

## Micro Small and Medium Enterprises (MSME) Promotion Programme



भारतीय लघु उद्योग विकास बैंक  
Small Industries Development Bank of India  
*We empower Micro, Small and Medium Enterprises*



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# Micro Small and Medium Enterprises **(MSME) Promotion Programme**

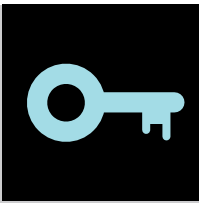
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MSME Umbrella Programme Brochure

**giz**



Micro Small and Medium Enterprises (MSME) Programme



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# 1 Creating jobs, driving growth

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→ Micro Small and Medium Enterprises (**MSME**) are India's largest employer after agriculture

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## What's MSME?

India's growth story is dominated by stories of its big firms – the Tatas, Infosys and Reliance. But beyond these big firms lies a vast number (around 27 million) of small businesses, officially called by the government as Micro Small and Medium Enterprises (MSME). They earn a big chunk of India's export revenues and employ an estimated 60 million people at the lower rungs of the economy. They are true job creators.



# MSME in India

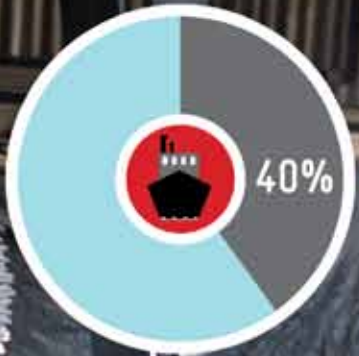




There are an estimated **27 million MSME** in India



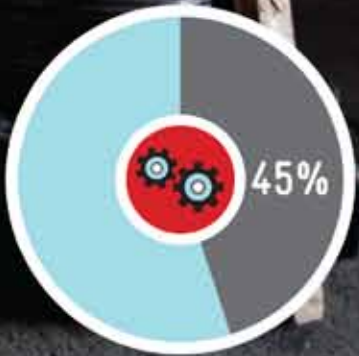
Over 90% of MSME are in the unorganised sector



MSME contribute 40% of India's export



MSME employ 60 million people



MSME produce 45% of India's manufacturing output



## What's the problem?

Because of the inherent disadvantage of being small, MSME find it difficult to obtain finance, buy the latest machinery, adopt environmental and social standards, train personnel etc. At the same time, with increasing globalisation,, MSME today find themselves competing with rivals from other Asian countries, notably China. The government has recognised the problem – the Prime Minister's Task Force formed in 2010 has recommended measures to be taken in a wide range of areas that affect MSME.



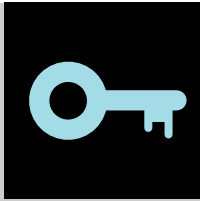
## What's GIZ doing?

GIZ is working with the Ministry of MSME and the Small Industries Development Bank of India (SIDBI) as its main implementation partners on the 'MSME Umbrella Programme' (MSME-UP). The MSME-UP is a four year project (2010-2014) and is a result of bilateral collaboration between the Indian and German government. With SIDBI, it is working on delivering financial and non-financial services to small firms. In order to improve access to finance for MSME, GIZ also works with commercial and public sector banks, micro finance institutions, non-banking financial institutions and associations of banks and micro finance institutions. With the Ministry, it is working on evaluating and improving programmes ('schemes' as they are known in government) that deliver a wide range of non-financial services to MSME. To do this, GIZ is sharing information on international best practice in small business promotion and development and bringing in German small business experts.









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# 2 No room with a view

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→ In a globalised world, Indian **MSME** need an enabling environment to remain competitive

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## Informal Economy

Over 90% of India's MSME are in the 'grey' or informal economy. As they have no identity, officially they don't exist and cannot be targeted by government programmes or finance. For 'Inclusive Growth' to happen, what is needed is creating opportunities for small businesses to participate in wealth creation. This means creating an enabling environment so that they can focus on competing in the market and be successful at business.



