworthiness.

The Government of Korea has also established promotional funds for technological upgradation, including SMEs, involving academia and research organizations. The Information Promotion Fund (IPF) supports ICT related projects and start-ups; the Science and Technology Fund (STF) is aimed at establishment of technology intensive start-ups; the Korea Small Business Innovation Research Programme (KOSBIR), encourages public institutes to devote a considerable share (5%) of their investment in technology development to SMEs.

MALAYSIA

Technological Support

Under the Ninth Malaysian Plan (2006 – 2010), the principal aim of the SME policy was for the development of a competitive, innovative and

Box 1: Presidential Commission on Small and Medium Business in Korea

The Government of Korea has established a Presidential Commission on Small and Medium Business, which will be responsible for coordinating SME policy and playing a central role in administering regulations related to SME sector, in close cooperation with SMBA. The objective of the Presidential Commission is to create efficient and effective policies to foster the SME sector in Korea. The Presidential Commission comprises of Vice-Ministers from SME-related ministries as well as experts from the SME sector. The Commission mandates, reviews and evaluates the SME policies and reports directly to the President. The Presidential Commission includes one Working Commission and 10 Sub-Commissions on topical interest.

Source: SMBA

technologically strong SME sector that could contribute to the domestic economy and compete globally. The Government had announced several SME oriented strategies, since then, directed at acquiring technologies to position Malaysian SMEs appropriately in the global value chain. These include: implementation of programmes to nurture SMEs as R&D partners, along with MNCs and Government agencies; establishing business links between SMEs, MNCs and Government agencies for their sourcing / supplying requirements; undertaking programmes for improved management and business practices of Malaysian SMEs; and development of technical skills amongst SMEs, especially in generating innovation and economic value creation.

In order to build technological capacities among Malaysian SMEs, the Government of Malaysia initiated the Multimedia Super Corridor (MSC) and MSC Technopreneur Development (MTD) Flagship programme. In the Multimedia Super Corridor (MSC) program more options have been made available, like venture capital from the Multimedia Development Corporation (MDC) for creating techno-entrepreneurial culture. The MDC also provides special grants for developing risk-taking culture to help in developing R&D in SMEs.

During the Tenth Malaysian Plan (2011 – 2016), the Government of Malaysia has committed to unlocking the growth and innovation potential of SMEs to create domestic, regional and global champions. Many measures have been taken under the Tenth Plan for supporting innovation and growth. In order to increase acceptance of SME products and services, the National Mark quality certification will be further promoted during the Tenth Plan period. In order to support innovation, 1-InnoCERT will be introduced to certify SMEs on the basis of innovation and commercialization achievement. SMEs that receive 1-InnoCERT certification will receive benefits such as tax deduction for R&D activities and priority in government procurement. By 2015, it is targeted that 500 SMEs will be 1-InnoCERT certified.

Marketing Support

A range of programmes has been introduced by Government of Malaysia to support the marketing efforts of Malaysian SMEs. The implementing agencies include Malaysian External Trade Organisation (MATRADE), Malaysian Technology Development Corporation (MTDC), Malaysian Entrepreneur and Cooperative Development (MECD), Bank Negara Malaysia, Small and Medium Industries Development Corporation (SMIDEC), Malaysian Industrial Development Finance (MIDF), and SME Bank.

Further, Knowledge SMEs (K-SMEs) have an important role to play as a catalyst of innovation among Malaysian companies. The Government will support development of K-SMEs by providing access to special financing schemes, improving research and innovation capabilities as well as providing specialized skills training. In addition, foreign K-SMEs in key services and manufacturing activities will be encouraged to set up operations in Malaysia to bring in specialized skills and knowledge as well as create a competitive environment.

Also, an improved public procurement process is a key opportunity to increase the level of innovation in Malaysian companies. Public procurement, though substantial, has not been a major driver of innovation as it has not spurred adequate competition. However, the recent increased transparency in open bidding is expected to enhance competition and drive innovation as firms compete on price and efficiency. Additionally, procurement will be used to create demand for innovation and push SMEs to develop products in areas that are of benefit to the nation and have larger commercial potential. Further, specialized retail outlets will be established nationwide with private sector participation to promote and market SME products and services.

Apart from these initiatives, SME International, Malaysia, is specially established to assist the Malaysian SMEs to connect with other SMEs worldwide; providing useful platform for them to overcome the challenges of globalisation and trade liberalization in their quest in breaking the boundaries.

Through MATRADE, grant support (to an extent of RM1 million per company / per brand) is provided to Malaysian SMEs to develop and promote Malaysian brands (both in products and services) in international markets. MATRADE also provides grant facilities (reimbursable upto 50% of eligible costs) to encourage Malaysian SMEs for participation in overseas trade fairs and exhibitions, and other identified marketing missions. Concessional financing is also provided (maximum of RM 3 million) through MIDF to undertake branding / rebranding exercises by SMEs. Through the MECD, matching grant is provided (with a maximum limit of RM 100,000) to encourage Malaysian SMEs to franchise their products or business within the country or abroad.

Entrepreneurship Development Support

The need for supply of technically trained manpower for tech-based SMEs in Malaysia has been well-recognized, and thus the importance of educational institutions is also being increasingly recognized. The Multimedia University was set up within the MSC cluster in order to undertake these roles. The University not only provides the required manpower, but also serves as a research support base for SMEs, which may not be able to afford to set up an expensive infrastructure, needed to conduct R&D activities for enhancing their technological capabilities. The University also has institutions like the Centre for Commercialization and Technopreneur Development (CCTD) to help in creating startups and also to help the start-ups and SMEs in the cluster. In order to enhance the range of technology based SMEs in the MSC region, a central incubator (within the University) has been established to be the nucleus for the National Incubator Network that would link eight other centers, which are already in operation. These centers include Technology Park Malaysia, UPM-MTDC Incubator, and Kulim Hitech Park. Establishment of this incubator network is considered to be crucial to help generate the much needed pool of small and medium enterprises.

Additionally, in order to support SMEs in developing branding capabilities, training will be provided in collaboration with universities. There is also a mobile branding and packaging gallery initiative, which provides advisory services, covering smaller towns.

Also, SME Corp. will implement Skills Upgrading Programmes aimed at enhancing the skills and capabilities of workers of SMEs at technical, supervisory and managerial levels, particularly in areas such as electrical engineering and electronics, information technology, industrial design and engineering. Under this programme, SME Corp. will finance 80% of the training cost paid by employers to train their employees in accredited training centres.

Through SMIDEC, matching grant (maximum of RM 100,000) is provided to business start-ups for eligible expenses, such as undertaking feasibility studies, development of prototype, product sampling and testing.

Cost sharing will also be intensified through extending the coverage of the Human Resource Development Fund (HRDF) from 44 to 70 subsectors. The HRDF is a pool of funds where employers contribute levies for retraining and skills-upgrading of their employees. During the Tenth Plan period, an allocation of RM50 million will be provided to continue the matching grants for training and skills-upgrading for employees in SMEs. In addition, RM50 million will be allocated to fund apprenticeships involving more than 8,000 students. The allocation will be used for the allowances and course fees of apprentices in vocational training.

Financial Support

The Bank Negara Malaysia (the Central Bank of the country) has established a Small and Medium Enterprise Special Unit, which acts as a center of assistance to viable SMEs in obtaining financing facilities. The Unit assists by providing information on the various sources of financing available to the SMEs and to facilitate SMEs in their loan application process apart from providing advisory services on other requirements.

Bank Negara Malaysia is also the pivotal organization channeling funds to micro enterprises through the Pembiayaan Mikro scheme. Currently, nine financial institutions participate in this micro financing scheme. The Pembiayaan Mikro scheme has benefited more than 40,000 micro enterprises since the time it was introduced in the year 2006. Under the Pembiayaan Mikro scheme, micro enterprises with viable businesses can obtain micro financing up to RM 50,000 for working capital or for capital expenditure. Micro financing under this scheme requires no collateral, minimal documentation and provides for quick approval and disbursement.

Bank Negara Malaysia has also launched a RM 200 million Micro Enterprise Fund to increase access to micro financing for micro enterprises with viable businesses. Bank Negara Malaysia has also started certain new trade finance products namely, Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS), under both conventional and Islamic financing to the small and medium enterprises. These new trade finance products have been introduced to encourage greater SMEs participation in the export markets, especially in the nontraditional markets, as well as trade with members of the Organization of Islamic Conference (OIC).

Malaysian Technology Development Corporation finances the commercialization of R&D by SMEs, especially the components associated with feasibility study or cost of technology. Bank Negara Malaysia provides concessional financing through (maximum of RM 5 million) to enable eligible SMEs to undertake expansion in production facilities. Under the Strategic Industry Programme, SMR Bank of Malaysia provides concessional finances (maximum of RM 2.5 million) for undertaking wholesale and distribution activities.

Credit Guarantee Corporation of Malaysia Berhard (CGC) has been established as the sole provider of guarantee schemes and ancillary services to help SMEs, with little or no collateral, in obtaining loans from financial institutions. Under the Direct Access Guarantee Start-up (DAGS Start-up) Scheme of CGC, new SME start-ups can also receive financing guarantees. CGC has also established a 'SME Credit Bureau' that would complement the initiatives of the Government and the financial sector to enhance SME's access to financing.

SME Bank is also the pivotal organization channeling funds to micro enterprises through many schemes such as Tabung Usahawan Siswazah (TUS) scheme, Skim Pembiayaan Ekonomi Desa (SPED) and Skim Modal Asas (SMA). TUS scheme encourages university graduates to become entrepreneurs in specific sectors. The scheme also includes an incubator programme (Program Inkubator Usahawan Siswazah or PIUS) to support the business planning and knowledge needs of these young entrepreneurs. SPED programme offers entrepreneurs funding for small businesses in the rural areas. The SMA program help develop entrepreneurship in the national batik and the handicraft industry, offering credit facilities from RM20,000 to RM250,000.The SME Bank also provides working capital loans for the purchase of raw materials and overheads and pre-operating costs; revolving working capital for contract financing; term loans/leasing/industrial hire purchase for asset acquisition (factory, building, furniture/fittings, computers, machinery & equipment and vehicles), bank guarantees and share financing/loan stock financing.

Also, in the Tenth Malaysian Plan, the Government has offered to support R&D and commercialization across the value chain under a number of initiatives during the Plan period. During the Plan period, the Government has proposed to strengthen risk capital industry to increase access to funding for innovative start-ups. The Government of Malaysia also proposes to introduce

Box 2 : Special Finance Programmes Instituted by SME Bank of Malaysia to Facilitate the SME sector

Special Scheme for Rural Economic Development

Special programme in rural areas to encourage entrepreneurship in which the SME Bank would collaborate with the Ministry of Rural Regional Development. Amongst the programme is the Homestay Special Programme that involves ‘bed & breakfast’ concept in rural areas. The Homestay Programme was launched in Malaysia in 1995 with the aim to help the visitors better understand the country and the way the common Malaysians live. It also encourages the locals to earn some money through this programme. The tourists opting for this programme get an opportunity to learn the lifestyle and culture of the place along with other activities such as hiking in the jungle, collecting rubber, visiting local workshops producing handicraft articles etc.

Batik and Craft Entrepreneurs Programme

Financing programme in batik and batik-related industries, as well as related handicraft industries.

Vendor Entrepreneurial Programme

Programme to develop Bumiputera entrepreneurs to become vendors in certain industries by matching them with an anchor company. The Bank together with Ministry of Entrepreneurs and Cooperative Development (MECD) will work with the vendor to support smaller SMEs under umbrella program funding and advisory.

Film Maker & Drama Financing Scheme

Special programme for film with financing collaboration with the Ministry of Culture, Arts and Heritage.

Graduate Entrepreneurs Scheme

Special programme with MECD to encourage graduates to be an entrepreneur and be involved in a business field as an alternative career.

Incubator Graduate Entrepreneurs Program (PIUS)

2 incubators were set-up in Johor and Shah Alam as an attachment program with bigger companies for graduates under the Graduate Entrepreneurs Program.

Kompleks Kilang SME Bank

Kompleks Kilang SME Bank is an integrated entrepreneurship development approach that provides financing facilities, factory space rental, and entrepreneurship training as well as service advisory and financial support. Apart from that, the scheme also focuses on:

- Suitable project selection with the innovative business concept.
- Selection of talented and committed candidates.

Source: Bank Negara Malaysia

new funding modes for public venture companies to match the investment risk profiles and promote greater private sector participation and risk-taking. Enhanced Government funding to public venture companies, namely Malaysian Technology Development Corporation (MTDC) and Malaysian Venture Capital Management Berhad, is expected to shift the focus from the current lending model to an equity structure. A Mudharabah Innovation Fund (MIF), with an allocation of RM500 million, is proposed to be introduced to provide risk capital to government backed venture companies. The MIF is likely to offer enhanced risk return to the investors, and thereby attract greater private risk capital to co-invest, with the objective of gradually reducing the dependence on public funds.

CHINA

Technological Support

China encourages SMEs to develop new products using advanced technology, production techniques and equipment, in accordance with the needs of the market; to improve the quality of their products; and to make technological progress. Government departments take the lead role in establishment of technical services platforms, productivity promotion center, and technology incubation base through policy support, in order to provide technical information, technical advice and technology transfer services to SMEs. Government also supports the technical cooperation, development, and knowledge sharing between research institutions and SMEs, to promote scientific and technological achievements in the SME sector.

China has instituted the 'Spark Programme', which is a kind of a national plan encouraging the technology innovation in the 'villages and towns' enterprise. This programme is being in place since 1986, promoting the technology innovation capacity in 'villages and towns' enterprises. The plan places great stress on SMEs closely related to people's livelihood. Through this programme, Chinese Government has organized demonstrations of scientific and technological projects in several typical mountainous areas, and comprehensively developed and utilized resources to tackle the problems of food and clothing for local people.

China has established a National Medium and Long-term Plan for Sci-Tech Development and set up a market-oriented national innovation system that encourages enterprises as main players. The system also helps in establishing linkages between industry and academia, and contributes to the commercialization of science and technology achievements. China also has set up an innovation fund for small technology based firms to promote technological innovation amongst SME units. The fund provides startup capitals for techno-entrepreneurs and partial financial support for developing technology based SMEs. Technology upgradation fund for SMEs is another major programme that provides R&D grants to SMEs.

The Government has established over 1200 productivity promotion centers, which provide diverse range of technological services for over 100,000 SMEs every year.

Marketing Support

To promote SMEs to develop a broader market, “SME Promotion Act” was passed in China. The Government also encourages SMEs to participate in international trade and to exhibit their products. Details on exhibitions conducted in various target markets, information and advisory services, and guidance and assistance on export market entry plans of SMEs are some of the other measures taken by the Government. Government’s preferential procurement for purchase of goods or services of SMEs is also being reported. Chinese government is also making arrangements in giving preference to the SMEs to secure certain share of government orders through bidding. The state also encourages SMEs to attract foreign capital, advanced technology and management experience in accordance with national policies, both in, setting up of Sino-foreign joint ventures and Sino-foreign cooperative enterprises.

Entrepreneurship Development Support

Business support platforms have been established by the Government, which offer services such as testing and inspection, R&D, industrial design, and centralized pollution treatment. The services offered by these platforms vary from sector to sector; for example, for the textile sector, it ranges between fashion design to fabric R&D. The Government has also established SME Information Programme, and concluded successfully the project of IT application training for over one million SMEs, uplifting informatisation level of SMEs.

Financial Support

The Chinese Government enacted the SME Promotion Act, in 2002, emphasizing fair treatment and level playing field for SMEs. The Law ensured greater access to finance and encouragement to venture capital investments in SMEs. The China Banking Regulatory Commission (CBRC) has been giving priority to

SME financing. All the major banks in China, such as China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, and Bank of Communications, with strong networks across the country and having strong capital foundation, are playing an important role to support the SMEs in the country. The CBRC has also set up a working team on SME financial services under a department that supervises and oversees the performance of five State-owned banks. Further, the Chinese government has established a special fund to support the development of small and medium-sized enterprises. It is reported that resources to the fund would come from the Government's budget and the activities would promote SMEs with technological progress.

Under the SME Promotion Act, the State has set up the National SME Developmental Fund, and encouraged donations through taxation policies. The Fund was used to provide support such as : mentoring and service for starting an enterprise; establishment of SME credit guarantee systems; SME technological innovation; encouraging SME specialization and their cooperation with large enterprises; personnel training, information consulting and other programs in SMEs service organizations; SME international market development; and for implementing clean production by SMEs.

Recognizing the limited financial opportunities available to SMEs, the Chinese Government has created a network of credit guarantee agencies. It is reported that the credit guarantee system includes a framework of 'one-body, two wings, four levels'. According to this model, the prefectural credit guarantee institutions give guarantee in their regions. The provincial credit guarantee institutions grant re-guarantee for those credit guarantee institutions at lower levels, and supervise them along with People's Bank of China. They can also grant guarantee directly. National credit guarantee institutions have been established as guarantors of last resort and grant re-guarantee to the credit guarantee institutions at lower levels.

SME International Market Development Fund has been established under SME Promotion Act drawing resources from central and provincial budgets. The fund partly supports the market development activities of SMEs.

VIETNAM

Technological Support

Agency for SME Development (ASMED), Under the Ministry of Planning and Investment of Vietnam, is responsible for coordinating policy formulation and policy implementation for the development of SMEs in Vietnam. ASMED had initiated the SME Development Plan 2006-2010 which concentrated on providing sound policies, legal and institutional environment that ensured fair and healthy competition for SMEs, and service providers of all economic sectors so as to mobilize all internal and external resources for development investment.

The technological support offered under the SME Development Plan included: support programs for application of modern technologies and advanced techniques for SMEs; encouraging the cooperation and sharing of technology among enterprises of different sizes; effectively developing research program that can be implemented in reality; study, revise and implement the system of technical standards, quality assurance system and quality certification system in conformity with international standards; encouraging SMEs to participate in programs for industry linkages, regional linkages and developing supporting industry; and accelerating the development of the business information system.

Apart from this, under the (Unified) Investment Law, the Vietnamese Government ensures favorable conditions for technology transfer, and support SMEs to invest in research, development and transfer of technology.

Marketing Support

The Prime Minister's Decree provided for support policies for SMEs, including that of an Export Promotion Program. According to this Program, the State encouraged SMEs to increase export activities and created favorable conditions for SMEs to cooperate with overseas partners in order to expand export markets. The Export Promotion Program provided partial financial assistance for SMEs to study export opportunities and participate in international exhibitions and fairs; the budget for this was allocated from the Export Support Fund.

Entrepreneurship Development Support

SME Development Plan 2006-2010 contained policies related to providing general information and awareness raising activities. Other measures under the Development Plan include: carrying out pilot projects of integrating specific enterprise-related training modules into education schemes at high schools, colleges and universities, technical high schools, and vocational schools, in order to foster entrepreneurial spirit and entrepreneur culture; developing market (both supply and demand) for business development services and improving the legal environment, with the focus on the management of service quality; encouraging associations to have business development services; improving the effectiveness in coordinating SME development support activities; enhancing the role played by the SME Promotion Council; and enhancing the capacity at the local level in the management, promotion and development of SMEs.

Financial Support

Vietnamese SMEs have received support from the Government through the Fund for SMEs Credit Guarantee as well as the Program on Human Resource Training Support for SMEs. Apart from this, the Government of Vietnam encouraged investments by providing various incentives to investors such as exemption from corporate income tax for the capital investments and import duty payments; exemption from or reduction of land use tax, land use fee, land rent, and water surface rent; encouraging and supporting organizations and individuals who carry out the investment support services such as investment consultancy, management consultancy, intellectual property consultancy, technology transfer consultancy etc; encouraging investments under all economic sectors for construction of technical and social infrastructure facilities outside the industrial zones, export processing zones and high-tech zones.

Furthermore, organizations and individuals which invest in the creation of original varieties and breeds such as those on improving plant varieties, livestock breeds, forest tree varieties or biotechnology programs, were entitled to borrow soft loans from Government financial institutions and to enjoy tax incentives. Investors were required to formulate projects and have them approved by competent authorities for such entitlements.

Apart from this, credit information facilities were available in Vietnam. The Credit Information Centre (CIC) was established as an independent unit under the State Bank of Vietnam (SBV). The functions of the CIC include supporting credit institutions in credit decision-making. The CIC tracks information such as: customers legal profile, financial status, outstanding loan, loan guarantee, loan security and bad debt.

SINGAPORE

Technological support

SPRING Singapore (Governmental agency dedicated to the promotion of Singapore's economic growth and productivity) launched the Technology Innovation Programme (TIP) that aimed to enhance the technology infrastructure support for product and process innovations in SMEs. SPRING's TIP also co-funds technology innovation projects by SMEs and supports the set up of Centres of Innovation (COIs) for industry clusters needing focused technology support, and the Programme also helps SMEs grow their businesses through the innovative use of infocomm technologies.

Also, in order to support the broadening of the research agenda and increasing commercial outcomes from the Research, Innovation and Enterprise 2015 Plan, the Government of Singapore under the Budget 2011 decided to further top up the National Research Fund by S$ 1 billion.