# MSME lack support





MSME in India are working against the odds with lack of support, little finance and in poor conditions



GIZ and partners address the service system, aiming to make it more accessible and responsive to the needs of MSME



GIZ promotes the compliance to social and labour standards



GIZ is working with banks, financial institutions and micro finance institutions to improve access to finance for MSME



GIZ is working with service providers and business membership organizations, aiming to strengthen the market for business development services that is sustainable and can complement government services

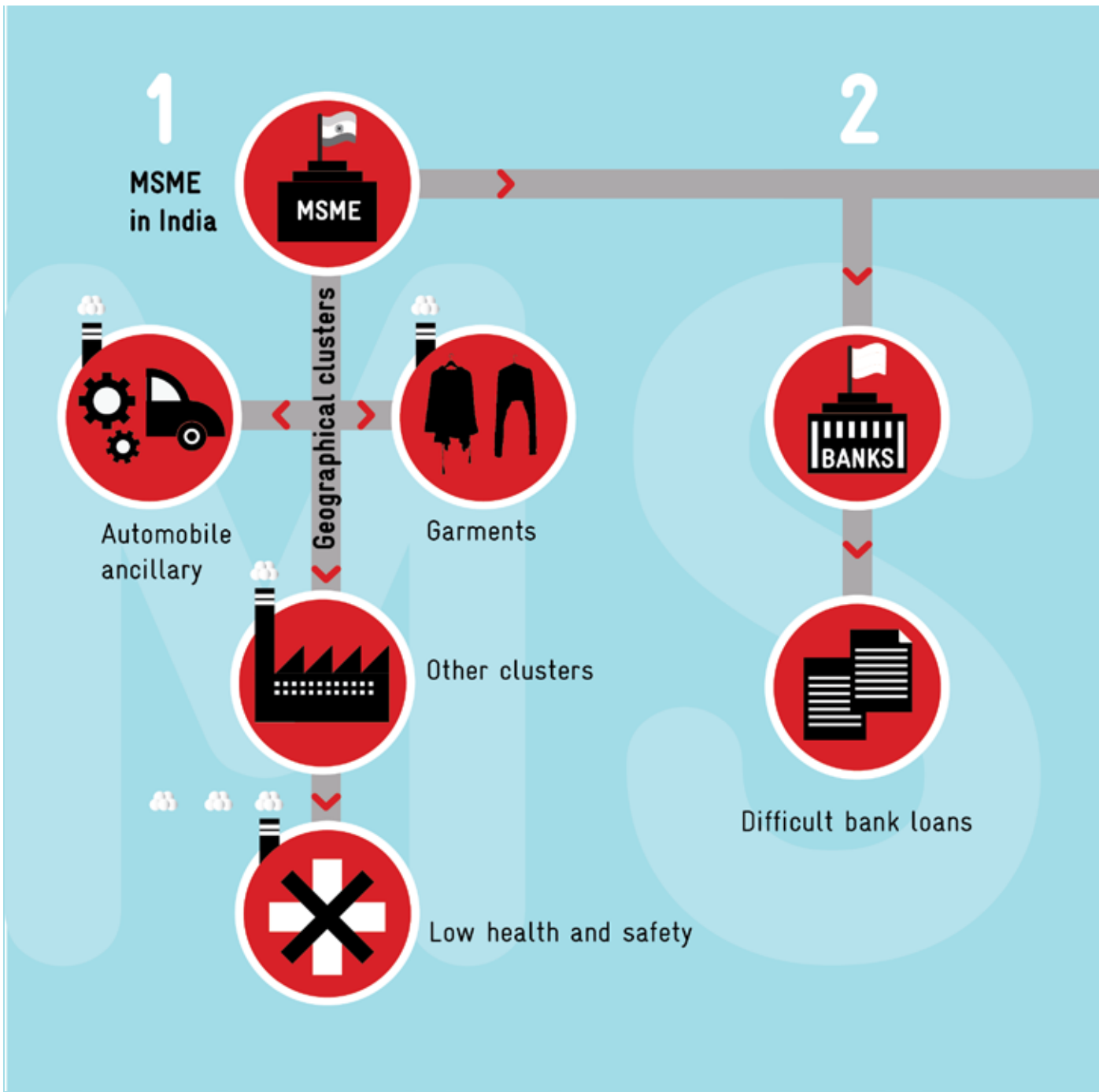


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MSMEs in India tend to be grouped into geographical 'clusters' with each cluster specialising in a particular industry, value chain or product, e.g. the garments cluster in Tiruppur, the sports goods cluster in Jalandhar, the knitwork and hosiery cluster in Ludhiana and the auto-ancillary cluster in the NCR region. These clusters tend to be congested, polluted zones with low health and safety work practices. The whopping price of land and the long drawn process of land acquisition compels MSME to keep working in such conditions rather than starting new clusters.