Marketing Support

Government of Singapore is supporting its SMEs to compete more effectively with MNCs and large companies both within and outside Singapore. Under the Local Enterprise Association Development (LEAD) programme, the Government together with 14 industry associations committed for industry capability development projects. Other initiatives include: Capability Development Programme (CDP) that supported SME-upgrading projects in specific sectors.

The Enterprise One scheme of the Government of Singapore comprises a web portal supported by telephone hotline and a network of Enterprise Development Centres (EDCs) which attracts about 37,000 unique visitors per month, and the EDCs assist about 900 SMEs per month.

Entrepreneurship Development Support

The Singapore Government provides training as well as the necessary networking opportunities organized by International Enterprise (IE), a lead agency driving Singapore's external economy under the Singapore Government. IE Singapore administers the International Business Fellowship Programme (IBF) which will enable companies to train their employees in emerging markets allowing them to gain firsthand knowledge of the new business environment. IE has also set up the iadvisory Portal, where SMEs can log on, and get access to advice from 180 international experts for all their overseas expansion needs, ranging from market setup to legal, tax and financial advice.

Financial Support

To improve access to financing for SMEs, the Government has established various schemes such as the 2005 SME Access Loan, a securitized loan scheme that had generated loans for around 400 SMEs. Apart from lowering corporate income tax rate to 18% from Year of Assessment 2008, the Singapore Government had increased the partial tax exemption threshold for companies from S$100,000 to S$300,000 while startups can continue to enjoy full tax exemption on the first S$100,000 of their chargeable income in the first 3 years of operation.

Apart from this, the Singapore Budget 2011 provides for SME Cash Grant amounting to 5% of their revenues in YA2011, subject to a cap of S$ 5,000. This is meant to help small companies which may not benefit fully from the corporate tax rebate as they pay very little taxes. To qualify, these companies must have made CPF (Central Provident Fund) contributions in Year of Assessment 2011. Also, The Government will commit S$ 850 million as part of the Enterprise Development Fund (EDF) over the next five years, to be administered by SPRING Singapore and IE Singapore.

THAILAND

Technological support

National Science and Technology Development Agency (NSTDA) helps Thailand prosper in the global economy by enabling the industry, agriculture and services sectors to do things better through superior capabilities utilizing Science and Technology. The four National Research Centers: BIOTEC, MTEC, NECTEC, NANOTEC and one Technology Management Center (TMC) enables research and capacity building.

NSTDA and its four National Research Centers are all located in the Thailand Science Park. Thailand Science Park has been designed from its inception to inspire and stimulate the formation and growth of research-based businesses and innovative companies. . NSTDA engages with the private sector through joint R&D, knowledge and technology transfer, and Science & Technology related services in an effort to stimulate the growth of knowledge-based businesses.

Apart from this, Industrial Technology Assistance Program (iTAP) is an industrial technology support program for SMEs to help them meet the challenges in introducing technology-based products and processes. The main services provided under iTAP include: Industrial Consultancy Services, Technical Training and Seminars, Techno-Business Matching, Technology Acquisition, Provision of Industrial and Technology Information, Linkage to other Industrial Service Organizations.

Managing intellectual property assets and promoting transfer, and commercialization of NSTDAs patented technologies are done by the Technology Licensing Office (TLO). Operating under the concept “From Lab to Market”, this agency plays an important role in paving the way for economic and social development by helping the scientific progress turn into tangible products. The TLO’s responsibilities include promoting research and development that leads to the creation of intellectual property, protecting researchers’ right to their works and promoting the use of scientific insights.

The NSTDA Investment Center (NIC) is responsible for promoting investment in science and technology by co-investing in a joint venture or a spin-off company. The NIC is also in charge of educating technology business operators that are looking for technology investment opportunities and managing the NSTDA’s investments with transparency.

Also. the Government had introduced the “One-TAMBON-One-Product” (OTOP) project aimed to support grassroots communities to use their local knowledge to develop their own products with some technical support from government agencies.

Marketing support

SME Promotion Plan 2007-2011 contained numerous support measures for product quality improvement; establishing business incubator centers in regional and local areas; support for participation in trade fairs; setting up of exhibition centers for SME products throughout the country; improving logistics or distribution channels and creation of industrial clustering and networks.

Entrepreneurship Development Support

The New Entrepreneurs Creation program (NEC), set up under the Ministry of Industry in the year 2002 was an initiative intended to encourage people to create their own businesses. Under the NEC program, the SME Bank provides business counseling and training to resolve the challenges associated with running a business and development of businesses.

Also the Science & Technology Knowledge Services center is a digital hub for the latest information and knowledge, offering services such as online academic databases, electronic journals (e-Journals), research database, as well as information for research and development purposes. The services are offered to the government and the private sector, as well as education institutes and the general public.

Financial support

Thailand has a comprehensive range of private and Government financing channels and programmes that specifically cater to SMEs. The Government has set up the SME Bank, the Small Industry Credit Guarantee Corporation, and the Venture Capital Fund Management under the Office of SME Promotion (OSMEP) for this purpose. The SME Bank assumed the role of assisting SMEs in securing sources of funds, preparing business plans and providing advice on business operations.

In addition, the government instructed other specialized-financial institutions and state-owned banks, including Krung Thai Bank and Siam City Bank, to provide financial support to SMEs. Another key SME development programme was the establishment of a Venture Capital Fund, worth Bt 5 billion, in the year 2003, aimed at creating joint ventures in SME projects. The Fund was used in conjunction with an existing SME Venture Capital Fund worth Bt 1 billion, being managed by the One Asset Management Corporation.

Though not as advanced as the developed countries in terms of depth and liquidity, equity market does exist in Thailand to tap this source of funding for SMEs. The Government established the Market for Alternative Investment (MAI) to enable access to capital for smaller companies. The MAI serves as a much needed avenue to facilitate SME equity financing in Thailand.

The Company Directed Technology Development Program (CD) provides competitive financial support to industrial operators who want to do research and development in order to develop new products, improve manufacturing processes, set up a laboratory, conduct reverse engineering, and commercialize successful research. This program is focused on providing support to projects in areas such as genetic engineering and biotechnology, metals and materials, electronics and computers as well as projects that will lead to scientific and technological advancements.

PHILLIPINES

Since the 1970s, the Philippines government has devoted considerable effort to support and promote SME development through a variety of schemes and agencies and numerous programs and policies on financing, market improvement, technology transfer, and entrepreneurship. The most important piece of SME legislation, the Magna Carta for Small Enterprises, was passed in January 1991. The Magna Carta is aimed to consolidate all government programs for the promotion and development of SMEs into a unified institutional framework. The Magna Carta had three important provisions, namely: (i) creation of the Small and Medium Enterprise Development (SMED) Council to consolidate incentives available for SMEs; (ii) creation of the Small Business Guarantee and Finance Corporation (SBGFC) to address SME financing needs; and (iii) allocation of credit resources to SMEs by mandating all lending institutions to set aside 8% of their total loan portfolio to SMEs (6% for small and 2% for medium enterprises).

Notwithstanding the above support provided by the government in the previous decades, the government has embarked on a comprehensive and integrated strategy with focus on critical factors such as technology, product development, finance, training/ human resource development, and marketing, and developed the Medium Term Philippine Development Plan (2004-2010).

Technological support

Under the Medium Term Philippine Development Plan, technological support was provided under The One Town-One Product (OTOP) Program. This involved the development and promotion of a product or service where a town has competitive advantage. The OTOP interventions include: provision of a comprehensive package of assistance to MSMEs and OFWs (Overseas Filipino Workers) through a convergence of services by LGUs (Local Government Units), NGAs (National Government Agencies) and private sector in product/design development, skills and entrepreneurial training, marketing assistance and introduction of appropriate technologies.

Entrepreneurship Development Support

LGUs (Local Government Units) are being encouraged and supported in the establishment of SME Centers and entrepreneurial culture are being developed and promoted by incorporating entrepreneurship in the educational curriculum.

Financial support

To triple the loans to SMEs, access to various sources of financing are being improved through the enhanced SULONG (SME Unified Lending Opportunities for National Growth) Program. SULONG is a unified lending program by Government Financial Institutions (GFIs) designed to give SMEs greater access to short and long term funds. Some of the major

GFIs in Philippines were Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), National Livelihood Support Fund (NLSF), Small Business Corporation (SB Corp.), Philippine Export-Import Credit Agency (PHILEXIM) and Quedan and Rural Credit Guarantee Corporation (QUEDANCOR).

Also, under the 2004-2010 Medium Term Philippine Development Plan, the legal impediments to the establishment of an SME Credit Bureau were removed and the establishment of an SME credit rating/ scoring system was fast-tracked. The implementation and operation of the SME Capital Market have been strengthened and venture capital financing is being promoted.

Apart from this, there are many financing programs introduced by the government such as Wholesale Microfinance Program, a lending facility of Small Business Corporation to microfinance institutions (MFIs) which have the organizational capability to provide sustainable credit access to borrowers in the livelihood sector; Micro Energy Credit Program, to support reforms and priority investments to improve the quality of life in rural areas through the provision of adequate, affordable and reliable energy services, specifically the small-scale renewable energy solar home system/solar lanterns; Microfinance Program for NGOs and Cooperatives, to facilitate the access of micro-investment enterprises and the entrepreneurial poor to formal credit and banking services, that include training, market assistance, business consultancy, whenever possible, to hasten their growth and development; Microfinance Eco-Enterprise Program, to increase participation of the entrepreneurial poor and micro enterprises in the Sustainable Waste Management Sector, Coco Coir subsectors and other Eco-enterprises through microfinance.

LATIN AMERICA

MEXICO

Technological Support

Government of Mexico has schemes for technology transfer and related services for SMEs in order to encourage technology culture in the mindset of SMEs. A National Committee for Productivity and Technological Innovation (COMPITE) Programme has been instituted to help identifying production bottlenecks in SME units, and also redesigning of production lines in SME sector. The Ministry of Economy and the National Council for Science and Technology (CONACYT) have jointly created a fund to support innovation and development projects that offer technology solutions and technology transfer for SME units. Apart from these, the Programme for Innovation and Technological Development, established by the Government has been creating links between SMEs and the principal centers of applied research and technological development in Mexico. CONACYT implemented the following programs to boost technological capabilities of Mexican firms: 1) the Technological Modernization Program (Programa de Modernización Tecnológica—PMT); 2) the Science and Technology Sectoral Fund for Economic Development; 3) the High Value-Added in Businesses with Knowledge and Entrepreneurs program (Alto Valor Agregado en Negocios con Conocimiento y Empresarios—AVANCE); 4) Mixed Funds Program; 5) the Knowledge and Innovation Program (Programa de Conocimiento e Innovación—PCI); 6) the Support Research and Development in Projects Program (Programa de Apoyo a Proyectos de Investigación y Desarrollo Conjuntos—PAIDEC); and 7) the fiscal incentives program.

The Government has also established two major programmes, viz., creation and expansion of business accelerators (Aceleradores de Negocios), and innovation laboratories (Laboratorios de Innovacion en Nichos Especializados), in addition to other support programmes such as incentives for investors in areas such as R&D, building prototypes, and registering intellectual property. Also a program, called TechBA – Technology based Business Accelerator program, was introduced which is a high-profile initiative and part of Mexico's strategy aimed at helping Mexico's technology-based SMEs compete in the global marketplace. TechBA accelerates the development of SMEs by building strong linkage with the international hub of high technologies. The Program attracts interests of talented ex-pats and also home-grown technology based entrepreneurs to establish high-technology SMEs in Mexico because they can enjoy the merit of accessing technologies of advanced economies even though the SMEs base is within Mexico.

Marketing Support

Mexico also has various schemes to promote the export efforts of SMEs by providing technical assistance, training and specialized consultancy services. The Ministry of Economy and the National Bank for Foreign Trade (BANCOMEXT) provide easy access to information on foreign trade to SME units and help them in their globalization efforts. The Government, in its effort to strengthen SMEs in accessing foreign markets has devised few specialized programmes. The Impulsoras Programme provides tailor-made consultancies to inform SME exporters about technical specifications, regulations and quality requirements in target markets.

PYM Export Centres Network gives assistance to exporters to develop export projects taking into account regulations and product requirements in foreign markets.

Entrepreneurship Development Support

The Programme for Commercial Missions was established which uses market studies as a means of identifying potential export markets. The programme, co-financed by the SME Fund, provides systematic training and assistance for Mexican Commercial Missions on how to establish first contacts with potential foreign buyers. In order to increase networking activities of SMEs a National Network of Productive Articulation has also been established, with the objective of enhancing entrepreneurial and innovative activities by SMEs.

In 1998, Mexico launched the Comprehensive Quality and Modernization Program (CIMO), which was mainly an in-firm training program. The program was implemented and administered by the Secretariat of Labor and Social Welfare, STPS (Secretaria Del Trabajo Y Prevision Social). In 2002, the program was decentralized to the states under a new name, Training Support Program (PAC, Programa de Apoyo a la Capacitación). The program provides technical assistance to SMEs in order to enhance their productivity and welfare of workers. In 2009, PAC changed once again its design, and was renamed as the Productivity Support Program (PAP).

Financial Support

Mexico has established a number of financial programmes with the objective of promoting SMEs in the country. Nacional Financiera S.N.C., (NAFINSA), a development banking financial institution in Mexico, operating in accordance with the rules of the nation, has been established with the objective of promoting overall development and modernization of the industrial sector with a regional approach. NAFINSA provides training and technical assistance to promote the development and growth of SMEs, in addition to financing products, focusing on efficiency, productivity and development.

The Banco Nacional de Comercio Exterior (Bancomext) is a state-owned bank established to promote and finance small and medium exporting enterprises in Mexico. Bancomext offers a wide range of financial and export promotion products and services adapted to the diverse requirements and needs of each business. The Government of Mexico has established several specialized funds for development and support of Mexican SMEs. The Micro and Small and Medium Enterprises Support Fund

(FAMPyME) has been established with the objective of increasing the competitiveness and knowledge development of SMEs. Support is being provided through this Fund for activities related to consultancy, training, studies, innovation and technology development. A Productive Chains Integration Promotion Fund (FIDECAP) has been established for financing productive projects, which support the inclusion of SMEs into the productive chains. The identified activities include: establishing industrial, commercial and services infrastructure, distribution centers, and entrepreneurship promotion. A Micro, Small and Medium Enterprises Financing Access Support Fund (FOAFI) has been established to promote financing and guarantee system for SMEs. A Consolidation of Exportable Goods Support Fund (FACOE) has been established to enhance the competitiveness of export oriented SMEs. These Funds, run by the Government, serve as main strategies to shape and implement SME policy in Mexico. The Government has also devised certain strategic programmes to support the SME sector, namely, the National SME Guarantee Programme; the National Financial Extension Programme; and the Capital for Development Schemes. The National SME Guarantee Programme, which is the first scheme among the Entrepreneur Development Plan (2001-2006) initiated in Mexico for better access to finance in the SME sector, evolved into The National Financial Extension Programme in 2004, another policy aimed at increasing SMEs' access to finance. Conceived as a financial assessment net, the Programme helps SMEs enter into credit relationships through the upgrading of their organizational and managerial abilities. The Capital for Development Scheme, seeks to increase the supply of venture capital. Two sub-programmes primarily serve this purpose: the Seed Capital Programme and The Fund of Productive and Infrastructural Development Projects.

JAMAICA

Marketing support

In order to increase the market share for goods and services produced by MSMEs, MIIC (Ministry of Industry, Investment and Commerce), through its relevant agencies, JAMPRO (Jamaica Promotions Corporation) and JAMCO (Jamaica Marketing Company) disseminated information to local MSMEs about the market requirements in key international markets. Also, MIIC in partnership with the MOFAFT (Ministry of Foreign Affairs and Foreign Trade) through its overseas missions and consulates facilitated the promotion of non-traditional exports such as the creative arts, ethnic food, and apparel. MIIC facilitated the promotion and strengthening of agencies which play a vital role in the areas of standards setting, package design and marketing. MIIC supported entities, such as the Jamaica Manufacturers Association, Small Business Association of Jamaica and other umbrella business associations are engaged in the promotion of the MSME-produced goods and services.

Government of Jamaica also facilitated the use of ICT (Information and Communication Technology) as an avenue for MSME operators to access information necessary to facilitate self-paced empowerment and knowledge.

Entrepreneurship Development Support

Ministry of Industry, Investment and Commerce (MIIC) has initiated many measures under the MSME policy to foster greater awareness, and introduce the application of higher levels of technology in MSMEs.

JBDC (Jamaica Business Development Corporation) also instituted an equipment-leasing programme for MSMEs and provided the practical exposure and training for the managers and staff so as to enhance their ability to work with the technology. This is being facilitated by SRC (Scientific Research Council), JBDC and HEART/NTA (National Training Agency) in western and central Jamaica. The establishment of Business Incubators and Entrepreneurial Production Centres (EPCs) assisted in addressing the technology deficit. In the case of the incubators, those businesses that graduate were awarded the opportunity to compete nationally, regionally and eventually globally. For the long term, emphasis was placed on Ministry of Education (MOE) designing school curriculum (from pre-primary level) to inculcate, throughout the society, an awareness and comfort in using technology.

In order to improve the technical skills of the workers, MOE accelerated the wider incorporation of technical/ vocational training at the secondary and tertiary levels of the educational system. JBDC (Jamaica Business Development Corporation) encouraged teamwork and collaboration among micro enterprises to enhance their operations.

In order to increase the marketing and communication skills of MSMEs, Government of Jamaica encouraged the use of technical training programmes available through both private and public sector Business Development Services (BDS) providers. Government of Jamaica promoted awareness of BDS providers which focus on the improvement of marketing skills. Such facilities include the Jamaica Business Opportunity Service (JBOS), Jamaica Trade Point (JTP), the Biz Marketing Programme and Business Information Points.

Financial Support

Development Bank of Jamaica (DBJ) provided funding to micro-credit institutions to facilitate lending. The Government promoted the on-lending of funds to micro enterprises without the need for traditional collateral. Government through JBDC also provided financing for the business clusters. The group guarantee will eliminate the need for individual collateral.

Apart from this, MIIC and JBDC work with the PSOJ (Private Sector Organisation of Jamaica) and the Bankers Association to explore the possibility of introducing innovative financing options. These include "Factoring" where the accounts receivable of the SME is used as collateral, or "Floor Planning" where the inventory of the SME is used as collateral until the sale is made.

The Government also offered support to the small enterprise sector through the use of credit guarantee schemes that have less demanding collateral requirements (partial security). The Government facilitated the establishment of a Credit Bureau to furnish financial intermediaries with the necessary credit information to assist in their assessment of the credit worthiness of the MSMEs, and their ability to service loans. MIIC and PIOJ (Planning Institute of Jamaica) sourced a special line of credit at a concessionary rate and made these funds available for on-lending to the productive sector. Government of Jamaica and the private sector established a partnership to provide angel financing or venture capital for new businesses and a Tax Holiday of six months for new businesses that employ three or more persons. Thereafter, the business will get a tax credit for each additional employee up to a maximum of ten persons.

Also, the main policy initiative taken by the Government of Jamaica was the launch of the credit programme known as JumpStart involving US $ 50 million targeting the start-ups segment of the sector. This was intended to address the lack of access to credit by start-ups.

The Government has also introduced the Government of Jamaica/ EU MSE credit scheme under which approximately 80% of the funding provided credit to the small business or small enterprise sector and the remaining 20% to the micro business or micro enterprise sector. Government has also introduced another programme, Government of Jamaica/ Government of the Netherlands Micro Finance Programme (MicroFIN) under which funds have been allocated by Development Options Limited (DOL) to interested credit institutions.

AUSTRALIA

Marketing support

Australia has various schemes to promote the export efforts of SMEs through technical assistance, training and through provision of specialized consultancy services. TradeStart, which is a national network of export assistance offices, offer free services to ICT SMEs to develop their export businesses. Apart from this, Austrade is an institution established by the Australian Government which has a dedicated Global ICT Team that provides market intelligence. Austrade brings out an electronic newsletter, AusTrade IT Export Alert, and also conducts export coaching to ICT SMEs.

Australia also has plenty of highly skilled craftspeople and entrepreneurs who work in every aspect of the arts and entertainment sector. The creative industries are an incredibly dynamic and thriving aspect of both Australian life and its economy. In 2008, the government launched the Creative Industries Innovation Centre to assist SMEs in the creative field to expand their business.

Entrepreneurship development support

Government of Australia has instituted programs to help SMEs to continue to create, innovate, grow and compete globally. Government also provides a range of programs to help ICT SMEs turn their ideas and products into successful businesses. Commercialization of Emerging Technologies (COMET) is a program which provides ICT SMEs and other businesses with a tailored package of support, through private sector business advisers, to increase the commercialization of innovative products, processes and services.

Financial support

Australian Government has initiated several financial support programs for the benefit of SMEs. The R&D Start Program provides a range of financial grants and loans to firms to undertake research and development, and commercialize ideas and products. Under the Innovation Access Program, SMEs are encouraged to take up cutting edge technologies through funding of their R&D activities; the funding is available on a competitive basis and up to 50 per cent of the total project cost is provided.

The Cooperative Research Centres (CRC) Program provides funding to a number of CRCs aimed at linking researchers with industry with the focus of commercialisation and technology transfer.