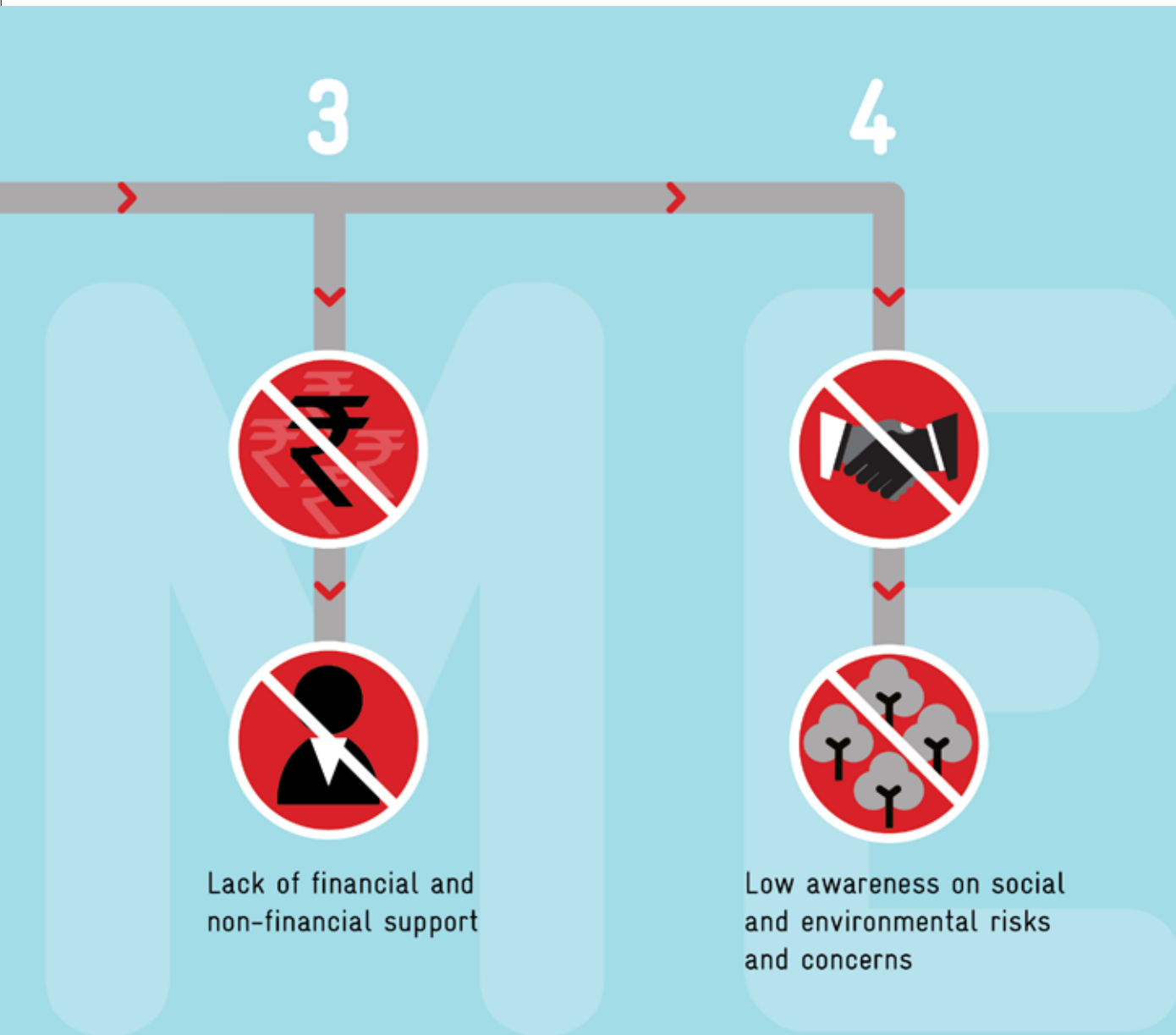
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Most MSME find it difficult to produce collateral while applying for loans. Most loans offered by banks are on existing security and collateral, not on projected cash flows which makes it difficult for MSME to obtain credit.

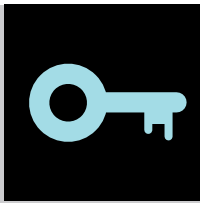


**3** MSME not only lack access to financial but also to non-financial services. They often need support in functions such as business plan development, accounting and marketing. With global supply chains and rising product standards, small businesses need assistance to meet international environmental, social or quality standards. Government services cannot reach out to cover all MSME in India.

**4** MSME units tend to have low awareness of the adverse social and environmental impact that their business may have. Polluting production technologies and poor working conditions can harm the communities where these businesses are located. Complying with social and environmental standards is increasingly becoming more important for businesses.







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# 3 Big foot-bigger foot print: private sector services for MSME

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→ GIZ is working on building a self-sustaining private sector of **MSME** business development service providers

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## GIZ's approach

A central feature of GIZ's approach to MSME development in India is to build a market of private service providers that provide support for MSME, for example in marketing, market access, technology and skill transfer or other business advice. GIZ aims to strengthen private providers of these Business Development Services (BDS) in their capacities to deliver essential services to MSME.





# GLZ's role in India



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Jointly with BDS providers and knowledge partners, GIZ identifies, develops and strengthens commercially viable business models for service delivery to MSME. Creating a market for BDS complements the publicly funded services for MSME provided by government and expands the overall “footprint” of these services.



GIZ is creating service markets for private providers to deliver business development services to MSME



Private providers deliver a range of business development services to MSME. Ranging from marketing support, trade promotion, skill and technology transfer to advisory on innovation management

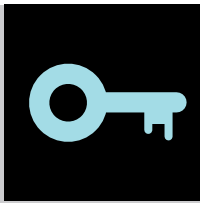


Innovative delivery channels and business models are strengthened and a self-sustaining market is created. This may involve that MSME pay for services directly



Private service providers can complement public services and increase coverage of MSME





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# 4 One for all: the new age business association

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→ GIZ is strengthening business associations to provide a range of business development services