Australian government has also introduced the Innovation Investment Fund which provides venture capital to small, high-tech companies at the seed, start up or early expansion stages of their development. The program is delivered through nine private sector venture capital funds. Another program initiated by the Government was facilitating access to capital for ICT SMEs by creating tax incentives for Venture Capital Limited Partnerships (VCLPs) and Pooled Development Funds (PDFs). VCLPs received tax incentives for providing equity capital to growing Australian SMEs and Australian investors received similar tax incentives for providing equity capital to SMEs through PDFs.

Some of the other programs are: Small Business Enterprise Culture Program which provides financial grants for projects that enhance small businesses access to skill development and mentoring, The Small Business Incubator Program which provides financial grants to not-for-profit organizations to assist start-up companies including provision of shared premises, business support services, and funding of feasibility studies. ITOL (Information Technology Online) is an Australian Government funding program administered by the Department of Communications, Information Technology and the Arts (DCITA) designed to accelerate the national adoption of e-business solutions, especially by small and medium enterprises. Information Technology Online (ITOL) Program provides financial assistance to companies, especially SMEs, to adopt business-to-business e-commerce solutions. Funds are provided to a broad range of industry sectors and geographic regions. The Small and Medium Enterprise Australia (SMEA) helps in capital raising and debtor financing for SMEs in Australia.

Another program is the Building on IT Strengths (BITS) Incubator Program which provides funding of A$86 million to 11 incubator centres across Australia to provide seed capital (of up to A$450 000) and business advice to start-up ICT firms. Small Business Answers program provides financial assistance to firms that deliver advisory services to small business owners and managers across Australia, particularly in regional areas not served by existing advisory services. Under the Export Market Development Grant Program, financial assistance is provided to help ICT SMEs to develop export markets. Export Finance and Insurance Corporation (EFIC) helps SMEs obtain unsecured pre-shipment finance where they do not have sufficient security to obtain additional bank finance. EFIC may also provide a guarantee to the exporter’s relationship bank, which then provides the necessary working capital funds.

EUROPE

ITALY

Technology Support

The Italian manufacturing sector is unique as compared to other developed countries in terms of the size of units. There are large number of small-scale units specialized in medium to low-tech sectors such as agro-processing, footwear, textiles, furniture and small mechanics / equipments. Due to small business size, the Government of Italy recognizes the need for supporting their research and innovation activities. Such support includes helping the SMEs in establishing linkages with the academic and scientific institutional systems in Italy. The Italian Government has also entered into an agreement with the United Nations Industrial Development Organisation (UNIDO) to promote an Italian Investment and Technology Promotion Office (ITPO) in Rome, to support industrial cooperation with companies in developing countries and to support through technical assistance to promising industrial projects.

Italian Network for Innovation and Technology Transfer to SMEs (RIDITT) is an initiative aimed at improving the competitiveness of productive system by strengthening and integrating the available supply of services for innovation. The initiative was launched in 2003, promoted by the Italian Ministry of Productive Activities, and is managed by its agency, the Institute for Industrial Promotion. The main objective of the programme is to create a community among the major public and private players of the Italian innovation system with a view to:

- Promoting knowledge sharing;
- Encouraging innovation and technology transfer to enterprises;
- Strengthening the innovation networks;
- Facilitating the access to financial resources; and
- Supporting the internationalization of innovation centers.

Marketing support

Despite the small average size of the firms, Italian industry has achieved quite significant results on the export side. Earlier, several Italian SMEs used to operate without much support from the State; however, since the last few years, a deep change in the objectives and instruments of Italian industrial policies has occurred. The focus has been shifting from exports to FDI, and from a legal and diplomatic support towards the provision of real services (information, credit and financial schemes, partner seeking). Agencies providing and facilitating marketing support for Italian SMEs include: The Italian Institute for Foreign Trade (I.C.E., Istituto Nazionale per il Commercio Estero) is the Italian government agency entrusted with the promotion of trade, business opportunities and industrial co-operation between Italian and foreign companies. ICE supports the internationalization of Italian firms and their consolidation in foreign markets. ICE has instituted a new tool, called SINCE (Italian Information System for Foreign Trade), which provides instruments of analysis to Italian SMEs and institutional users to support companies with their decision making process. ICE also conducts public promotion programmes and enhances the image of Italian SMEs through the 'Made in Italy' brand.

Entrepreneurship Development Support

Italian Government had also announced a national program, 'Startech', the scope of which is to promote industrial research in Italy, to facilitate contacts between researchers and commercial enterprises and to boost the setting up of new high-tech ventures. The initiatives under the programme are based on cooperation with universities, companies, research centers and venture capitalists. Under this programme, mentoring services are also provided in the areas such as technology, production process, marketing skills, partnership, patenting and business planning. A modern financial tool will also be used to provide seed and start-up capital for SMEs under this programme.

Also, Confapi (Confederazione italiana della piccolo e media industria private), the Italian confederation of small and medium private industry, contributes to the development of SMEs, supporting them in all the choices dictated by changing economic horizons.

Financial Support

Most of the SMEs in Italy are traditional in nature and are small, family owned, have low-own funds, and rely on bank loans for finance. Thus, it is common that Italian SMEs are holding cultural adversity for the acceptance of venture capital as a means of finance. Almost all SME financing is carried out through the banking system, notably the saving and co-operative banks with the latter focusing on artisans and micro SMEs. Some SME financing is supported by the mutual guarantee system. Leasing for both industrial real estate and equipment, with several fiscal benefits, is a very popular financial tool amongst Italian SMEs. SIMEST, a development finance institution set up by the Ministry of Productive Activities, is dedicated in supporting and promoting the activities of Italian SMEs abroad. SIMEST promotes

Italian investment abroad and also provides technical and financial support for projects. In addition to investment financing, SIMEST supports export credits for investment goods produced in Italy; finances pre-feasibility / feasibility studies and technical assistance programmes; and financing of market penetration programmes. DACE SpA, the Italian state-owned export credit insurance company provides necessary export credit insurance for SME exporters from Italy.

Italian SMEs benefit to a large extent from the financial instruments developed and funded by the European Commission, which makes it easier for SMEs to get loans from banks through provision of guarantees. The European Investment Fund (EIF), on behalf of the European Commission, manages the financial instruments, and the funds are allocated through financial institutions and banks.

There are several banks and financial intermediaries engaged in supporting the business innovation activities of Italian SME sector. In addition, the Italian Private Equity and Venture Capital Association, and the Italian Business Angels Network, provide necessary funds, equity seed capital, and start-up financing to enterprising new ventures.

HUNGARY

Technological Support

Hungarian Government recognizes the need for innovation in SME sector. In this context, the Government promotes knowledge transfer from universities to businesses, and strengthens the university-industry linkages for diffusion of up-to-date technologies. Government has also been adopting a regional cluster approach supporting transfer of technologies in the same sector or same region. Specific grant schemes are also launched for establishing entrepreneurial incubation houses.

A Research and Technology Innovation Fund has been established by the Government with the objective of ensuring predictable and reliable financing for the implementation of R&D and for promotion of new innovation policies.

The Hungarian Business Incubator Association (Vállalkozói Inkubátorok Szövetsége – VISZ) has been established in 1991 to provide services to micro and small enterprises in compliance with local needs. A Hungarian Association for Innovation has also been established to promote creation, spread, transfer, adoption, and practical utilization of intellectual products, so that the performance and income generating potential of the SME sector could be increased. Government of Hungary has established INNOSTART (Hungarian National and Business Innovation Centre), a foundation established on the model of Business and Innovation Centre (BICs) established by EU, as a public utility organization, assuming a decisive role in dissemination of technology and know-how all over the country. The mission of INNOSTART is to identify promising innovative projects and to back the achievement and market development of innovative enterprises.

Also, the Central Hungarian Innovation Centre which is located in the Budaors Industrial and Technology Park, housing more than 200 small and medium sized enterprises (SMEs) offers a modern infrastructure for business development service providers re-locating their premises. The innovation centre is mostly financed by private investors. Through its activities, the Centre aims to increase the competitiveness of the SMEs of the Central Hungarian Region. With its services it also intends to contribute to the development of the technology standards of SMEs and promote entrepreneurship, as well as aid up-to-date product development and project management methods.

The Hungarian Science and Technology Foundation (TETALAP), set up in 1994, by the Hungarian Ministry of Foreign Affairs, is another organisation assisting scientific, research and development activities by supporting various forms of national and international scientific and technological cooperation. The Foundation contributes to sustaining and developing the international relations of the Hungarian R&D community and helps widen the international cooperation activities in research and development of Hungarian research centres, universities and SMEs. Since 1998, the Foundation has been operating as a public benefit organisation.

INNONET is another nonprofit organisation which has been established to aid innovative SMEs and thus foster the development of the West-Transdanubian Region. INNONET activities are based on the firm belief that long term socio-economic benefits of innovation processes significantly exceed the earnings of individual companies participating in them.

Marketing Support

The Hungarian Investment and Trade Development Agency (ITD-H) has been established by the Hungarian Ministry of National Development and Economy with the objective of implementing the trade promotion programmes of the Government of Hungary, targeting SMEs. ITD-H through a diverse set of marketing tools and support programmes offers logistical and professional assistance to Hungarian SMEs, especially in priority sectors such as processed foods, pharmaceuticals, medical engineering products, precision engineering, automotive products and software. ITD-H also co-ordinates the Hungarian activities of the European Union's new Enterprise Europe Network (EEN), which offers support and advice to SMEs across Europe, and helps them in tapping most of the opportunities in the European Union. EEN's Hungarian structure currently consists of nine organisations established at regional chambers, enterprise development agencies and innovation centres operating across the country.

The Hungarian Association of Craftsmen's Corporations (IPOSZ) is a professional organisation of Hungarian micro and small-sized enterprises, and crafts. IPOSZ helps the Hungarian MSMEs in the crafts sector in improving their competitiveness and market share in both domestic and international markets.

Entrepreneurship Development Support

The Hungarian Foundation for Enterprise Promotion (MVA) is an independent organization established with the intent to encourage the formation and development of small and medium-sized enterprises (SMEs) in Hungary. Acting as a service provider, the overall objective of the MVA is to promote, through various services, the development of the Hungarian SMEs, a sector of particular importance in terms of social and economic policy. Services are offered to start-up micro enterprises as well as SMEs, which are capable of gaining strength and financial standing in the marketplace.

Financial Support

The Hungarian financial system offers full range of financial and support services to the Hungarian SMEs mainly through the commercial banks, and development financial institutions, like the Hungarian Development Bank and the Hungarian Exim Bank. Hungarian Development Bank performs its activities related to supporting the SME sector in conformity with the Hungarian legislation, and support policy and competition rules of the European Union Directive 2006/48/EC. The core function of the Hungarian Development Bank is to provide funding for SMEs to enhance their technological level, environmental protection and infrastructure development taking into the sustainability criteria, and efficient management. Also, under the Europe Credit Programme for Investments, SMEs could apply for development project funding in the range of EUR 40,000 to EUR 2,000,000, at competitive interest rate due to a special guarantee provided by the government. Duration of the credit is 4–15 years, including a grace period of maximum 2 years.

The scheme is being offered by the Hungarian Development Bank and 22 commercial banks that joined it.

Hungarian Exim Bank has been set up with the objective of improving the competitiveness of Hungarian exports of products and services, especially through the facilities extended to Hungarian SME exporters and their foreign customers. The Hungarian Export Credit Insurance Company has also been set up to develop the system of financial institutions, specifically the financing of exports and export credit insurance of SME businesses. It may be mentioned that until 2003, the Hungarian Government helped small and medium-sized enterprises mainly by awarding them application-based non-repayable subsidies. Since 2003, a multi-pillar special credit system had been established, jointly operated by numerous credit institutions and organizations, offering graded solutions in terms of loan amounts, duration and interest subsidy matching the real demands of specific entrepreneurial groups, especially from the SME sector. To cite few examples: a) the Micro Credit Programme, dedicated to development financing, is to assist small businesses through financial support and consultancy, mainly in those special areas where the commercial banks are unable to satisfy their needs; b) the Széchenyi Enterprise Development Programme, is established with the objective of supporting modernization and development of SMEs; and c) Midi Credit Scheme is instituted with the objective of supporting SMEs for purchase of capital equipments, including second-hand machineries.

The Government of Hungary also provides micro credit to SME sector through the Hungarian Foundation for Enterprise Promotion (HFEP) along with the assistance of local entrepreneurial agencies. The Credit Guarantee Corporation of Hungary plays an active role in implementing the government's programme to promote SME development and improve SME competitiveness.

Apart from these, a Rural Credit Guarantee Foundation has been established under the framework of the PHARE programme (Poland and Hungary: Assistance for Restructuring their Economies), with the participation of the Ministry of Agriculture and other financial institutions. The Foundation is aimed at enhancing the chances of those otherwise creditworthy – domestic small and medium–sized enterprises for availing credit, which are not able to present eligible financial reserves or legal collaterals to banks. The Government has also introduced the Enterprise Development Credit Programme called "Successful Hungary", with the objective of improving competitiveness of SMEs in Hungary, and their role in employment generation, and in supply chains.

4. MSMEs IN INDIAN CONTEXT

Introduction

Small and medium enterprises play a vital role in Indian economy. The importance of SME sector in Indian economy can be gauged from the fact that the sector contributes around 9% of national GDP, 45% of manufacturing output, nearly 40% of national exports, manufacturing over 6000 product groups, providing employment to over 70 million persons.

Definition of MSMEs in India

Earlier, industrial units in India, based on investment ceiling on the installed plants and machinery, were classified as small scale and large scale units in broad terms. Within small scale sector, there were sub-classifications such as ancillary units, tiny units, women enterprises, and small scale services and business units. The medium scale units were not earlier defined in India. However, following the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, enterprises in India are being broadly classified into micro units, small units, medium units and large units.

Manufacturing Sector

Within the manufacturing sector micro enterprises are classified as those with investment in plant and machinery not exceeding ₹ 25 lakhs. While investments in plant and machinery for a small enterprise has been kept in the range between ₹ 25 lakhs and ₹ 5 crores, a medium enterprise is defined with investment in plant and machinery in the range between ₹ 5 crores and ₹ 10 crores.

Services Sector

The definition of MSMEs in the services sector based on investments in plant and machinery classifies micro enterprise where investment in equipments does not exceed ₹ 10 lakhs; small enterprise where investment in equipments falls between ₹ 10 lakhs and ₹ 2 crores; and a medium enterprise where investment in equipments falls between ₹ 2 crores and ₹ 5 crores.

Evolution of MSME Policies in India

Since independence, the Government of India has formulated several industrial policy resolutions/ statements with a view to promote industrial growth in the country. The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1990: During this period, due recognition was given to the micro and small enterprises, with the objective of expanding employment opportunities, ensuring equitable distribution of the national income and facilitating effective mobilization of private sector resources of capital and skills. During this period, the Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organization (SIDO)], the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were established, to provide supportive measures that were required to nurture MSEs. During this period, policy measures were introduced to protect the MSEs in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. Several MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] across the country were set up to train youth in skills/ entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centres were set up all over the country.

1991-1999: The new Policy for Small, Tiny and Village Enterprises of August 1991, laid the framework for government support in the context of liberalisation, which sought to replace protection with competitiveness to infuse more vitality and growth in MSEs in the face of foreign competition and open market. Supportive measures were focused on improving infrastructure, technology and quality. Testing Centres were set up for quality certification, and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernisation Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.

1999 onwards: The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The Policy Package announced in August, 2000 was introduced to address the challenges relating to credit, infrastructure, technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSME sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1 crore ($0.20 million) and a Market Development Assistance Scheme for MSMEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the Government enacted the MSMED Act. In March 2007, a Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment.

The Ministry of MSME also had taken a view to do away with the restrictive ceiling of equity holding of 24%, prescribed for industrial undertakings, both domestic and foreign, in the MSMEs. A Limited Liability Partnership Act (where the liability of at least one partner is unlimited and that of the other partners are limited to the capital invested) as a new legal form of business organization is being envisaged, thereby enhancing greater level of corporatisation of SMEs and attracting fresh equity capital.

Policy of Protection / Reservation

Protection and reservation has been extended to Indian MSEs, in select sectors, with the specific objective of providing competitive platform and lead time to relatively uncompetitive sectors. The policy for protection and reservation has been reviewed periodically, and considering an appropriate timeframe for breeding efficiency into the system, the Government of India has been gradually withdrawing the policy protection measures (reservation) of MSEs. Starting 1997 and until 2001, the Government de-reserved only 39 items. This has been followed by gradual thrust for de-reservation, year after year. In the year 2008, 93 items were de-reserved.

Box 3 : Various Industrial Policy Resolutions in India: References to MSE Sector

Industrial Policy Resolution, 1948

The policy aimed at balanced growth of different manufacturing sectors and focused on co-existence of small scale and cottage industries with large scale sector. In this policy, it was recognized that the cottage and small industries could play a crucial role in the rehabilitation of displaced people through the establishment of individual / cooperative enterprises.

Industrial Policy Resolution, 1956

The policy recognized the crucial role of small scale sector in generating employment and mobilizing local skills. It was also realized that the small scale sector has potential to work together with large scale sector as ancillary industries.

Industrial Policy Statement, 1977

The statement created an enabling environment and extended the list of reserved items for exclusive production by small scale sector. The statement also provided special consideration to tiny sector, within the small scale sector. The concept of District Industries Centre (DIC) was mooted so that one agency in each district could be created to meet all the requirements of small scale units.

Industrial Policy Statement, 1980

The statement redefined the small scale units by raising the ceiling of investment in plant and machinery. The statement announced a modernization package for small and village industries to suit the requirements of each sector. These included various aspects such as location, energy requirements, and right type of technology. Some of the procedures relating to setting up of new small scale unit and import of technology were also simplified.

Industrial Policy, 1990

In this policy, investment ceiling on small scale and tiny industries were further increased. Efforts were also taken to enhance credit flow to this sector, and attempts were made to increase the women participation in entrepreneurial activity. A targeted approach was adopted to channelise need based flow of credit to small scale units.

Industrial Policy, 1991

This policy was announced alongside with large scale liberalization in all major areas of Indian economy. Small scale was also a part of the reform programme. Investment limit was once again modified. Equity participation by other industrial undertakings were permitted upto a limit of 24% of shareholding in small scale units to strengthen the capital base and to encourage modernization and technology upgradation.

Table 22 : Number of Items De-Reserved in India Since Liberalization

Year	No of Items De-Reserved
1997-2001	39
2002	51
2003	75
2004	85
2005	108
2006	180
2007	212
2008	93

Source: Ministry of MSME, Government of India

Box 4 : Chronology of Policy for Protection / Reservation to Small- Scale Units

The policy of product reservation for small scale units was initiated with 47 items in 1967; the policy had continued over the years and in the nineties the list of reserved items soared upto nearly 900 products. The product reservation for small scale manufacturing was implemented with the view that the industrial sickness in small scale sector could be prevented and competitiveness could be enhanced.

In 1991, alongside the liberalization process, it was decided to enhance the potentialities of small scale sector through phasing out of the policy for protection and reservation. The job of framing such an initiative was entrusted to an Expert Committee on Small Enterprises (Abid Hussian Committee – 1997), which made several recommendations on de-reservation. Though the Committee favoured for a total abolition of reservation, the Government of India has decided to de-reserve the small scale sector in a gradual manner.

Source: Ministry of MSME, Government of India

At present, only 20 items are reserved for small scale sector in India. These belong to sectors such as food and allied sector, wood and wood products, paper products, injection moulding thermo-plastic products, chemical and products, glass and ceramics, and mechanical engineering products (excluding transport equipment).

Table 23 : List of Items Reserved for Exclusive Manufacture by Micro and Small Enterprises Sector

(As on 30 July, 2010)

S.No.	S.No. (As per Gazette Notification)	Product Code	Name of the Product
FOOD AND ALLIED INDUSTRIES (20-21)			
1	3	202501	Pickles & chutneys
2	7	205101	Bread
3	11	21100102	Mustard Oil (except solvent extracted)
4	13	21100104	Ground nut oil (except solvent extracted)
WOOD AND WOOD PRODUCTS (27)			
5	47	276001	Wooden furniture and fixtures
PAPER PRODUCTS (28)			
6	79	285002	Exercise books and registers
OTHER CHEMICALS AND CHEMICAL PRODUCTS			
7	253	305301	Wax candles
8	308	314201	Laundry soap
9	313	317001	Safety matches
10	314	318401	Fire works
11	319	319902	Agarbatties
GLASS AND CERAMICS			
12	335	321701	Glass bangles
MECHANICAL ENGG. EXCLUDING TRANSPORT EQUIPMENT (33.35)			
13	364	340101	Steel almirah
14	394	341004	Rolling shutters
15	402	34200602	Steel chairs-All types
16	404	34200702	Steel tables-All other types
17	409	342099	Steel furniture-All other types
18	428	343302	Padlocks
19	447A	345207	Stainless steel utensils
20	474	345202	Domestic utensils-Aluminium

Source: Annual Report 2011-12, Ministry of MSME

Policies towards Direction of Credit

Government of India, realizing the credit requirements of small scale units devised policies under the priority sector lending. The policy for priority sector lending sets a target of defined percentage (currently 40%) of their Adjusted Net Bank Credit (ANBC) or Off- Balance Sheet Exposure (OBE), whichever is less, to identified sectors such as agriculture, micro and small-scale industries, and certain other sectors. The inclusion of micro and small industries in this list makes them eligible for this earmarked credit.

With regard to foreign banks, there would be a sub-target of 10% of advances to small scale units under the overall priority sector target of 32 per cent of ANBC or credit equivalent amount of OBE.

It may be mentioned that for both domestic and foreign banks, there will be a sub-target of 60% (of total advances to small-scale sector) to micro enterprises, as detailed below:

- 40% to micro manufacturing enterprises having investment in plant and machinery upto ₹ 5 lakhs, and micro services enterprises having investment in plant and machinery upto ₹ 2 lakhs;
- 20% to micro manufacturing enterprises having investment in plant and machinery between ₹ 5 lakhs and ₹ 25 lakhs, and micro services enterprises having investment in plant and machinery between ₹ 2 lakhs and ₹ 10 lakhs.

In the past, several Committees/ Study Groups had looked into issues relating to MSMEs. These, inter alia, include: (i) Committee to Examine the Adequacy of Institutional Credit to SSI Sector under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor (1991); (ii) Expert Committee on Small Enterprises under the Chairmanship of Shri Abid Hussain, Former Member, Planning Commission (1995); (iii) High Level Committee on Credit to SSI, under the Chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India (1998); (iv) Study Group on Development of Small Scale Enterprises under the chairmanship of Dr. S.P. Gupta, the then Member, Planning Commission (1999); (v) Working Group on Flow of Credit to SSI Sector under the chairmanship of Dr. A.S. Ganguly (2003); (vi) Working Group on 'Rehabilitation of Sick SMEs' under the chairmanship of Dr. K. C. Chakrabarty, the then Chairman & Managing Director; Punjab National Bank (2007) and (vii) Prime Minister's Task Force on MSMEs (2010) under the chairmanship of T.K.A. Nair, the then Principal Secretary to PM. The Government had also constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS) in September 2004 to examine the problems confronting enterprises in the unorganized sector and make appropriate recommendations to provide technical, marketing and credit support to the enterprises. The NCEUS submitted eleven reports.

The Nayak Committee (1991-92) set up by the Reserve Bank of India, dealt with aspects of adequacy and timeliness of credit to SSIs. The Committee realized that the small scale sector was getting working capital to the extent of 8.1% of its annual output which was less than the normative requirement of 20%. Accordingly, the Committee had recommended that the SSI sector should get 20% of its annual projected turnover by way of working capital.

The Kapur Committee (1997) set up by the Reserve Bank of India, reviewed the delivery system of working capital and had suggested that the SSI units should get a minimum level of 20 percent of their value of output. The Study Group on Development of Small Enterprises (S. P. Gupta Committee), had advocated the removal of artificial distinction between Small and Medium Enterprises (SMEs) and proposed a three-tier definition for tiny sector (up to ₹ 10 lakhs investment in plant and machinery), SSI sector (₹ 10 lakhs to ₹ 1 crore in plant and machinery) and medium sector (₹ 1 crore to ₹ 10 crores in plant and machinery), to enable SMEs overcome the travails of transition.

Following the recommendations of these Committees, the Government had accomplished many initiatives including de-linking of SIDBI from IDBI, opening of more specialized bank branches, enhancement in the limits of composite loan, setting up of Debt Recovery Tribunals, introduction of credit guarantee scheme, introduction of credit rating and raising the exemption limit for collateral security. Public sector banks had been advised to operationalize more specialized SSI branches at centres where there is a potential for financing many SSI borrowers. With a view to moderating the cost of credit to SSI units, banks had been advised to accord SSI units with a good track record, the benefit of lower spreads over the prime lending.

The Ganguly Committee (2004), had assessed the progress made in implementation of the recommendations of the Kapur Committee and Gupta Committee and suggested ways to improve credit flow to the SSI sector, especially to the tiny sector. The Report emphasized the need for new vehicles and instruments viz. bank promoted (non-deposit taking) NBFCs, and micro credit intermediaries dedicated to

SME financing. Such micro credit intermediaries would be able to rate the borrower and assess the risk and serve as instruments for extending quick credit to SME clusters, accredited to them. It was also recommended that novel funding approach may be adopted for SMEs, especially in North East and other backward regions/areas, in order to remove regional imbalances by promoting and developing SMEs.

The Internal Group to Review the Guidelines of Credit Flow to SME sector, set up by RBI under the Chairmanship of Mr. C. S. Murthy, had recommended self-set targets for the commercial banks for lending to SME sector, with an increasing disbursement over the previous year. The Group had also recommended continuation of sub-targets for financing tiny units and smaller units to the extent of 40% and 20%, respectively. The Group advocated empowering the Boards of the banks to frame their own policies with regard to SME financing, so that the lending policies would be more liberal than the existing policies.

RBI, vide its circular dated August 19, 2005, had announced a policy package for stepping up of credit to small and medium enterprises. The circular advised all commercial banks to fix self targets for financing to SME sector so as to reflect a higher disbursement over the immediately preceding year, while allowing the sub-targets for financing tiny units and smaller units, to the extent of 40% and 20% respectively. The public sector banks had also been advised to achieve a minimum 20% year-on-year growth in extending credit to SMEs.

The Prime Minister's Task Force on MSMEs under the chairmanship of T.K.A.Nair, Principal Secretary provides a roadmap for the development and promotion of the Micro, Small and Medium Enterprises (MSMEs). The Task Force classified the common issues into 6 major thematic areas and constituted separate Sub-Groups for detailed examination. These thematic areas covered (i) credit, (ii) marketing, (iii) labour, (iv) rehabilitation and exit policy, (v) infrastructure, technology and skill development and (vi) taxation. A separate Sub-Group was also constituted to look into the development of MSMEs in the North-East Region and Jammu & Kashmir. The task force, had called for an agenda for immediate action to provide relief and incentives to MSMEs, especially in the aftermath of the economic slowdown, accompanied by institutional changes and detailing of programmes, to be achieved in a time-bound manner. It had also suggested setting up of appropriate legal and regulatory structures to create a conducive environment for entrepreneurship and growth of MSMEs.

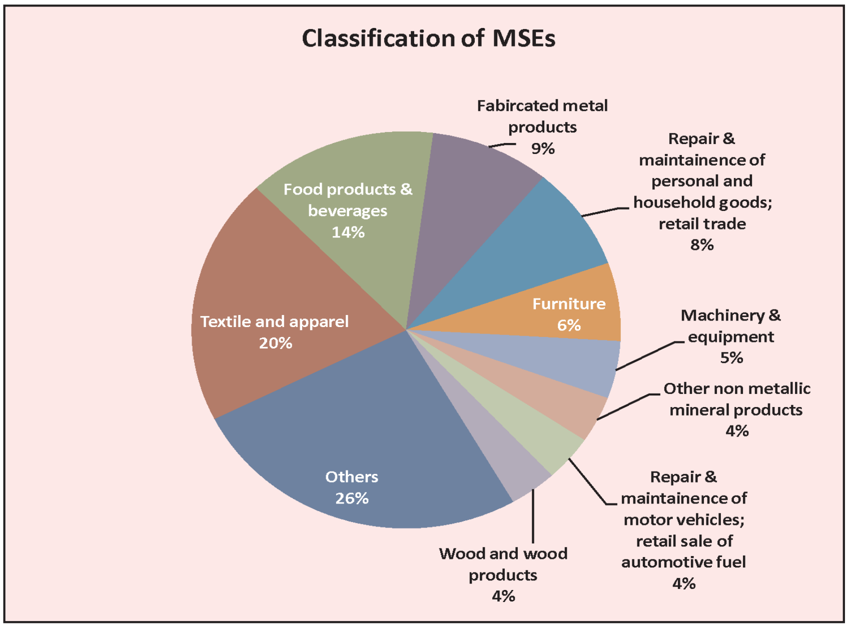
Performance of MSMEs

The MSME sector contributes about 45 percent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 70 million persons in over 30 million units throughout the country.

There are over 6000 products (Exhibit:4) ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector. Performance of MSMEs is given in Table: 24. It is evident that MSMEs have performed well over the years. There were about 312 lakhs MSMEs in India during 2010-11 contributing to a production level of ₹ 1,095,758 crore, and providing employment to around 70 million persons.

According to the Fourth All-India Census of Micro-Small and Medium Enterprises (reference period 2006-07), the size of the registered MSMEs was estimated to be 15.64 lakh units. This comprises of 67% of manufacturing enterprises and 33% of services enterprises. About 45% of the units were located in rural areas. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89%, and 0.17%, respectively. About 90% of the registered enterprises in the MSME sector were

Exhibit: 4



Source: Annual Report 2011-12, Ministry of MSME, Government of India.

Table: 24 MSMEs Performance: Units, Investment, Production Employment & Exports

Sr. No.	Year	Total MSMEs (lakh numbers)	Fixed Investment (₹ crore)	Production (₹ crore @ Current prices)	Employ-ment (lakh persons)	Exports (₹ crore)
1	1992-93	73.51 (4.07)	109623 (9.24)	84413 (4.71)	174.84 (5.33)	17784 (28.10)
2	1993-94	76.49 (4.07)	115795 (5.63)	98796 (17.04)	182.64 (4.46)	25307 (42.30)
3	1994-95	79.60 (4.07)	123790 (6.9)	122154 (23.64)	191.40 (4.79)	29068 (14.86)
4	1995-96	82.84 (4.07)	125750 (1.58)	147712 (20.92)	197.93 (3.42)	36470 (25.46)
5	1996-97	86.21 (4.07)	130560 (3.82)	167805 (13.60)	205.86 (4.00)	39248 (7.62)
6	1997-98	89.71 (4.07)	133242 (2.05)	187217 (11.57)	213.16 (3.55)	44442 (13.23)
7	1998-99	93.36 (4.07)	135482 (1.68)	210454 (12.41)	220.55 (3.46)	48979 (10.21)
8	1999-2000	97.15 (4.07)	139982 (3.32)	233760 (11.07)	229.10 (3.88)	54200 (10.66)
9	2000-01	101.10 (4.07)	146845 (4.90)	261297 (11.78)	238.73 (4.21)	69797 (28.78)
10	2001-02	105.21 (4.07)	154349 (5.11)	282270 (8.03)	249.33 (4.44)	71244 (2.07)
11	2002-03	109.49 (4.07)	162317 (5.16)	314850 (11.54)	260.21 (4.36)	86013 (20.73)
12	2003-04	113.95 (4.07)	170219 (4.87)	364547 (15.78)	271.42 (4.31)	97644 (13.52)
13	2004-05	118.59 (4.07)	178699 (4.98)	429796 (17.90)	282.57 (4.11)	124417 (27.42)
14	2005-06	123.42 (20.76)	188113 (4.07)	497842 (5.27)	294.91 (12.32)	150242 (4.37)
15	2006-07	261.01 (21.50)	500758 (111.48)	709398 (166.20)	594.61 (42.49)	182538 (101.62)
16	2007-08	272.79 (4.51)	558190 (11.47)	790759 (11.47)	626.34 (5.34)	202017 (10.67)
17	2008-09	285.16 (4.53)	621753 (11.39)	880805 (11.39)	659.35 (5.35)	NA NA
18	2009-10#	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.46)	NA NA
19	2010-11*	311.52 (4.51)	732.17 (5.29)	773487 (11.48)	1095758 (11.48)	NA

Source: Annual Report 2011-12, Ministry of MSME, Government of India

Note: data with respect to MSMEs have been collected/compiled in 2006-07 and hence include both the industry and service sectors.

The figures in brackets show the % growth over the previous year. The data for the period up to 2006-07 is only for small scale industries (SSI). Subsequent to 2006-07, data with reference to micro, small and medium enterprises are being compiled.

#Provisional, *Projected

proprietary concerns, about 4% were partnership firms, and about 3% were running as private companies and the balance were owned by public limited companies, cooperatives, trust etc. Share of women enterprises in total was around 14%.

Export Performance

The then Department of Small Scale Industries (now Ministry of MSME), Government of India used to compile data related to exports of small-scale sector in India. However, following the enactment of MSMED Act, 2006, which included the definition of medium scale sector under the overall MSMEs, the Ministry has not published data pertaining to MSME exports. The latest available data on exports by MSME sector of India is for the year 2007-08, as per the Annual Report (2011-12) of Ministry of MSMEs. In the year 2007-08, the value of exports by MSME sector was ₹ 202,017 crore, a growth of little over 10%, over the export level recorded in the previous year.

Sector-wise Export Performance

It is important to analyse the sectoral orientation of SSI sector, especially in terms of exports. Ministry of MSME, Government of India, through secondary sources compiled the export performance of Indian MSMEs. However, this data is available only till 2007-08. As per this data, in sectors such as agro-based products, marine products, leather, sports goods, and woolen products, the SSI orientation in India's exports has been very high; for some products like agro-based/ processed products, and leather, SSI orientation in India's exports was about 70%; in readymade garments it was about 90%; while in sports goods, marine products, and wool products, it was 100%.

Subsequently, the Office of Development Commissioner, Ministry of MSME, Government of India, included collation of data related to export performance of MSMEs in the Fourth All India Census of MSMEs, based on the data for the

Table 25 : Export Performance of SSI Sector in India

Export Performance of SSIs during	2005-06	2006-07	2007-08
Total exports of the country	456,417	571,779	655,863
Exports from SSI sector	150,242	182,537	202,017
Share of SSI in total exports of the country (%)	32.92	31.92	30.80
Growth of SSI exports over the previous year (%)	20.76	21.50	10.67
Growth of India's exports over the previous year (%)	21.60	25.28	14.71

Source: Compiled from data given by Ministry of MSME; Ministry of Commerce and Industry, Govt. of India.

Table 26 : Estimated Export Performance of SSIs in Various Export Sub-Sectors (2007-08)

Sl No	Export Sector	India's total exports	Exports from SSIs	Share of SSIs in total exports
1	Agricultural & Processed Food Products	31,870.60	22,309.41	70.00
2	Basic Chemicals, Pharmaceuticals and Cosmetic products	25,869.00	7,221.60	27.92
3	Cashew & Cashew nut Shell	2,300.87	2,300.87	100.00
4	Chemical and Allied Products	54,778.75	21,911.50	40.00
5	Electronics & Computer Software	188,200.00	35,626.26	18.93
6	Engineering Goods	141,534.44	46,613.00	32.93
7	Lac Based Products	124.87	124.87	100.00
	Forest products	5,033.46	477.40	9.48
8	Leather and Leather Products	14,937.85	10,390.57	69.56
9	Marine Products	7,620.92	7620.92	100.00
10	Plastic Products	14,032.60	4,099.83	29.22
11	Processed Tobacco, Bidi & Snuff	2,022.78	1,188.09	58.74
12	Readymade Garments	39,027.68	35,124.91	90.00
13	Spices & Spice Products	4,435.50	2,005.75	45.22
14	Sports Goods	519.26	519.26	100.00
15	Synthetic and Rayon Textiles	13,413.00	2,682.60	20.00
16	Wool & Wool Blended products	1,800.62	1,800.62	100.00
Total (including others)		**655,863.52**	**202,017.46**	**30.80**

Source:Compiled from data given by Ministry of MSME; Ministry of Commerce and Industry, Govt. of India.

year pertaining to 2006-07. The quick results of the Census were released during 2010. According to the Fourth Census, the number of working registered MSMEs was 15.52 lakhs which were found to be exporting goods amounting to ₹ 76,337 crores which works out to 13.3% in India's total exports in the same year. Textiles and readymade garments was the leading export sector with a share of 28% followed by agriculture and allied products (15.2%), metals and related products (10.8%) and engineering goods (10.6%) (Table: 27)

Table 27: Industry-wise Distribution of Exports by Working Registered MSMEs According to Fourth MSME Census

Sl No	NIC Codes used	Export sector	₹ Crore	No of working units	% share
1	17,18	Textiles and readymade garments	21259.23	321477	27.8
2	01,02,05,15,16	Agriculture and allied products	11567.48	230040	15.2
3	27,28	Metals and related products	8235.44	157231	10.8
4	29,31,34,35	Engineering goods	8056.99	128078	10.6
5	24	Chemicals and chemical products	6010.03	50065	7.9
6	19	Leather & leather products	5951.74	26741	7.8
7	25	Rubber & plastic products	2631.36	35894	3.4
8	30,32,33	Electronic goods	2588.38	24022	3.4
9	20	Wood and wood products	1602.43	53939	2.1
10	10,11,13,14	Mining	468.22	13520	0.6
11	21	Paper and paper products	186.68	12888	0.2
12	23	Coke & refined petroleum products	113.97	2166	0.1
13	22,26,29	Others	6022.93	197076	7.9
14	37,40,41,45,50,51, 52,55,63,64, 70,71, 72,73,74,80,85,90, 92,93	Miscellaneous	1642.20	299354	2.2
		Total	**76337.08**	**1552491**	**100.0**

Source: MSME Census 2010, Note: the data relates to the reference year 2006-07.

5. SUPPORT SYSTEM FOR MSMEs IN INDIA

TECHNOLOGY SUPPORT

Rapid pace of globalization has augmented the competition among nations; the competition has also increased among peers within nations. Strengthening the R&D base thus becomes not only the priority of nations but also the priority of players within the nation. Internationally, large corporations have recognized this and usually devote considerable resources towards innovations in product and process technologies, as well as development of entirely new products and processes. Such technologies, developed by these private organizations become part of intangible assets of the firm. Development of such proprietary technologies is not always feasible in the case of SMEs, since they do not hold adequate financial and human resources strengths.

In India, technological upgradation needs of SMEs are being supported by a host of institutions and policies. Office of the Development Commissioner - Micro, Small and Medium Enterprises (DCMSME), Ministry of Micro, Small and Medium Enterprises, Government of India, serves as an umbrella organization for plethora of support provided to MSME sector in India.

Small Industries Development Organisation

The Development Commissioner (MSME) was established as Small Industries Development Organisation (SIDO) {also referred to as Micro, Small and Medium Enterprises – Development Office (MSME-DO)} in 1954 on the basis of the recommendations of the Ford Foundation. The MSME-DO is playing a very constructive role by rendering comprehensive services including consultancy through institutional set up of its field organizations spread over different parts of the country.

The Office of the Development Commissioner (Micro, Small and Medium Enterprises) has been functioning as an apex/nodal organisation and provides link between the Ministry/Department and field organizations. It has been working as an attached office to the Ministry of Small Scale Industries (now Ministry of Micro, Small and Medium Enterprises) since

September, 2001. It has over 60 offices and 18 autonomous bodies under administrative control. These autonomous bodies include Tool Rooms; Training Institutions and Technology Development Centres. It provides a wide spectrum of services to the small scale sector, now enlarged to also include Micro, Small and Medium Enterprises. The institutions, inter-alia, include facilities for testing, tool making, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. The organisation provides economic information services and also advises Government in policy formulation for the promotion and development of MSME sector. Its field offices also work as effective links between the Central and the State Governments in the area of MSME development.

The organisation has a network of 30 MSME Development Institutes (MSME - DIs); 28 Branch MSME-DIs; 4 MSME Testing Centres (MSME-TCs); 7 Field Testing Stations (MSME-TSs); 18 Autonomous Bodies - which include 10 MSME Tool Rooms (MSME-TRs); 6 MSME Technology Development Centres (MSME-TDCs) and 2 MSME Footwear Training Institutes (MSME-TDC-CFTIs). There are also 2 Departmental Training Institutes (MSME-TIs).

MSME Tool Rooms (MSMETRs): The 10 MSME-TRs set up under the Indo-German and Indo-Danish collaborations assist MSMEs in technical upgradation and provide good quality tooling through designing and producing tools, moulds, jigs & fixtures, components etc. These Tool Rooms also provide technical training and consultancy in the area of tool and die making. The Government has also proposed to establish Mini Tool Rooms under Public-Private-Partnership (PPP) model during the Eleventh Five Year Plan. The scheme, to be provided fewer than three different modes, viz., Central PPP, State PPP and Centre-State PPP, is intended to maximize the availability of tooling services and training facilities to enhance the competitiveness of MSMEs. Financial assistance will be extended under all the three models to facilitate setting up of mini tool rooms.

The Central assistance will be in the form of one time grant-in-aid equal to 90% of the cost of machinery/equipment (restricted to ₹ 9 crores in each case) in the case of a new Mini Tool Room, and 75% of the cost of machinery/equipment (restricted to ₹ 7.50 crores) in case of an existing Mini Tool Room to be upgraded/modernized. The balance cost of machinery/equipment, the cost of land and buildings and the recurring costs would be met by the States/

Table 28 : MSME Tool Rooms

Sl No	Name of Tool Room	Location
1	Central Tool Room	Ludhiana
2	Indo German Tool Room	Ahmedabad
3	Indo German Tool Room	Indore
4	Indo German Tool Room	Aurangabad
5	Central Tool Room & Training Centre	Kolkata
6	Central Tool Room & Training Centre	Bhubaneswar
7	Indo Danish Tool Room,	Jamshedpur
8	Central Institute of Hand Tools	Jalandhar
9	Central Institute of Tool Design	Hyderabad
10	Tool Room & Training Centre	Guwahati

Source: MSME Annual Report 2011-12, Ministry of Micro, Small and Medium Enterprises, Government of India

State Agencies and the scheme will be implemented as a centrally sponsored scheme.

MSME Testing Centres (MSMETCs): MSME Testing Centres (established under the umbrella of SIDO) provide testing and calibration facilities to MSMEs, with specific reference to those producing semi-finished and finished products. The four MSME Testing Centres, located in Chennai, Delhi, Kolkata and Mumbai have facilities for quality upgradation, training/consultancy in testing, quality control, quality management, process quality control systems, etc. The centers also undertake calibration work for measuring instruments and equipments conforming to international standards. These centers are accredited by internationally recognized National Accreditation Board of Testing & Calibration Laboratories (NABL). In addition, there are MSME Testing Stations, which provide testing facilities in locations, where the strategic sectors are clustered together. The 7 Field Testing Stations (MSME-TSs) provide focused testing services in the cities of Bengaluru, Bhopal, Ettumanur, Jaipur, Hyderabad, Kolhapur and Puducherry which have significant concentration of MSMEs.

***MSME Technology Development Centres (MSMETDCs)*:** Sector specific Technology Development Centres have been established under the umbrella of SIDO and MSMETDCs and are product-specific centres for addressing product specific challenges, rendering technical services, developing and upgrading technologies and manpower development and training in respective product groups like foundry and forging; electronics; fragrance and flavour; sport shoes; electrical measuring instruments and glass. The Technology Development Centre for electrical instruments (set up in Mumbai), earlier known as Institute for Design of Electrical Measuring Instruments (IDEMI), provides technical services to MSMEs in instrument industries. The Technology Development Centre in Ram Nagar (Uttarakhand), earlier known as Electronics Service & Training Centre (ESTC) help in transfer of technology in assembly and manufacture of electronic items in MSMEs. The Technology Development Centre in Firozabad, earlier known as Centre for Development of Glass Industry, aims to assist the SMEs in glass manufacturing in the areas of technology upgradation, energy conservation, and new product development. All these Centers have been established with the support of UNDP. Also, four Training - cum – Product Development Centres (TPDCs) are being set up for Agro and Food Processing Industries in the campus of MSME - Development Institutes at Ludhiana, Kanpur, Indore and Guwahati with a total cost of ₹ 4.57 crore.

Policy guidelines have been issued by the Ministry of MSME, Government of India for technological support of MSMEs through programmes such as National Manufacturing Competitiveness Programme (NMCP) and organizations such as KVIC (Khadi and Village Industries Commission) and NSIC (National Small Industries Corporation Limited).

Table 29 : MSME Technology Development Centres

Sl No	Name of MSMETDCs	Location
1	Electronics Service & Training Centre (ESTC)	Ramnagar
2	Institute for Design of Electrical Measuring Instruments (IDEMI)	Mumbai
3	Fragrance & Flavour Development Centre (FFDC)	Kannauj
4	Centre for Development of Glass Industry (CDGI)	Firozabad
5	Process and Product Development Centre (PPDC)	Agra

Source: MSME Annual Report 2011-12, Ministry of Micro, Small and Medium Enterprises, Government of India

National Manufacturing Competitiveness Programme (NMCP)

The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. Conceptualized by the National Manufacturing Competitiveness Council (NMCC), the Programme was initiated in 2007-08. An amount of ₹ 682 crore has been allocated during the 11th Plan period for NMCP. There are ten components under the NMCP targeted at enhancing the entire value chain of the MSME sector. Among these the major measures taken for technological support include:

- ***Lean Manufacturing Competitiveness Scheme:*** The Lean Manufacturing Competitiveness scheme, launched in 2009, aims to reduce manufacturing waste, thereby, increasing competitiveness and productivity of the MSMEs. Under Lean Manufacturing, simple techniques are applied which identify and eliminate waste and streamline the manufacturing system. The scheme is implemented under the Public Private Partnership mode. Initially, the lean manufacturing techniques have been introduced in 100 mini clusters on a pilot basis. The broad activities planned under the scheme include Total Productive Maintenance (TPM), 5S (Sigma), Visual Control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke, etc.

- ***Design Clinic Scheme:*** The Design Clinic Scheme brings design experts in MSMEs on a common platform to enable the MSMEs to access expert advice and cost effective solutions for their real- time design problems. The scheme introduced in the year 2010 comprises of two major parts -Design Awareness and Design Project Funding. The Design Awareness stage comprises various activities like seminars, workshops and diagnostic studies of the clusters. The Government support has been pegged at ₹ 50 crore for the activities planned under the component. The activities include creation of Design Clinics Secretariat along with regional centres for intervention on the design needs of the MSME sector.

- ***Scheme for Providing Support for "Entrepreneurial and Managerial Development of SMEs through Incubators":*** The scheme aims at nurturing innovative business ideas (new/ ingenious technology, processes, products, procedures, etc), which could be commercialized in a year. Under the scheme, various institutions like engineering colleges, research labs etc. will be provided funds up to ₹ 6.25 lakh for handholding each new idea/entrepreneur. The incubator will provide technology guidance, workshop and lab support and linkage to other agencies for successful launching of the business and guide the entrepreneur in establishing the enterprise. Under the scheme, 76 institutions and 190 ideas have been approved as on 31-12-2010.

- ***Mini Tool Rooms under the Public Private Partnership (PPP) mode:*** Under this component, 15 Mini Tool Rooms are proposed to be set up during the 11th Plan period. The Government support will be ₹ 9 crore.

- ***Scheme for "Building Awareness on Intellectual Property Rights" (IPR) for the Micro, Small & Medium Enterprises (MSME):*** The Building Awareness on Intellectual Property Rights (IPR) scheme has been launched to enable Indian MSMEs to attain global leadership position and to empower them in using effectively the tools of Intellectual Property Rights (IPR) of innovative projects. Effective utilization of IPR tools by MSMEs would also assist them in technology upgradation and enhancing competitiveness. The main features of the scheme are: awareness/sensitization programmes on IPR; pilot studies for select clusters/groups of industries; interactive seminars/ workshops; specialized training; assistance for grant on patent/ GI registration; setting up of IP Facilitation Centre (IPFC); and interaction with international agencies. These initiatives are being taken in Public-Private Partnership (PPP) mode.

- ***Enabling Manufacturing Sector to be competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT):*** Enabling manufacturing sector to be competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT) was launched in 2009 in order to improve quality in productivity in the MSE sector. The scheme is aimed at improving the quality of products in the MSE sector and inculcates the quality consciousness in this sector. The major activities under this scheme are (i) introduction of appropriate modules for technical institutions (ITIs/Polytechnics) (ii) organizing awareness campaigns for MSEs, (iii) organizing Competition Watch (C-Watch), (iv) implementation of QMS and QTT in select MSEs, (v) monitoring international study missions and (vi) impact studies of application of QMS/QTT.

- ***Technology and Quality Upgradation Support to MSMES:*** The Technology and Quality Upgradation Support for MSMEs aims to sensitize the manufacturing MSME sector in India to upgrade their technologies to reduce emissions of green-house gases, adoption of green technologies mandated as per the global standards, improve their quality and reduce cost of production with the objective of becoming globally competitive. The major activities planned under the Scheme include: capacity building of MSME clusters for energy efficiency/ clean development interventions, implementation of energy efficient technologies in MSME sector, setting up of carbon credit aggregation centres, and encouraging MSMEs to acquire product certification licenses from national / international bodies. Under the Scheme introduced in 2010, twenty clusters have been identified for intervention.

- ***Marketing Assistance and Technology Upgradation Scheme for MSMEs:*** Competitiveness in marketing is sought to be improved through the Marketing Assistance and Technology Upgradation scheme, by using latest techniques and technologies. The broad activities under the scheme include technology upgradation in packaging, development of modern marketing techniques, competition studies, participation in State/ district exhibitions, adoption of corporate governance practices, establishment of marketing hubs, etc. The Government contribution is estimated at ₹ 19 crore for this component.

- ***Promotion of Information and Communication Tools (ICT) in MSME sector:*** The Promotion of Information and Communication Tools (ICT) scheme envisages that SME clusters, which have quality production and export potential, shall be identified and 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 portals and networking MSME cluster portal in order to outreach MSMEs into global markets.

Box 5: Steps Towards Promoting Green Business in MSME Sector

Various Programmes meant for energy conservation at national, regional and state level have taken place in the country.

Donor Programmes

Initiatives under this programme are largely donor driven and the whole idea of green business emerged as a donor assisted programme. Programmes that are being implemented with the support of donor agencies are discussed below.

***SDC Programme*:** Since 1992, SDC (Swiss Agency for Development and Cooperation) in India has been working in the energy and environment sectors, focusing on the promotion of energy efficiency and renewable energy in MSMEs. In 1994, together with TERI (The Energy and Resources Institute), in New Delhi, SDC targeted energy intensive industries such as glass, the foundry, brick industry and several sectors using biomass for thermal application and power generation. The TERI-SDC partnership in SME now called CoSMiLE (Competence network for Small and Micro Learning Enterprises) has resulted in cumulative $C0_2$ savings that were in the order of 0.25 Mt between 1994- 2007.

***SIDBI Programmes*:** SIDBI and the German Government's Development Bank KfW, signed a series of Agreements for financial assistance totaling Euro 89.2 million to promote the adoption of energy efficient and cleaner production technologies by MSMEs in India. Each set of Agreement comprises an integrated package of concessional loan and technical assistance for raising awareness and general capacity building, and support financing of environmental investments in the MSME sector by SIDBI. The MSME energy efficiency programme consists of a credit line of Euro 50 million and an accompanying grant component of Euro 0.5 million for technical support; the MSME clean production programme involves a credit line of Euro 38.5 million and a grant of Euro 0.2 million for technical support. SIDBI has also signed a loan agreement with Japan International Cooperative Agency (JICA) involving a loan for Yen 30 billion to be used by SIDBI for financing the MSMEs for energy saving and environment friendly projects. The funding will also benefit these enterprises to accumulate carbon credits points. The funds are provided to MSMEs for capacity building and equipment purchase.

State Level and Regional Initiatives

Some of the successful initiatives in energy conservation in India resulted in state level and regional level initiatives. The case of Gujarat Energy Development Agency (GEDA), having experience in energy conservation is one such example. As a part of its energy conservation programme, state run GEDA conducted energy audits of over 1000 SMEs by March 2009. Energy audit is an inspection, survey or analysis of energy flow in a building, processor system to understand the energy dynamics of the system. It is aimed to reducing energy consumption without affecting output.

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National Programme-Bureau of Energy Efficiency Programme

Bureau of Energy Efficiency (BEE) is implementing a national program to improve the energy performance in 25 select SME clusters. The objective of the program is to accelerate the adoption of EE technologies and practices in the chosen SME clusters through knowledge sharing, capacity building and development of innovative financing mechanisms. The project will conduct situation assessment of 35 clusters in the country to assess the situation vis-à-vis the number of operating units, energy usage, potential for saving energy and probable impact of intervention. This will lead to identification of 25 clusters for intervention.

Energy Efficiency Financing Instruments in India

Risk Guarantees: The World Bank has established a credit guarantee mechanism for India, managed by SIDBI. SIDBI guarantees up to 75% of the credits of commercial banks for a fees of 100 basis points. This facility has been applied to more than 120,000 loans. It has been extended with an additional US $ 400 million loan to SIDBI for the Small and Medium Enterprises Financing and Development Project (SMEFDP) for the period of 2009-2011, on top of the existing US $ 170 million facility (of which US $ 120 from World bank).

Soft loans: JICA operates a US$ 300 million SME soft loan programme through SIDBI. Also Government of India provides, through SIDBI, capital at a 5% rate to banks for energy efficiency loans. In 1987, Government of India established the Indian Renewable Energy Development Agency Limited (IREDA), a government owned non-bank financial institution under the administrative control of the Ministry of Non-Conventional Energy Sources. IREDA administered the largest revolving fund in India and operated a revolving fund program that provided financing for projects to promote energy conservation and energy efficiency, including projects undertaken by ESCOs and energy end users for implementation of energy efficiency projects. The fund also financed projects for the production of energy efficiency equipment.

Dedicated Efficiency Credit Lines: The UNEP-World Bank Three Country Energy Efficiency Project catalyzed the development of Bank Energy Efficiency Loan Windows. The main focus of the program was to work with five banks in India to help them develop programs that would increase investment in energy efficiency projects, through the issuance of large number of small loans to SMEs. The five banks participating in the project are: State Bank of India (SBI), Canara Bank, Union Bank of India (UBI), Bank of India and Bank of Baroda (BOB). Most of the banks are currently offering loans only to the existing customers.

Government Subsidy schemes: The National Manufacturing Competitiveness Programme, started in September 2009, is managed by the Ministry of MSME, Government of India. The Programme contains an action plan with 10 components, with energy efficiency and quality certification support as one of them. 30 clusters have been selected for energy efficiency; about ₹ 2 lakhs of funding is available per cluster.

The total budget outlay of the scheme is ₹ 105 crore including Government contribution of ₹ 47.7 crore to be implemented during the 11th Plan.

National Small Industries Corporation Limited (NSIC)

NSIC offers support services to MSMEs through its Technical Services Centres and Extension Centres. NSIC provides facilities such as material testing facilities through accredited laboratories; product design including CAD; common facility support in machining, EDM, CNC, etc.; energy and environment services at select centres; and practical training for skill upgradation. A total of 8,255 units were served under Common Facility Services during the year 2009-10 and up to 30th November, 2010, 5,247 units were served.

Khadi and Village Industries Commission (KVIC)

Khadi & Village Industries Commission (KVIC) established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the Ministry of MSME, engaged in promoting and developing khadi and village industries for providing employment opportunities in the rural areas, thereby strengthening the rural economy. For technological support of MSMEs, KVIC launched the Product Development, Design Intervention and Packaging (PRODIP) Scheme as a small intervention with a view to selectively improving the quality of khadi products and also to diversify into new products. It also seeks to improve the marketability of khadi by enlisting the support of professional designers approved by the National Institute of Design (NID). Under this Scheme, financial assistance is provided to the institutions or entrepreneurs up to ₹ 2 lakh per project per year or 75% of the project cost whichever is less. In the case of individual entrepreneurs, the quantum of assistance is up to ₹ 1 lakh or 75% of the project cost, whichever is less.

MARKETING SUPPORT

Vendor Development Programme (VDP) For Ancilliarisation

Vendor Development Programmes (VDPs) are being organized by MSME-DIs in every industrial districts of 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, while 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. Two types of VDPs are being organized by MSME-DIs – National Level VDPs –cum-Exhibitions, and State Level VDPs.

SSI-MDA Scheme: Participation in Overseas International Trade Fairs/ Exhibitions

DC (MSME) has been providing opportunities under Marketing Development Assistance Scheme to MSMEs for getting an exposure in the international market and exploring the possible export opportunities of their products through participation in International Trade Fairs under common umbrella of MSME India.

Khadi and Village Industries Commission (KVIC)

KVIC has been granted the status of 'deemed' Export Promotion Council (EPC) by the Department of Commerce, Ministry of Commerce and Industry, Government of India, for availing assistance (on the pattern of an umbrella EPC like Federation of Indian Export Organisations (FIEO)) for participation in international exhibitions/ fairs, and organization of buyer-seller meets. The assistance is as per admissibility under Market Development Assistance (MDA)/ Market Access Initiative (MAI) guidelines of the Department of Commerce. 880 units have since been registered with KVIC. Apart from this, KVIC has made arrangements with the National Institute of Design (NID), Ahmedabad; 'Dastakar', Andhra Pradesh; IIT, Delhi; and Textiles Committee, Mumbai, for promotion of 'Khadi' as a brand.

KVIC has been supplying its products under the 'Rate Contract' of Director General of Supplies and Disposal (DGS&D) to various Government Departments/ Agencies. Based upon DGS&D Rate Contract, the items like dasuti khadi, dungari cloth, dusters, long cloth, bunting cloth and sheeting cloth, etc., are being supplied to Government agencies; and bed rolls, curtains, pillow covers, "kulhars" (earthern cup), etc., are being made available to the Indian Railways. Apart from this, according to Bureau of Indian Standards (BIS), khadi is the only fabric that is to be used for production of India's National Flag. Accordingly, one National Flag Production Unit has been started, in consultation with the South Indian Textile Research Association (SITRA) at Karnataka Khadi Gramodyog Samyukta Sangh, an NGO of KVIC, at Bengeri, Hubli (Karnataka).

Also, KVIC undertakes R&D activities through in-house research and also by sponsoring projects to other R&D

organisations. The main objectives of the R&D programme are: increasing productivity and wages of the workers; improvement in quality; efficient use of local skills and local raw materials; and reduction of human drudgery.

ENTREPRENEURSHIP DEVELOPMENT SUPPORT

Training Programmes Conducted By MSME-DIs

MSME-DIs is imparting varieties of 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 areas, 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), Entrepreneurship Development Programmes (EDPs), Entrepreneurship Skill Development Programme (ESDPs), Management Development Programmes (MDPs), Business Skill Development Programme (Tailor made Course), and Entrepreneur - cum-Skill Development Programme (ESDP) on Biotechnology.

In line with the overall target set by the Prime Minister's National Council on Skill Development, the Ministry of MSME and the agencies under them, conducted skill development programmes for an estimated 4.78 lakh persons during 2011-12. Further, the Ministry aims to train 5.72 lakh persons in the year 2012-13 through its various programmes for development of self-employment opportunities as well as wage employment opportunities in the country.

Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

The Ministry of MSME, Government of India, initiated select interventions in industrial clusters in the year 1998 through its scheme 'Integrated Technology Upgradation and Management Programme' (UPTECH). In August 2003, the Scheme was renamed as Small Industry Clusters Development Programme (SICDP) and was broad based for holistic and integrated development of micro and small enterprises through interventions such as capacity building, marketing development, export promotion, skill development, technology upgradation, exposure visits, etc. and for setting up of common facilities.

The Ministry simultaneously continued to implement a separate Integrated Infrastructural Development Scheme (IID) [started in 1994] for setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage, roads, storage and marketing outlets, common service facilities, etc. The IID Scheme also provided for upgradation/ strengthening of the infrastructural facilities in the existing industrial estates.

In accordance with the decision of the Cabinet Committee on Economic Affairs (CCEA), while approving the Package for Promotion of Micro and Small Enterprises, the Scheme was renamed as Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) and the Integrated Infrastructural Development (IID) Scheme of the Ministry was subsumed under MSE-CDP with its existing funding pattern, in October 2007.

Based on the recommendations emerging out of the evaluation of schemes and after consultation with the senior functionaries of the State Governments, it was felt necessary to modify the guidelines which envisage streamlining of procedures, providing a more holistic approach to the development of clusters and enhanced level of financial assistance, which are as under:

I. Enhancement of the maximum project cost for Common Facility Centre (CFC) from ₹ 10 crore to ₹ 15 crore, with GoI contribution of 70% (90% for Special Category States and for clusters with more than 50% women/micro/ village/ SC/ST units);
II. Enhancement of the maximum project cost for Infrastructure Development from ₹ 5 crore to ₹ 10 crore, with GoI contribution of 60% (80% for Special Category States and for clusters with more than 50% women/micro/SC/ST units);
III. Enhancement of the maximum project cost for soft interventions from ₹ 10 lakh to ₹ 25 lakh, with GoI contribution of 75% (90% for Special Category States and for clusters with more than 50% women/micro/village/ SC/ST units); and
IV. Enhancement of the cost ceiling for preparation of Detailed Project Report (DPR) for CFC and/or Infrastructure Development to ₹ 5 lakh.

FINANCIAL SUPPORT

SIDBI (Small Industries Development Bank of India)

The business domain of SIDBI, established in 1990, consists of small-scale industrial units, which contribute significantly to the national economy in terms of production, employment and exports. The principal mandate of SIDBI is for the promotion, financing and development of small scale sector, and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto.

SIDBI has been providing refinance to institutions such as State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), and Commercial Banks against the loans granted to small scale sector. However, the need was also felt to make SIDBI as principal financial institution for the small-scale sector, with the task of financing small-scale projects directly on a selective basis. Various products and services offered by SIDBI may be broadly classified into:

Institutional – General refinance schemes, Mahila Udyam Nidhi, finance to small transport operators, technology upgradation fund for textile units, loans for acquisition of ISO certification, self-employment loan for ex-servicemen, single window finance for both term loans and working capital, finance for rehabilitation of potentially viable sick units, finance for development of industrial estates and other such infrastructure, bill discounting / rediscounting, and lines of credit, all of them operated through SFCs or SIDCs or primary lending institutions or Banks or other micro-finance institutions, depending upon the category of loans.

Direct – Range of products and services are offered to new entrepreneurs as also the existing entrepreneurs, for term loans and working capital loans (both in domestic and foreign currency), bills financing, bills discounting / rediscounting, marketing finance, and such others.

Promotional – SIDBI has instituted a foundation for microcredit, known as SIDBI Foundation for Micro-Credit (SFMC) to cater to the national objective of inclusive banking. SIDBI is one of the nodal agencies for the Government of India's schemes such as Technology Upgradation Fund Scheme for the textile sector, Integrated Development of Leather Sector Scheme for the leather sector and Modernization / Upgradation of Food Processing Industry.

SIDBI is involved with forming of various other institutional infrastructures for SME sector, like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Linked Capital Subsidy Scheme, SIDBI Venture Capital Ltd., India SME Technology Services Ltd., Small and Medium Enterprises Rating Agency of India Ltd. (SMERA), and India SME Asset Reconstruction Company (ISARC).

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

CGTMSE, established jointly by SIDBI and the Government of India, provides the much needed comfort to banks and other lending institutions for extending credit facilities to micro and small enterprises sector. Credit facilities, including term loans, fund and non-fund based working capital facilities up to ₹ 100 lakh extended to micro and small enterprises are guaranteed up to 80% of the amount in default, subject to a maximum of ₹ 65 lakh. With regard to loans up to ₹ 5 lakhs to micro units, the coverage is 85%. Loans guaranteed under the scheme carry zero percent risk weight / provision for the lending institution for the guaranteed portion. The scheme also facilitates lending institutions by the evaluation of the credit proposals on the basis of intrinsic merits of the projects, rather than merely on adequacy of collaterals. The institutions that are eligible for availing credit guarantee include commercial banks, regional rural banks, National Small Industries Corporation, North Eastern Development Finance Corporation, and Small Industries Development Bank of India.

Credit Linked Capital Subsidy Scheme

SIDBI also operates the Credit

Table 30 : Progress of Credit Linked Capital Subsidy Scheme (CLCSS)

Year	No of Units Assisted	Amount of subsidy sanctioned (₹ lakh)
2001-02	9	21.36
2002-03	47	93.97
2003-04	150	363.06
2004-05	526	1,312.08
2005-06	699	1,767.82
2006-07	1880	6,579.74
2007-08	1407	6,374.30
2008-09	1790	9,734.60
2009-10	2551	13,971.72
2010-11*	2055	12,127.00
Total	**11114**	**52,345.65**

Note: * Provisional
Source: MSME Annual Report 2011-12, Ministry of Micro, Small and Medium Enterprises, Government of India

Linked Capital Subsidy Scheme. 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 subsector 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.

SIDBI Venture Capital Fund Ltd (SVCL)

SVCL manages two funds that have been established by SIDBI at national level. The National Venture Capital Fund for Software and IT Industry (NFSIT) is ₹ 100 crore, established with the focus of supporting incubation projects of small scale units in the IT and related business such as data communication, multi-media and value added telecommunication services. The SME Growth Fund is with a targeted corpus of ₹ 500 crore in a span of eight years. The Fund targets growth oriented business in the areas such as life sciences, retailing, light engineering, food processing, IT, infrastructure related services, healthcare, logistics and distribution, for making primary equity and equity related investments. In addition to such financial support, SVCL also helps the small business entrepreneurs to have technology networking, information, and market access.

SME Rating Agency of India Ltd. (SMERA)

SMERA is a joint initiative of SIDBI, Dun & Bradstreet Information Services India (P) Ltd., and many leading banks in India. SMERA is the first rating agency in India primarily focusing on SME sector, the primary objective being provision of rating services that are transparent and comprehensive. The rating scale and rating process of SMERA has been developed with the objective of enhancing the market standing of SMEs and enables flow of faster credit on better terms. SMERA rating consists of two parts, viz., composite appraisal, and condition indicator, and takes into account the financial conditions, and several qualitative factors that may have bearing on credit worthiness of SMEs. The rating categorizes SMEs based on size, thereby enabling fair evaluation of SMEs comparing with its peer-groups.

Indian SME Asset Reconstruction Company Ltd

Indian SME Asset Reconstruction Company Ltd (ISARC) is sponsored by SIDBI, SIDBI Venture Capital Ltd., United Bank of India, and Bank of Baroda. ISARC is the first asset reconstruction company focusing on SMEs with the objective of unlocking the idle assets for productive purposes, thereby facilitating greater flow of credit from the banking sector to MSMEs. ISARC, through the popular business model of ARCs will purchase NPAs from the banks and FIs based on valuations and sell to prospective buyers or / and restructure of liabilities.

National Small Industries Corporation

National Small Industries Corporation (NSIC), in addition to technological and promotional activities, has also been supporting the credit requirements of SMEs. The raw material assistance scheme of NSIC finances purchase of raw materials, both indigenous and imported raw materials. NSIC also finances marketing activities of SMEs related to domestic trade, exports, and bill discounting. In order to ensure smooth flow of credit to small enterprises, NSIC has entered into strategic alliances with commercial banks to facilitate long term / working capital financing of the small enterprises across the country. NSIC has also established arrangement with Export Credit Guarantee Corporation of India, through which it facilitates export credit insurance for SMEs. Through tie-ups with leading credit rating agencies, NSIC seeks to function as a nodal agency for credit rating of SMEs.

State Finance Corporations

State Finance Corporations (SFCs) are state-level financial institutions operating as development finance institutions at state / regional level. SFCs play a crucial role in the development of SMEs. SFCs provide financial assistance by way of term loans, direct subscription to equity / debentures, guarantees, discounting of bills of exchange and seed / special capital. SFCs also operate number of refinance schemes of development financial institutions like SIDBI. SFCs have been providing assistance to newer types of business activities including floriculture, tissue culture, poultry farming, commercial complexes and services related to engineering, marketing, etc. SFCs are also offering facilities such as equipment leasing and have entered into the fields of consultancy, merchant banking, debenture trusteeship and capital related services.

Small and Medium Enterprise Fund

The most important amongst the sectoral initiatives taken by

Government of India and SIDBI is establishing an SME fund, with a view to giving impetus to the fund flow to the SME sector. Through the Fund, assistance is being provided to SMEs at an interest rate of 200 basis points below the Bank's PLR. Direct assistance is being extended to SMEs through SIDBI's own offices and also by way of providing refinance to the primary lending institutions. Apart from this, refinance to SFCs is also available. The SME fund provides for routing of assistance, besides SFCs, through commercial banks as well. The Fund, besides upscaling the flow of assistance to SMEs, addresses the issue of cross sector parity in the cost of loans.

Credit Guarantee Fund Scheme for Micro and Small Enterprises

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 units in 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 30th November 2011, there were 125 eligible lending institutions registered as MLIs of the Trust comprising of 26 Public Sector banks, 19 Private Sector Banks, 67 Regional Rural Banks (RRBs), 4 foreign banks and 9 other Institutions viz Andhra Pradesh State Financial Corporation, 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).

Micro Finance Programme

The Ministry has been operating a Scheme of Micro Finance Programme since 2003-04, which has been tied up with the existing Micro Credit Scheme of SIDBI. Under the Scheme, the Government of India provides funds to SIDBI under 'Portfolio Risk Fund' (PRF) which is utilized for security deposit requirements of loan from the MFIs/ NGOs. At present SIDBI takes fixed deposit equal to 10% of the loan amount. Under the PRF, the share of Micro Finance Institution (MFIs)/ NGOs is 2.5% of the loan amount (i.e. 25% of security deposit) and balance 7.5% (i.e. 75% of security deposit) is adjusted from the funds provided by the Government under the scheme. The funds under PRF are to be utilized for extending loans in the underserved States like North Eastern States including Sikkim, Bihar, Jharkhand, West Bengal, Orissa, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Jammu & Kashmir, Rajasthan and Uttarakhand and underserved pockets/ districts of other States. During 2010-11, the Government has released an amount of ₹ 20 crore towards 'Portfolio Risk Fund' (PRF).

Bar Coding

SSI-MDA Scheme has the provision for 75% reimbursement of onetime registration fees w.e.f. January, 2002 and annual recurring fees (for first three years) w.e.f. June, 2007 paid by Micro and Small Enterprise (MSEs) to GS1 (globally accepted bar coding system that enables unique and universal identification of products, assets, logistics units etc.) India for use of Bar Code. This scheme aims at enhancing marketing competitiveness of MSEs. The funding for reimbursement of annual recurring fee is provided under NMCP Scheme – Marketing Support/Assistance to MSME (Bar Code).

National Small Industries Corporation Ltd (NSIC)

NSIC has been the nodal agency for implementing the Government of India 'Scheme for Performance & Credit Rating Subsidy for SSIs' since 2005, wherein to encourage the credit rating culture in the small enterprises, 75% of the rating fee charged by the empanelled rating agencies with NSIC, subject to a cap of ₹ 40000/- is subsidized. Under the Scheme, the credit rating of MSMEs is assessed on a scale tailor-made for the small entities. The scale comprises assessment on performance capability and financial strength. The Scheme has achieved a moderate success in popularizing credit rating concept among small entities as more and more small entities are getting themselves rated from the empanelled credit rating agencies.

Box 6 : Priority Sector Lending for MSEs

As of now domestic commercial banks are required to achieve a target of 40% of Adjusted Net Bank Credit (ANBC), and the foreign banks are required to achieve 32% of ANBC. Within the overall priority sector lending target, sub-targets are set for domestic commercial banks to lend a minimum of 18% to agriculture, and 10% to weaker sections. Though Micro and Small Enterprises (MSE) sector is also included under the priority sector for domestic commercial banks there is no sub-target set. For foreign banks, the sub targets are: 10% under advances to MSEs, and 12% under export credit. Foreign banks are given no target for agricultural advances, as also advances to weaker sections.

Pursuant to the recommendations of the High Level Task Force constituted by the Government of India (Chairman: Shri T K A Nair), scheduled commercial banks have been advised to allocate 60% of the MSE advances to micro enterprises. This target is to be achieved in three stages, viz., 50% in 2010-11, 55% in 2011-12, and 60% in 2012-13, with an annual growth of 10% in the number of micro enterprises accounts, and an annual growth of 20% in lending to micro and small enterprises

Priority Sector Advances to MSEs by Scheduled Commercial Banks

Banks	As of end March 2010		As of end March 2011	
	₹ Crores	% of ANBC	₹ Crores	% of ANBC
Public Sector Banks	2,76,319	17.9	3,76,625	15.1
Private Sector Banks	64,825	13.8	87,857	16.4
Foreign Banks	21,147	12.7	21,501	12.9

Measures taken by the Reserve Bank of India

RBI has taken many measures to enhance credit delivery to MSEs. One of the major concerns of MSE sector is the inability to arrange for collateral security and or third party guarantee. As a result, new entrepreneurs find it difficult to access credit from the banking system. Accordingly, RBI has issued guidelines from time to time and made it mandatory for banks to grant collateral free loans up to ₹ 0.5 million sanctioned to the units of MSE sector (both manufacturing and service enterprises). Further, banks have also been advised to lend collateral free loans up to ₹ 2.5 million, based on good track record and financial position of the units.

Measures taken in Union Budget 2012-13

To enhance availability of equity to the MSMEs, India Opportunities Venture Fund is proposed to be set up with SIDBI with ₹ 5,000 crore. To enable greater access to finance by Small and Medium Enterprises (SME), the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) has launched their respective SME exchange platforms. The Securities and Exchange Board of India (SEBI) had permitted setting up of a stock exchange / trading platform for SMEs by a recognized stock exchange having nationwide trading terminals and had also issued guidelines and necessary amendments to the SEBI Regulations. The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) had been given final approval for launching SME platforms on 27 September 2011 and 14 October 2011, respectively. With the operationalization of SME exchanges / platforms, Indian SMEs would find an opportunity to raise funds from capital markets. Apart from this, policy requiring Ministries and CPSEs (Central Public Sector Enterprises) to make a minimum of 20 per cent of their annual purchases from MSEs has been proposed. Of this, 4 per cent is earmarked for procurement from MSEs owned by SC/ST entrepreneurs. This will help in increasing sales from MSMEs; avoid idle inventory; and lead to continuous money flow. In order to augment funds for SMEs, the Budget has proposed to exempt capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery. Also, the turnover limit for compulsory tax audit of accounts as well as for presumptive taxation is proposed to be raised from ₹ 60 lakh to ₹1 crore.

EXIM BANK'S SUPPORT TO MSMEs

Technology Support

Export-Import Bank of India caters to the technological development of Indian SMEs through various support services, helping them to move up in the value chain and to make them internationally competitive. Exim Banks of India and USA had signed a Memorandum of Cooperation for facilitation of import of technology and equipment from USA by Indian SMEs. Import Lines of Credit have been established with European Investment Bank (EIB) and Japan Bank for International Cooperation (JBIC) for import of technology and equipment by Indian firms, including SMEs. Apart from this, Asian Development Bank has approved US $ 100 million loan facility to Exim Bank for the purpose of providing medium and long term loans to export oriented SMEs in lagging states of

Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chhattisgarh, Jharkhand, Rajasthan and Uttarakhand.

Sectorally, to cite few examples, Exim Bank of India was actively involved with the National Programme for Development of Indian Machine Tool Industry (NPDMI), which was a cooperative effort of UNIDO, Government of India, Exim Bank, and Indian Machine Tools Manufacturers Association (IMTMA). The objectives of the programme included strengthening the competitive position and technological and market development capacity of players, and in achieving high growth in CNC machine tool production, ushering in an era of e-commerce in machine tool trade, and establishing 'Made in India' label in machine tools. Exim Bank of India served on a Steering Committee, formed through drawing expertise from various fields to guide successful implementation of the project. The programme was successfully implemented especially in supporting the sector to modernize and upgrade their production facilities, adaptation of technology and meeting internationally acceptable standards. Facilitating technological information flow, Exim Bank of India, under its export facilitation programme, has supported the initiative of IMTMA in setting up of the Bangalore International Exhibition Centre (BIEC).

Also, under the export facilitation programme, term loan was sanctioned to Traditional Ayush Cluster of Tamil Nadu (TACT) Pvt. Ltd., for part financing the cost of setting up of a SPV for common infrastructure facilities for manufacture of AYUSH products in Sriperumbudur, Tamil Nadu. The main aim of the programme was to enhance the capacity, reduce overheads, and improve quality of AYUSH products and its packaging, thereby facilitating even small scale units to enter into export business. The cluster will have state of the art facilities for testing and analysis, product validation, safety study and manufacture. Apart from upgrading the manufacturing technology of Ayurvedic drugs, a facility is being developed for the entrepreneurs to compete in the international market, and to develop a research & development centre in the field of Indian Systems of Medicine (ISM) products, especially Siddha and Ayurvedic products. To this effect, Exim Bank has supported this venture by part financing the cost of setting up of an SPV for common infrastructure.

Exim Bank is one of the nodal agencies appointed by Government of India, Ministry of Textiles to establish and approve the eligibility of the project under Technology Upgradation Fund Scheme. In the food-processing sector, Exim Bank of India has established close relationship with technological institutes like Central

Food Technology Research Institute (CFTRI), Mysore. Exim Bank of India is promoting select food processing technologies, developed by CFTRI, for adaptation by SMEs, both in India and abroad.

Marketing support

Exim Bank of India has successfully implemented a number of innovative programmes focusing primarily on SMEs. The Bank supports strategic export development plans of companies by providing term loans towards supply side upgradation and financial support for their export marketing activities. Through this programme, Exim Bank of India seeks to help the Indian companies in their efforts to penetrate and retain their presence in overseas industrialized country markets. The programme was initially supported by the World Bank with Exim Bank as the Executing Agency; several SMEs from different sectors were financed for their overseas marketing activities, including acquisition of quality certification such as ISO 9001. Based on the successes achieved in the programme implemented by Exim Bank in India, World Bank, in fact, has sought Exim Bank's support to share its experience with other developing countries.

One of the programmes being implemented by Exim Bank is Export Marketing Services (EMS), which is a unique service offered to Indian firms/companies helping them in their internationalization efforts and is provided across all the sectors like marine products, textiles, food processing, fruits & vegetables, handicrafts, automobiles etc. The major services offered under the EMS programme include: introducing the Indian company and its products to target country trade promotion bodies, associations, chambers of commerce, affiliates etc; assisting in negotiations with the identified partners; generating and following-up on export order; providing feedback on the product of the Indian company; building sustainable seller-buyer relationship; displaying products in Exim Bank's offices in India and overseas; organizing Festivals/Fairs/ Exhibitions in overseas markets and arranging for Buyers-Seller meetings on the sidelines of export marketing related conferences and seminars.

In addition, Exim Bank of India seeks to help Indian companies, particularly in the SME sector, to establish their products overseas and enter new markets by helping them in their export efforts by proactively assisting in locating overseas buyers/partners for their products/services. Exim Bank of India initiated a 'Clusters of Excellence' programme, jointly with NASSCOM in the past, to assist small and medium sized Indian software exporting companies in achieving international quality standards. The

programme is aimed at assisting SME software companies to achieve the SEI-CMM certification, enhancing their capability and acceptance, and creating the potential for larger exports to USA and other developed country markets.
Exim Bank of India has also launched the Grass Roots Initiatives and Development (GRID) to create export capabilities in rural and grass-root enterprises, and thereby enhancing purchasing power of the 'bottom of the pyramid'. GRID aims to create an enabling environment for rural grassroots enterprises to explore newer geographies, leveraging effectively upon Exim Bank's extensive institutional and trade promotion linkages.

Exim Bank of India also organizes focused seminars, workshop and training programmes covering various aspects related to international trade and investment with the help of experts including international faculty. These programmes seek to increase awareness amongst SMEs, assist them in various facets related to upgradation and moving up the value chain, and to make them internationally competitive. Exim Bank of India has also brought out a publication on 'Business Practices of Successful Indian Exporters', outlining the internationalization strategies adopted by Indian firms including SMEs, facilitating transfer of successful experiences.

Financial support

Exim Bank of India seeks to create an enabling environment to promote two-way transfer of technology, trade and investments for the SMEs, and operates a wide range of lending, service and support programmes for this purpose. The Bank has a variety of loan products to cater to the financing requirements of enterprises including the SMEs. The credit facilities are available for financing at all the stages of an export cycle of Indian firms.

The Bank's Lines of Credit (LOC) extended to commercial banks, financial institutions, regional development banks, and entities overseas serve as a market entry mechanism to Indian exporters and provide a safe mode of non-recourse financing option to Indian exporters. These are appropriate particularly for SMEs. LOCs enable buyers in overseas markets to import capital/engineering goods, industrial manufactures and related services from India on deferred payment terms. Apart from LOC, the Bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help companies, especially the SMEs, to offer competitive credit terms to the buyers and to explore newer geographical markets.

Exim Bank of India was conferred with the 'SME Development Award – 2008' by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), for its contribution to the development of SMEs in the country. The Bank has pioneered and nurtured the concept of international factoring and forfeiting in India, serving mainly the SME constituent.

Also Exim Bank introduced the Vendor Development Programme which is aimed to support development of backward linkages by exporters. Export/Trading Houses or manufacturer-exporters with satisfactory track record and strategic plan for development of backward linkages for exports are eligible to seek finance under this programme.

6. MSMEs : STRATEGIES FOR DEVELOPMENT – LEARNING FROM EXPERIENCES

Globalization has brought in a new paradigm in the economic environment of the MSMEs. Globalization, for MSMEs, means constant and growing transformation of local environment, which may bring greater level of opportunities, while bringing challenges associated with competition and reduced product life cycles. The progressively disappearing barriers and borders are exposing all companies, especially the MSMEs, to new challenges, including growing international competition. Developing economies, especially, face the challenge of integrating MSME sector, both in trade and investment, with the global economy. MSMEs in developing countries also face the challenges of strengthening their human resources and institutional capabilities to take advantage of the global opportunities.

A proactive attitude is necessary for the MSME sector, as the global competition is increasingly becoming a matter of necessity, and not a choice. MSMEs, in such a competitive environment need to adopt globalization as part of their strategy to enhance their competitiveness and not as a reaction to venture new markets. Thus, MSMEs that do not consider globalization may be self-imposing a severe restriction on their potential for long-term survival. In this chapter, some of the challenges faced by the MSMEs are analyzed in order to derive suitable strategies through learnings from the cross-country experiences.

CHALLENGES

Access to credit

One of the major challenges faced by MSMEs is inadequate access to credit. Notwithstanding the increase in credit outstanding to the sector, access to adequate and timely credit at a reasonable cost is a critical problem faced by this sector. The statistics compiled in the Fourth Census of MSME sector, revealed that only 11.2% of the units (both registered and unregistered) had availed of finance through financial institutions, 1% had finance from non-financial institutions; and the majority of units i.e. 87.8% depended on self-finance. Thus, the extent of financial exclusion in the sector is very high. There is a need to bridge the financing gap through enabling policies, and the Government needs to play a catalytic role to cater to the financing needs of this sector. Also, The MSE borrowers, especially new generation entrepreneurs, do not have collaterals to offer to avail of bank finance. It is generally observed that collateral security provides comfort to the lenders as it ensures commitment of the borrower to the project and is also available to them for recovery in the event of failure of the enterprise. To overcome these problems, NSIC has entered into tie-up arrangements with 12 banks (i.e. United Bank of India, UCO Bank, Oriental Bank of Commerce, Central Bank of India, Bank of Maharashtra, YES Bank, AXIS Bank, Karur Vysya Bank, HSBC, China Trust Commercial Bank, Union Bank of India and State Bank of Hyderabad) for helping MSMEs in accessing term and working capital loans. During 2010-11 up to 31st December, 2010, credit support to the tune of ₹ 64.16 crore was provided.

Access to alternate sources of capital

Alternative sources of capital like angel funds/risk capital are not available to Indian MSMEs. Removing fiscal/regulatory impediments to use such funds by the MSMEs may be considered on priority. Access to equity capital is a genuine problem. At present, there is negligible flow of equity capital into this sector. Low level of equity capital may pose a serious challenge to development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. There is a demand for a dedicated Stock Exchange for MSMEs.

Sickness of units

Growing incidence of sickness of the sector is yet another area of concern. When the sickness prolongs, it leads to the closure of units and unemployment. The mortality of the MSE units is high. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. As on March 2011, the number of units identified as potentially viable as a percentage to total sick MSE units is around 8%. The units placed under nursing as a proportion to the total number of sick units stood at 5.22%.The causes of sickness are both internal and external. The major causes are limited financial resources, lack of organisational, financial and management skills and expertise, non-availability of power supply, shortage of raw materials, marketing challenges, delayed and inadequate credit, obsolete technology, inadequate infrastructure, etc[2].

Exit policy for MSMEs

An exit route for non-viable units is necessary to manage sickness. Worldwide, MSMEs are credited with high level of innovation and creativity, which also leads to higher level of failures. Keeping this in view, most of the countries have put in place mechanisms to handle insolvencies and bankruptcies. The present exit mechanism available in India for MSMEs is archaic. Business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. The existing legislations may have to be toned up so as to provide for efficient liquidation of non-viable businesses[3].

Low level of technology and infrastructure

MSMEs are either located in industrial estates set up many decades ago, or have come up in an unorganized manner in rural areas. The state of infrastructure including power, water, roads, etc. in such areas is inadequate and unreliable. Further, the MSME sector in India, with some exceptions, is characterized by low technology levels, which acts as a handicap in the emerging global market. Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with the right skill sets for specific areas like, manufacturing, service, marketing, etc.

STRATEGIES

Redefine the ceiling limit of medium enterprises

The MSME sector in India, with some exceptions, is characterized by low technology levels, which act as a handicap in the emerging global market. Although MSMEs play an important role in India's economic growth, be it in terms of its contribution to manufacturing value-added, exports or employment generation, not many units have ability to access technological expertise or mobilize resources for in-house innovation. Also, the cap on plant and machinery for the purpose of classifying the units as MSMEs does not encourage Indian MSMEs to move up the value chain. It may be mentioned that within the manufacturing sector, micro enterprises are classified as those with investment in plant and machinery not exceeding ₹ 25 lakhs. While investments in plant and machinery

[2] Empowering MSMEs for Financial Inclusion and Growth, Issues & Strategies by K.C. Chakrabarty, RBI Bulletin.
[3] Empowering MSMEs for Financial Inclusion and Growth, Issues & Strategies by K.C. Chakrabarty, RBI Bulletin.

Table: 31 Definition of SMEs (medium enterprises): A comparision

Country	Ceiling on No. of employees	Ceiling on Turnover (US$ million)	Ceiling on Investment (US$ million)
India	-	-	2.00
Mexico	250	3.5	--
Brazil	250	-	-
Jamaica	50	1.73	
Laos PDR	99	0.25	0.15
South Africa	200	6.67	2.50
Kenya	100	9.65	-
China	2000	47.67	63.56
Taiwan	200	-	2.70
Japan	300	-	3.62
Vietnam	300	-	0.50
Indonesia	100	-	-
Pakistan	250	2.75	0.30
South Korea	300	-	8.00
Malaysia	150	8.20	-
Philippines	200	-	2.30
Thailand	200	-	6.48
Singapore	200	-	12.00
Israel	100	-	-
Bangladesh	99	-	1.22
UAE	250	68.00	-
EU	250	66.76	57.40
MIGA	300	15	15
OECD	250	66.76	57.40

Source: Exim Research;
India: Ministry of MSME; Companion note for MSME Country Indicators, IFC and World Bank for the countries : China, Philippines, Vietnam, Singapore, Brazil, Laos PDR, Kenya; Japan: SME Agency, METI, Japan; Malaysia: SME Corp. Malaysia; Pakistan: Small and Medium Enterprises Development Authority; South Korea: Small and Medium Business Administration, South Korea; Taiwan: Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs; Jamaica: Ministry of Industry, Investment and Commerce (MIIC); Mexico: SMEs in Mexico, OECD; UAE: Mohammed Bin Rashid Establishment for SME development; Thailand: Ministry of Industry, Thailand; South Africa: Annual Review of Small Business in South Africa, Department of Trade and Industry; Bangladesh: National Manufacturing Policy 2010; EU: European Commission; MIGA: World Bank; OECD: OECD

for a small enterprise has been kept in the range between ₹ 25 lakhs and ₹ 5 crores, a medium enterprise is defined with investment in plant and machinery in the range between ₹ 5 crores and ₹ 10 crores. With such low level of investment ceiling, Indian MSMEs are either expanding laterally or engaging themselves in low-tech/low-value products. Since the manufacturing operations are capital intensive, investment ceiling for treatment of medium enterprises may be raised at least in the capital intensive sectors, benchmarking with such ceiling on investment in other countries.

It may be mentioned that China defines SMEs as those having investment ceiling of 300 million Yuan (which is approximately US$ 64 million); Thailand has defined SMEs with a ceiling on investment capital of upto 200 million Thai Bahts (which is approximately US$6.5 million); Singapore has defined SMEs with a ceiling on investment capital of upto US$ 15 million (which is approximately US$ 12 million); and EU defines medium enterprises as those of having asset size of Euro 43 million, which is approximately US$ 57.4 million.

It may be observed that some countries (such as EU and China) have positioned the ceiling on investment for medium enterprises at high level, encouraging capital intensiveness, technology upgradation, quality improvement, export orientation and employment generation. Considering the above, the ceiling on capital investment for medium enterprises in India may be increased, at least to an extent of US $ 10 million to US $ 12 million. The hike in investment ceiling for medium enterprises would encourage higher investments for technology absorption, quality upgradation, and export orientation.

Cluster Development Approach

It is recognized that SMEs can achieve high levels of competitiveness if they work in a cluster environment ensuring complementarities, common facilities, collective activities including collective sourcing and marketing. SMEs can also achieve efficiency through collective innovations. However, it is pertinent to upgrade the clusters through strengthening of linkages and creation of value chain. These can be achieved through promotion of linkages among firms, strengthening the local position within the value chains, building cluster-specific skill centers to build a cluster-specific labour force, strengthening the linkages with the local suppliers, and facilitating greater level of interactions among the stake-holders of clusters.

Though Indian financial sector has been practicing cluster based lending in the MSME sector, its approach has to be quicker, pro-active and result oriented so as to leverage the collective strength of units in a cluster. Apart from this, a critical mass of interrelated businesses also attracts venture capital investment and leads to targeted worker training programs. Even State Governments have to play a major role to promote clusters in the semi-urban and rural areas, through policies and programs.

Need for Focused Technology/R&D Institution for MSMEs

India has established a range of dedicated institutions to provide diverse support services to MSMEs, such as finance, credit guarantee, credit rating, and entrepreneurship development. There are also few technology-oriented institutions supporting the R&D activities in general, including those of MSMEs. However, there may be a need for a focused institution encouraging technology development and R&D activities in MSME sector in a coordinated manner. The suggested institution may identify thrust areas for research, new areas for technology application, opportunities for commercialization of R&D, and hand-holding of MSMEs in their R&D intensification.

Many Governments consider technology development as one of the main strategies of MSME development. Government of **Japan** has enacted a special 'Law on Supporting Business Innovation by SMEs', which is intended to promote creative development of SMEs. Government of Japan has established a Small Business Innovation Research (SBIR) System under which the national Government provides financial support for commercialization of R&D. Government of **Korea** has also launched a SME Technology Innovation programme, to foster technological innovation of SMEs. The programme part-funds technology development expenses of SMEs, and upon successful product development, a 30% contribution from Government will also be given to SMEs as technology fees. Government of **Malaysia** has been supporting innovation activities of SMEs through 1-InnoCERT, which will certify SMEs on the basis of innovation and commercialization achievement. 1-InnoCERTified SMEs will have preferential benefits such as tax deduction for R&D activities, as also priority procurement by Government. Malaysia has also instituted a programme to nurture SMEs as R&D partners for MNCs and Government agencies. **China** has instituted the 'Spark programme', which is a kind of a national plan encouraging the technology innovation in the 'villages and towns' enterprises. The programme places significant focus on SMEs closely related to people's livelihood. China has also set up an innovation fund for small technology based firms to promote technological innovation amongst SMEs, which provides start-up capital and partial financial support. Technology Upgradation Fund for SMEs is another major programme that provides R&D grants to SMEs. Government of **Singapore** has instituted a Technology Innovation Programme aimed at enhancing the technology infrastructure for product and process innovations in SMEs. The programme also co-funds technology innovation projects by SMEs and support setting up of Centres of Innovation (CoIs) in industrial clusters. **Thailand** (One-TAMBON-One-product) and **Philippines** (One Town-One Product Programme) are providing technological support for development of product using the local knowledge and competitiveness. **Hungary** has grant schemes for establishing SME incubation houses and diffusion of appropriate technologies through university-SME linkages. Taking these models, India could also introduce programs and schemes to support innovation and R&D in Indian MSME sector.

Increasing SMEs' Access to Finance

The availability of external finance for SMEs is an issue of great importance to policy makers around the world. An added issue would be the availability of lending infrastructure in a country to fund SMEs including the funding models and technology that best suit the SMEs in the country. This infrastructure may also include the regulatory framework (such as directed lending), commercial and bankruptcy laws that affect creditor rights and prudential norms, availability of specialist agencies for sharing of credit information, credit rating, and credit guarantee of SME financing. Most of these aspects are covered in India's institutional and policy framework for SME sector. However, there has been no directed lending to support the export activities of SME sector.

Export Credit Support to MSME Sector

Export credit is not a part of mandatory priority sector lending for domestic commercial banks; while foreign banks are set with a 12% sub-target for export credit under the mandatory priority sector lending. Share of export credit, though growing in absolute terms, has been falling down in terms of its share in Net Bank Credit (NBC), over the years – from a level of 9.8% as of end-March 2000 to 4.2% as of end December 2011.

SMEs are estimated to be contributing about 40% of India's total exports. Hence they require enhanced level of export credit support. A Working Group constituted by the RBI (July 2008) for fixing a target export credit for MSME sector has delineated that commercial banks have extended around 38% of their total export credit to MSME sector. The Working Group further suggested that 50% of export credit of commercial banks to be provided to MSME sector as a desired target level. The export credit as a share of NBC was 4.2% as of end December 2011. Assuming that the desired level (50% of export credit to MSME sector) has been achieved by now, export credit share to MSME sector should have been around 2.1% of NBC.

The share of export credit to MSMEs should be doubled (4.2% of NBC) to support the export credit needs of MSME sector. It is suggested that RBI may consider fixing a mandatory target of 4.2% of NBC as export credit to MSME sector, under the overall priority sector target of 40%, and for foreign banks under the 12% mandated export credit target. This measure will also help improve the overall export credit to around 8.5% of NBC, if non-MSME sector is continued to receive the support at the same level.

Assessing non-financial parameters of MSMEs

Banks and financial institutions are generally adopting conventional lending structure and norms for SME financing. It may be mentioned that the challenge of low access to institutional financing for SMEs is further accentuated due to information asymmetry between the SMEs and loan officers in the banks. The international norm, Basel II, requires financial institutions to implement an enterprise-wide risk management framework that encompasses operational risks. In this context, enhancing credit flow to the SME sector has always been a challenge to the banking sector. Traditional method of credit assessment based on past financials may not be the most appropriate method of assessing credit needs of the SME sector. The screening methodology of financing institutions needs to consider non-financial parameters and management competencies, while evaluating loan proposals from MSME units.

One such non-financial parameter is the technological competency of MSMEs. Government of Korea has instituted Korea Technology Finance Corporation (Kibo) which appraises technological expertise of SMEs thereby enabling the banks to accept technology as collateral for extending financial support. Kibo has also launched a technology guarantee services programme, which covers the losses incurred when borrowers default on loans. Such a policy measure could also be introduced in India.

Developing Mezzanine Financing in India

The market for mezzanine financing in India is not well developed; some form of mezzanine financing is available to the upper strata of enterprises, but not to the lower strata. Mezzanine financing in India is generally availed by firms that have sound track record, stable cash-flows, experienced management team, and financial and business information reporting capabilities allowing the financing agencies to monitor the key risks and success drivers. Thus, a market for mezzanine financing needs to be developed in India, including appropriate financial tools.

The Working Group, constituted under the chairmanship of Dr. K C Chakrabarty, then Chairman and Managing Director, Punjab National Bank, to suggest measures improving credit flow to the SME sector, has also suggested for examining the feasibility of bringing in additional capital through alternative routes, such as equity, mezzanine/venture financing. In addition, the Working Group has also suggested: a) an independent Rehabilitation Fund for rehabilitation of sick, micro, small and medium enterprises with a corpus of ₹ 1000 crores; b) a Fund for contributing to the margin money required to be brought by the promoters of SME units taking up technological upgradation; c) a Marketing Development Fund, which could provide financial assistance in setting up distribution and marketing infrastructure / outlets; and d) a National Equity Fund Scheme to support the greenfield and expansion projects.

Access to alternate sources of capital

Alternative sources of capital like angel funds/risk capital are not available to Indian MSMEs. Access to equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector. Low level of equity capital may pose a serious challenge for development of knowledge-based MSMEs, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. Several countries have policies and programmes to stimulate equity capital in the MSME sector. **Australian** Government has been supporting Venture Capital Limited Partnerships (VCLPs), and Pooled Development Funds (PDFs) with tax incentives for providing equity capital to growing SME sector in Australia. Italian Private Equity and Venture Capital Association, and the Italian Business Angels Network are supported by Government of **Italy** for providing necessary funds, equity seed capital and start-up financing to new SME ventures. Though not as advanced as developed markets in terms of depth and liquidity, **Thailand** has established a Market for Alternative Investment (MAI) to enable access to capital for smaller companies. MAI serves as a much needed avenue to facilitate equity financing in Thailand SMEs.

India also needs to develop programme that would support SMEs to access alternate sources of capital. There was a felt need for developing a dedicated stock exchange for the SME sector so that SMEs can access capital markets easily, quickly and at lower costs. The National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) have launched their respective SME exchange platforms. Such dedicated SME exchange is expected to provide better, focused and cost effective service to the SME sector. It will also help to provide platform for trading of stocks belonging to SME's and enable them to raise funds at relatively cheaper rates.

Promoting Entrepreneurship

Improvements in skill formation and learning mechanisms in SME sector have a substantial impact on productivity and value addition. The task of promoting skills and entrepreneurship development cut across wide range of policy areas, institutional boundaries, both at national and global level. Government of **Malaysia,** through several institutional networks, has been improving management and business practices of SMEs, especially in generating economic value creation. SME Corp, an agency established by the Government of Malaysia, is implementing skills development programme aimed at enhancing the skills and capabilities of workers of SMEs at technical, supervisory and managerial levels. SME Corp will finance 80% of the training cost paid by employers to train their employees in accredited training centres. In order to support the packaging and branding capabilities of SMEs, Government of Malaysia is instituting training to its SMEs through collaboration with universities. **Singapore** is supporting its SMEs by empowering local small enterprises so that they can compete more effectively with MNCs and large companies both within and outside Singapore. Under the Local Enterprise Association Development (LEAD) programme, the Government together with 14 industry associations committed for industry capability development projects. Other initiatives taken by Government of Singapore include: Capability Development Programme (CDP) that supported SME-upgradation projects in specific sectors. International Enterprise (IE), Singapore administers the International Business Fellowship Programme (IBF) which will enable companies to train their employees in emerging markets allowing them to gain firsthand knowledge of the new business environment, and has set up the advisory Portal, where SMEs can log on, and get access to advice from 180 international experts for all their overseas expansion needs, ranging from market setup to legal, tax and financial advice. Government of **Pakistan** has been encouraging the establishment of Institutes of Small and Medium & Entrepreneurship Development (INSMED) in select business schools and encourages the use of technical training infrastructure by the private sector. Government of Pakistan is also incentivizing investment in setting up of SME training facilities. **Mexico** Government has established The Micro and Small and Medium Enterprises Support Fund (FAMPyME) with the objective of increasing the competitiveness and knowledge development of SMEs. Support is being provided through this Fund for activities related to consultancy, training, studies, innovation and technology development.

On these lines, India may also strengthen the skill development and entrepreneurship promotion strategy that should go beyond the public sector and its agencies, encompassing the private sector and its organizations, including academic institutions and non-governmental organizations. MNCs/large enterprises that source their requirements from SMEs should also be encouraged to take a lead role in infusing enterprise education, skill upgradation, and management induction programmes of SMEs.

Increase the support to enhance export competitiveness of MSMEs

Indian MSMEs have harnessed the opportunities presented by the opening up of the markets, since the establishment of the WTO, and contribute a sizeable percentage to India's export basket. However, the proportional growth in exports by MSMEs that was expected to follow the reduction in tariffs and the dismantling of quantitative restrictions, has not taken place. Country experiences suggest that most of the countries have programmes to harness the export competitiveness of MSME sector. Some countries have innovative programmes that may require suitable adaptation in India. For example: Government of **Malaysia**, through MATRADE, provides grant support (to an extent of RM 1 million per company/per brand) to Malaysian SMEs to develop and promote Malaysian brands, both in products and services. Government of Malaysia also provides concessional financing (maximum of RM 3 million) through Malaysia Industrial Development Finance (MIDF) to undertake branding/rebranding exercises of SMEs.

Government of **Vietnam**, through pilot projects, help integrate specific enterprise-related training modules into education schemes at high schools, colleges and universities with the objective of fostering entrepreneurial spirit and entrepreneur culture. Government of **Mexico,** through the Implusoras Programme provides tailor-made consultancies to inform SME exporters about technical specifications, regulations and quality requirements in target markets. Mexico has also established a Consolidation of Exportable Goods Support Fund (FACOE) to enhance competitiveness of export oriented SMEs.

Participation in exports provides MSMEs a reliable barometer of its competitiveness and also gives exposure to global trends, new ideas and designs. The export competitiveness of Indian MSMEs has not improved significantly, because the MSMEs have limited awareness regarding changing dynamics of product safety and standards requirements in the importing countries, or have limited ability to understand the technicalities of these requirements. For example, European Commission's regulation, called REACH (applicable to chemical sector), requires manufacturers and importers of chemicals, to register the physiochemical, health and environmental properties of the chemicals being imported by EU importers, with the European Chemicals Agency. REACH programme also to provide information on how the substance can be used safely. The MSME exporters are neither fully-equipped to provide all the information required under the regulation, or unable to do so due to high cost of compliance associated with testing and certification, licensing and registration requirements. Hence, efforts are required to create adequate awareness on the regulations that are taken globally, so that Indian MSMEs are enabled to export their products in compliance with global standards.

Apart from this, role of packaging in exports has also gained much significance in view of trends in the world markets. The need for better and scientific packaging for exports from MSME sector has been recognized since long back. With a view to acquaint MSME exporters of the latest packaging standards, techniques etc. training programmes on packaging for exports need to be organised in various parts of the country to generate the much needed awareness in the industry and to help educate the entrepreneurs regarding the scientific techniques of packaging.

Promoting Synergy

In most of the countries, there is a tendency of keeping a 'decentralized arrangement' for SME development, which is the case too in India. It is essential to achieve integration with regard to institutions and programmes, in order to achieve desired outcomes. Thus, the requisite mantra should be 'achieving synergy' in the various programmes and institutions meant for SME development. This means that when introducing new programmes/ institutions, synergy should be reinforced with the existing offerings. In all cases, duplication of existing delivery mechanism and institutional support system may be avoided.

Exit Policy for MSMEs

An exit route for non-viable units is necessary to manage industrial sickness in MSME sector. As on March 2011, the number of units identified as potentially viable as a percentage to total sick MSE units is only around 8%, while the number of units placed under nursing as a proportion to the total number of sick units stood at only around 5%. The remaining units are considered to be unviable sick units. The major causes for sickness in MSMEs are limited financial resources, limited organisational, financial and management skills and expertise, non-availability of power supply, shortage of raw materials, marketing difficulties, obsolete technology, inadequate infrastructure, etc. Business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. Keeping these aspects in mind, many countries have put in place mechanisms to handle insolvencies and bankruptcies for the industrial units in general. The present exit policy for firms in India is archaic. The existing legislations may have to be toned up so as to provide for efficient liquidation of non-viable businesses.

Strengthening Public Procurement and Sub-Contracting Relationships

In general, several Governments have been giving special treatment for SMEs when it comes to public procurement. However, dealing with Government may be expensive for SMEs as there are challenges associated with understanding procurement guidelines, and procedural delays. In this context, it may be recognized that the sustainability and growth of SMEs would largely depend on their capacity to become part of the strategies of larger firms in the global and national arena. This is particularly important for technology oriented SMEs, which serve as sub-contractors for large enterprises in sectors such as IT, biotech, pharmaceuticals, light engineering, electronics and auto components. For e.g. in the European Union, about 3.7 million SMEs are engaged as subcontractors. They represent 17% of all SMEs in the EU. This reinforces the need for strengthening

Box 7 : Country Experiences on Industrial Exit Policy

USA: In USA, under Chapter 11 of the United States Bankruptcy Code, reorganization is permitted under the bankruptcy laws of the United States. Chapter 11 bankruptcy is available to every business, whether organized as a corporation or sole proprietorship, and to individuals, although it is most prominently used by corporate entities. When a business is unable to service its debt or pay its creditors, the business or its creditors can file with a federal bankruptcy court for protection under either Chapter 7 or Chapter 11. In chapter 7 the business ceases operations, a trustee sells all of its assets, and then distributes the proceeds to its creditors. Any residual amount is returned to the owners of the company. In Chapter 11, in most instances the debtor remains in control of its business operations as a debtor in possession, and is subject to the oversight and jurisdiction of the court. Debtors in Chapter 11 have the exclusive right to propose a plan of reorganization for a period of time (in most cases 120 days) which has to be approved by all creditors.

China: The new Chinese bankruptcy law came into effect since June 1, 2007. The new law applies to all legal entities, including foreign invested enterprises (FIEs), such as Wholly Foreign Owned Enterprises and Joint Ventures, though it does not apply to individuals. Under reorganization, a company is given protection from creditors while still being able to continue operating. Part of the reorganization section (Article 87) introduces a 'cram down' procedure which means that a bankruptcy debtor may be able to force confirmation of its plan over the objections of dissenting classes if it can meet certain conditions.

Malaysia: Part X of the CA 1965 is the main regulation that governs liquidation process. Other related regulations include: Companies Winding-Up Rules 1972, Bankruptcy Act 1967, Sales Tax Act 1972 and Service Tax Act 1975. For a Sendirian Berhad company, the process and the procedure of winding up comes under the Companies Act, 1965. Meanwhile, for the sole proprietor and partnership firms, the procedure for winding up is under the Registration of Businesses Act 1956. The different modes of winding up a company in Malaysia are: Compulsory Winding-Up (also known as Court-Ordered Winding-Up) which is triggered by a court order on the application of one or more parties; Voluntary Winding-Up - Members' Voluntary Liquidation ("MVL") which is the liquidation of a solvent company where the directors must form an opinion that the company will be able to pay its debts in full within a period of twelve (12) months after commencement of winding-up as stated; Creditors' Voluntary Liquidation (CVL): is the liquidation of an

(Contd...)

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insolvent company where the directors will make a declaration stating that the company cannot by its reason of liabilities continue its business; and the court has the power to wind up a company on grounds other than insolvency for reasons like breakdown of relationship between two groups of shareholders even though the company is solvent. Apart from this, e-Insolvency is a service provided by the Insolvency Department of Malaysia. The purpose of the e-Insolvency project is to facilitate individuals in checking their bankruptcy status and company's liquidation status via the Internet through e-Insolvency portals.

Singapore: Singapore companies are principally governed by the Companies Act and there are two forms of liquidation, namely voluntary winding up and compulsory winding up by the court. A voluntary winding up usually occurs where the company resolves to do so by a special resolution (Section 290(1)(b) of the Act) wherein the directors of the company may make a statement that they are of the view that the company will be able to pay its debts in full within a period not exceeding 12 months after the commencement of the winding up. Under compulsory winding up, by an order of court, a company can be wound up due to many reasons like if the company does not commence business within a year from its incorporation or suspends its business for a whole year; if the company is unable to pay its debts; if the directors have acted in the affairs of the company in their own interests rather than in the interests of the members as a whole; if the court is of the opinion that it is just and equitable that the company be wound up; if the company has carried on multi-level marketing or pyramid selling in contravention of any written law that prohibits such activities; if the company is being used for an unlawful purpose or for purposes prejudicial to public peace, welfare or good order in Singapore or against national security or interest and if the company has by special resolution resolved that it be wound up by the court.

Indonesia: For winding up a company there are two procedures one is voluntary winding up and other one is compulsory winding up. For voluntary winding up, under Indonesian Company Law (Law No. 40 of 2007 Regarding Limited Liability Companies) a request for the dissolution of a company may be made by a resolution of its shareholders at a general meeting. For compulsory liquidation under the Bankruptcy Law, any creditor of a company may file for its liquidation if the creditor can show that: the debtor has at least two creditors; and the debtor has failed to pay at least one of its debts that have become due and payable.

Source: Exim Research

capabilities in the Indian MSME sector to meet the global quality standards and delivery mechanisms. Strategies to establish and strengthen linkages between MNCs and Indian MSMEs are critical in this context. MNC-MSME linkages may not be misconceived with the foreign direct investments in MSMEs. MNC-MSME linkage means improving the flow of information about supply opportunities and persuading MNCs to develop 'MSME-friendly' tendering policies. MNCs may also be encouraged to assist SMEs to upgrade them to meet the quality standards that may be required by them. Government may consider working with MNCs, donor organizations, and other such intermediaries to develop capacity building programmes for MSMEs, and facilitate backward linkages and other positive spillover benefits.

There are also debates about the impact of product reservation on the capabilities of MSMEs in undertaking their sub-contracting jobs. A section of analysts view that product reserv-ation enhances the sub-contracting activities in a closed market; however, product reservation may restrict subcontracting activities in a liberalized market, as the competition becomes intense. Thus, there would be a need for strengthening the MSMEs' capabilities of undertaking subcontracting activities, as India proceeds towards a de-reservation era.

IN SUM

Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs across the globe. Many countries have a range of programmes in diverse areas of SME development, viz., financing, technology, innovation, managerial ability, market information, and developmental assistance, aimed at improving the working environment for SMEs.

In the context of India, MSME development requires a cross-cutting strategy that touches upon many areas, which can help the sector to improve and create a niche for itself in the Indian economy. Gaining from the experiences of other countries, India needs to suitably adapt its approach, policies and programmes for MSME development, and implement a set of measures to enhance the potential of this sector.

ANNEXURE 1: SUMMARY OF RECOMMENDATIONS OF THE REPORT OF PRIME MINISTER'S TASK FORCE ON MSME

The following measures are suggested to provide relief and stability to MSMEs, especially in the aftermath of the recent economic downturn.

A. Measures that need immediate action

I. The Government should extend, for a further period of one year, beyond March 31, 2010, the components of the 'stimulus package' which are specific to MSMEs.

II. The Government should ensure strict adherence to the stipulated targets by the commercial banks for the micro enterprises (viz. 20% year-on-year growth for micro and small enterprises lending with 60% apportionment for micro sector).

III. A separate fund may be created with SIDBI, using the shortfalls, if any, against the MSE credit targets set for the commercial banks. This fund named 'Special Fund for Micro Enterprises' should be utilized exclusively for lending to the micro enterprises.

IV. A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development Act, 2006 may be introduced at the earliest. The policy may set a goal for government departments and PSUs to reach, over a stipulated period, a target of at least 20% of their annual volume of purchases from micro and small enterprises (MSEs), and mandate them to report their achievements in this regard in the annual reports.

V. The Offset policy of the Government, particularly in the defence and aviation sectors, should give priority to MSMEs [Ref. Chapter XIII Para 6 (a)]. A permanent guidance mechanism under the Raksha Utpadan Rajya Mantri (RURM) with Secretaries of Defence Production, MSME and Civil Aviation and CEOs of Defence PSUs should be considered for this purpose.

VI. The Government should earmark additional public spending to the tune of ₹ 5, 000 - ₹ 5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set up. These funds may be used to: (a) support the establishment of Rehabilitation Funds in the States for the revival of potentially viable sick units; (b) assist MSMEs in the acquisition and adaptation of modern clean technologies as well as creation of Technology Banks and product-specific Technology Development Centres; (c) promote establishment of business incubators in educational institutions of repute; (d) renovate existing industrial estates and develop new infrastructure for MSME sector, with sustainable urban governance mechanisms; (e) re-engineer, strengthen and revitalize District Industries Centres to enable them to play a more active role in advocacy and capacity building for MSMEs and as appropriate, in their rehabilitation; (f) strengthen NSIC's equity base for enhanced market support to MSMEs; and (g) up-scale the existing programmes of entrepreneurship and skill development targeted at MSMEs. It is further recommended that while the detailing of the schemes would be done on the basis of further examination, to avoid procedural delays in implementation of these schemes, a line entry may be incorporated in the Annual Plan 2010-11 of the Ministry of MSME.

VII. The Government should take steps to create an overall enabling environment using appropriate legal and fiscal instruments, to incentivize the transition of MSMEs from the unorganized to the organized sector as well as for their corporatization as entities. It should also encourage higher investments for innovative and knowledge based ventures as well as for research and development through greater partnership between the industry and academic institutions.

VIII. The ongoing exercise to introduce a new Direct Tax Code and GST should specifically seek to achieve these policy objectives through appropriate provisions for graded corporate tax structure, tax pass through for angel and venture capital funds and incentives for R&D.

B. Medium Term Institutional Measures

The overall approach suggested above should be accompanied by institutional changes and detailing of programmes, to be achieved within a year or so. These include:

I. Government should set up an independent body at the national level for the promotion and development of MSMEs. This body may provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganized sector, promote technology development (including clean technologies), provide marketing support and coordinate & disseminate information relevant to MSMEs. Currently, the Development Commissioner (MSME) is the focal point for all policy matters, formulation of various promotional and developmental schemes as well as channelizing certain incentives and subsidies to the MSME sector, the Small Industries Development Bank of India (SIDBI) is the principal financial institution for financing and related promotional and development work for MSMEs, while the National Small Industries Corporation Limited (NSIC) has been set up to facilitate MSMEs in procurement of raw material and helping in marketing of their products. In addition, various Ministries/Departments of the Government have promotional policies and developmental schemes for the MSMEs in their specific sector. The proposed independent body could use the existing structures of aforesaid organizations with appropriate changes in their charter and mandate. The experience of other countries with such institutions (such as the Small Business Administration, in the United States) may be considered while deciding on the mandate and structure of the National level institution.

II. As institutional re-building is an intricate task, we suggest that an Expert Group may reflect on this and come up with suitable recommendations on the structure and mandate of this body within a timeframe of three months and submit these to the Prime Minister. This Expert Group may be headed by Member, Planning Commission, and comprise of Deputy Governor, RBI; Secretary (MSME); Secretary (DFS); DC (MSME); CMD SIDBI; and CMD NSIC.

III. A Standing Review Committee under Member (Planning Commission) should be set up to monitor flow of credit to MSME sector and its apportionment to the more vulnerable sections like micro enterprises and the unorganized sector.

IV. Government should encourage Micro Finance Institutions (MFIs) to form self-help groups and finance micro enterprises in unbanked/ identified excluded rural/ semiurban areas at reasonable rates. Banks may also be encouraged to formulate schemes for refinancing loans taken by the MSEs from non-institutional sources/moneylenders. Financial outreach is likely to prove an effective means to formalize the unorganized sector. Suitable incentives, including tax concessions, should be extended to MFIs to encourage them to work as business correspondents and business facilitators for banks to service micro enterprises.

V. The District Industries Centres (DICs) should be strengthened with provision of modern IT-enabled communication facilities and re-training of human resources available with these institutions. As the DICs form the bedrock of MSME promotion, they should be urgently strengthened, revitalized and transformed to play a more active role in advocacy and capacity building for potential and existing entrepreneurs. Wherever viable, active involvement of the private sector for revamping the DIC network should be considered. Such re-engineering of the DICs may be supported by the Central Government.

VI. States should be supported by the Central Government to set up Rehabilitation Funds and operationalise appropriate schemes for the rehabilitation of units temporarily rendered sick due to circumstances beyond their control. It is recommended that the state governments may establish a mechanism at the district level, in the DICs, to re-examine the viability of sick units in coordination with the banks and implement rehabilitation packages in a time bound manner.

VII. It must be ensured that the rehabilitation package is made binding on all stakeholders, including banks and financial institutions. The RBI/Finance Ministry should issue necessary orders in this regard so that discretion at the field level, whether by the field formations or by banks is ruled out. We recognize that the Andhra Pradesh Model may be a good template for this dispensation, which may be examined while finalizing the contours of the scheme.

VIII. The government should infuse industrial estates which are currently in a state of decay and neglect, with fresh capital and upgrade them to 'Industrial Townships'. The latter concept has constitutional recognition. This will permit effective municipal administration and a single-stop mechanism for the provision of municipal services.

IX. New clusters for MSEs should be created to meet the requirements of planned development and growth, consistent with the policy of progressively organizing the MSEs. Development of new infrastructure for the MSME sector should be substantially augmented with the government stepping in with viability gap funding to encourage private sector participation.

X. Government should strengthen NSIC's equity base to give a demand side impetus to MSME enterprises in addition to preferential procurement and volume stipulations enunciated earlier. This shall help remove bottlenecks in procurement of raw materials and also step-up marketing support [Chapter-XIII paras 6 (b) to 6 (d)], and provide better backward and forward linkages to the sector.

XI. Government should consider earmarking funds to the tune of ₹ 1500 crore, within the enhanced investment package proposed in A(vi) above, to support clean technology initiatives of different Ministries involved with MSME growth, particularly in the context of the National Action Plan for Climate Change (NAPCC). This amount should be utilized by up-scaling existing schemes or by evolving new schemes to assist existing MSMEs in acquisition, adaptation and innovation of modern clean technologies as well as creation of a Technology Bank/product specific technology centres to enable them to move up the value chain.

XII. The concept of business incubators in educational institutions of repute should be encouraged by setting aside ₹ 1000 crore within the overall package set out in A

XIII. We have seen that business incubators currently in place in the premier management institutions of the country have facilitated new enterprises with innovative ideas.

C. Legal and Regulatory Structures

The legal and regulatory structures and provisions affecting the MSME sector that should be taken up in the medium term (1-3 years) are as follows.

I. Government should expedite the establishment of a SME Exchange which is already under consideration.

II. Workable legal options should be developed for the securitization of trade credit receivables and for the promotion of factoring services.

III. Wide publicity should be given to new formats like Limited Liability Partnerships and Single Person Companies, which provide MSMEs with an interim solution in the move from the informal to the formal economy.

IV. The insolvency legislation should be comprehensively reviewed in recognition of the reality of the global market where enterprises continuously get created and destroyed.

V. Labour laws should be simplified, especially those applicable to enterprises in the MSME sector, since the transaction costs for complying with these laws is disproportionately high for these units. While some steps have been taken by the Labour Ministry in this regard, we recommend that a single and comprehensive legislation for MSEs with 40 workers may be worked out. At the same time, keeping in view the large size of the unorganized sector within MSMEs, the labour related issues for this sector should be focused more on welfare rather than legislation by, inter alia, use of the recently promulgated Unorganised Workers Social Security Act, 2008.

D. North-Eastern States and J&K

While the Government has introduced special packages and policies for the NER and J&K, there have been intra-state and intra-regional asymmetries in utilization which need to be looked into by the respective state governments. Additionally,

I. Some modifications in the capital subsidy scheme should be made, so as to allow MSMEs to avail of subsidy for their expansion.

II. The budgetary provisions which have been reportedly inadequate to meet subsidy claims under these schemes may be supplemented so as to clear all pending claims for MSEs up to 31.3.09.

III. The J&K Government has been demanding that the incentives available for MSMEs in the State be brought on par with the modified NEIIPP of NER. This demand appears to have some merit. The J&K package may be enhanced and brought at par with the modified NEIIPP of NER for MSMEs.

IV. A Fund of ₹ 100 crore within the corpus may be earmarked for implementing a special rehabilitation package on easier terms for identified sick units in J&K.

Conclusion

None of these measures will work unless their implementation status is monitored regularly at the highest level. The issues are simply too diverse to be handled by a single line Ministry. The Task Force accordingly recommends the establishment of Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which may oversee implementation of these recommendations on a half yearly basis. The Ministry of MSME shall be the servicing arm for the Council.

ANNEXURE 2: PROGRESS UNDER THE COMPONENTS OF MSE-CDP

- A total of 477 clusters in the country have so far been taken up under the MSE-CDP for diagnostic study, soft interventions and hard interventions spread over 28 States and 1 UT.
- Apart from these, infrastructure development projects for creating industrial infrastructure have also been taken up. Under infrastructure development component, 98 new ID Centres have been sanctioned till 30th November, 2011. Out of the above sanctioned centres, 77 new ID Centres have been completed.
- A total of 11708 plots have been allotted to small and tiny units and 3956 units established.
- Infrastructure upgradation in 33 old industrial estates has also been undertaken. Out of these, upgradation in 25 old industrial estates has been completed. The efforts under the scheme are focused on covering more and more clusters and infrastructure development projects from all the States / UTs.

Physical Progress (1st April, 2011 to 30th November, 2011)

- New clusters undertaken for Diagnostic Study Reports (DSRs) – 8 Nos.
- Cluster undertaken for soft interventions including ongoing clusters – 5 Nos.
- New Common Facility Centre (CFC) approved – 3 Nos.
- In-principle approval for CFC - 2 Nos.
- Upgradation of old ID Centre – 1.

Financial Progress

- Sanctions of ₹ 4.26 crore have been issued till 30th November, 2011 under MSE-CDP.

Source: Annual Report 2011-12, Ministry of MSME, Government of India

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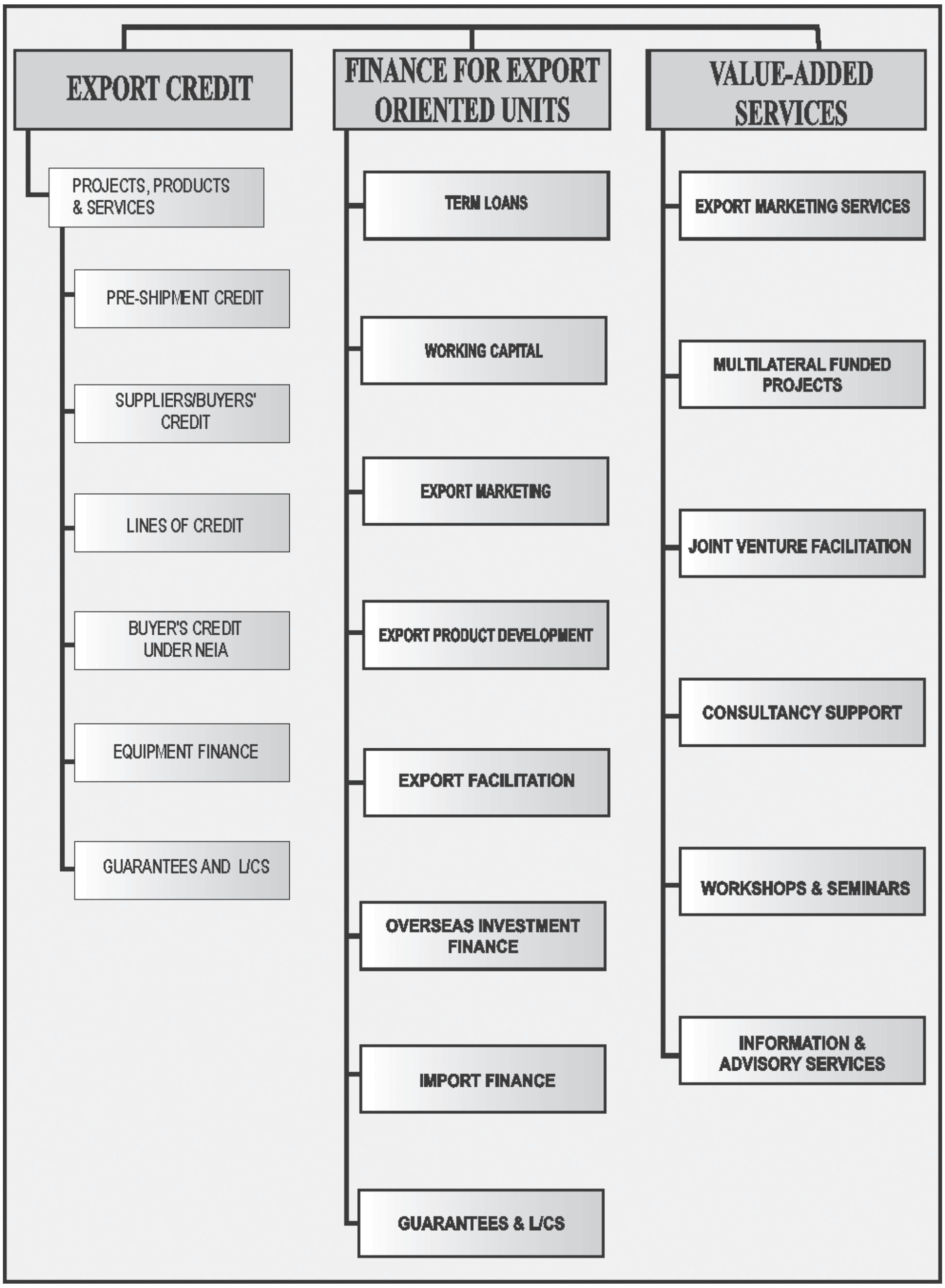
Bank's Major Programmes



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