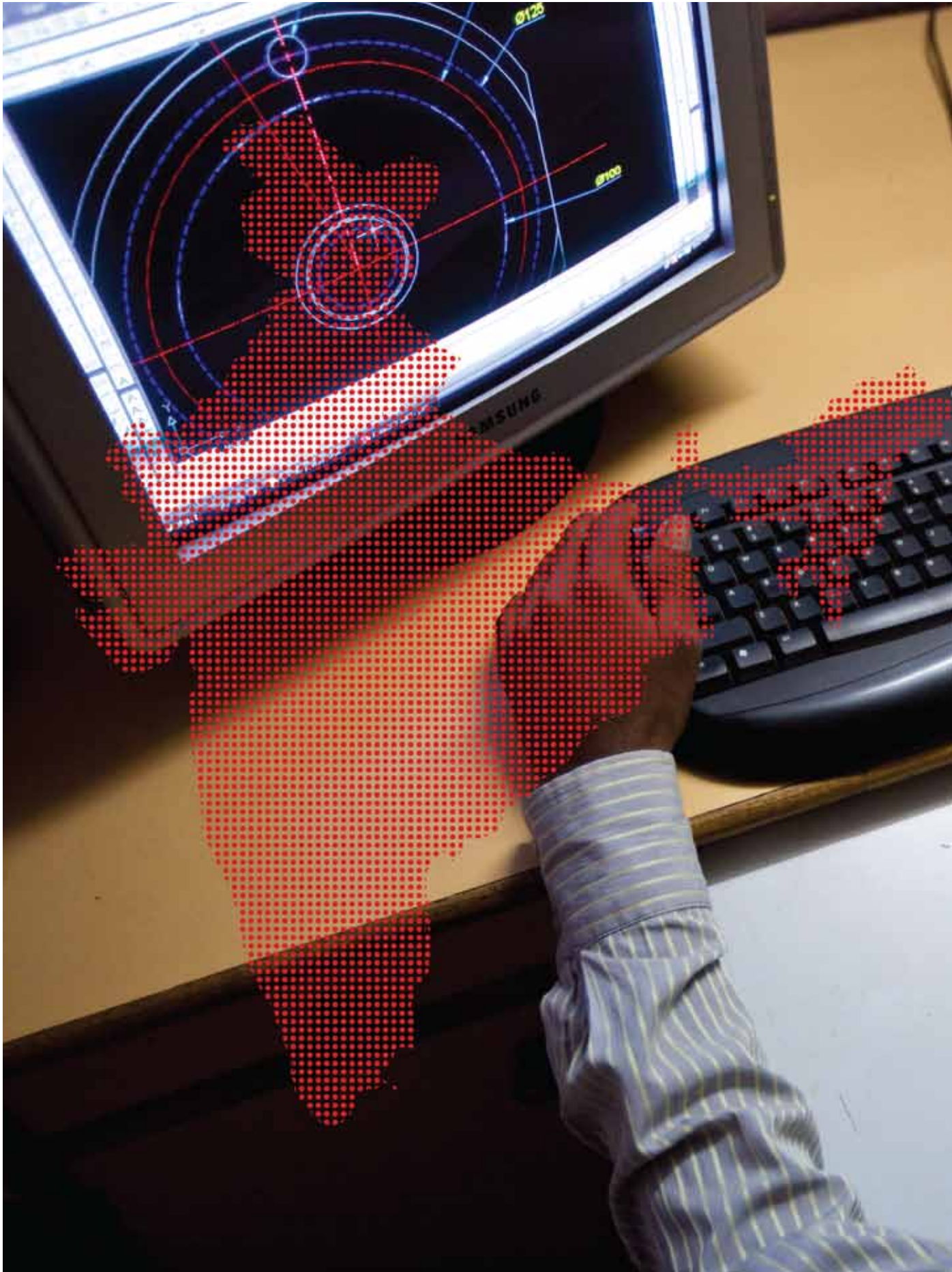


## GIZ's approach

GIZ strengthens the capacities of Business Membership Organizations (BMO) such as district and cluster level associations and chambers to enable them to become service providers and leverage public support programmes for the benefit of their member MSME.



# GLZ's contribution



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With BMOs, GIZ is strengthening their capacity as service providers to their member MSME and not just as political lobbying organisations. Internationally, BMOs act as connectors - linking their member firms to the services they require.



Business associations in India have traditionally played the role of political lobbyists



Globally business associations also provide support services to MSME



GIZ is strengthening the capacity of Indian business associations to deliver or facilitate access to high quality business development services to their members

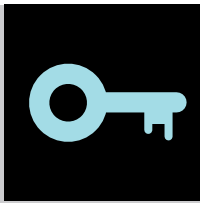


GIZ is enabling associations to connect their member MSME to public support programmes

# 4

One for all: the new age business association





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# 5 Scaling up, scaling down

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→ GIZ is helping deliver credit to the 'missing middle'

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## ? What's the problem?

Micro, small and medium enterprises have differing credit requirements and sources. A firm with a loan requirement between Rs 50,000-10 lacs however finds itself in an awkward situation. This loan size is too small for banks to be interested and too big for a micro-lender to give. (Micro-lenders give loans to individuals, not to small firms.)

## ? What's GIZ doing?

GIZ is collaborating with international research institutions to design products and delivery systems that make it possible for such firms to be serviced, for instance a loan product with different interest rate and collateral requirements and with different means of verifying creditworthiness (based on expected cash flows, not current assets for instance). GIZ also explores opportunities to apply technological solutions such as micro-credit cards for MSME.





# GIZ's strategy



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# Reaching out through technology and improving access to credit for MSME



GIZ is improving access to credit for firms whose requirements (usually from Rs 50,000-10 lacs) are too small to be served by banks and too big to be served by microfinance institutions



GIZ is helping banks 'scale down' and microfinance institutions to 'scale up' for lending to the missing middle



GIZ is developing innovative loan products for the missing middle



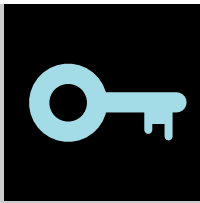
GIZ with partners is developing tools and instruments to decrease risks to lend to MSME, for example through alternative ways for lenders to quickly assess credit risks

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Scaling up, scaling down



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# 6 Less energy more growth

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→ GIZ is helping **MSME** obtain finance for adopting green technology and environmentally friendly business practices

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# Beyond 'Greening'





# GIZ is bringing climate and environmental concerns to the strategy level



GIZ is developing innovative financial products that make it easier for MSME to buy energy efficient machinery and equipment



GIZ is collaborating with European financial research institutions for green financial product design



GIZ is working with major Indian banks to give 'green' loans at their branches

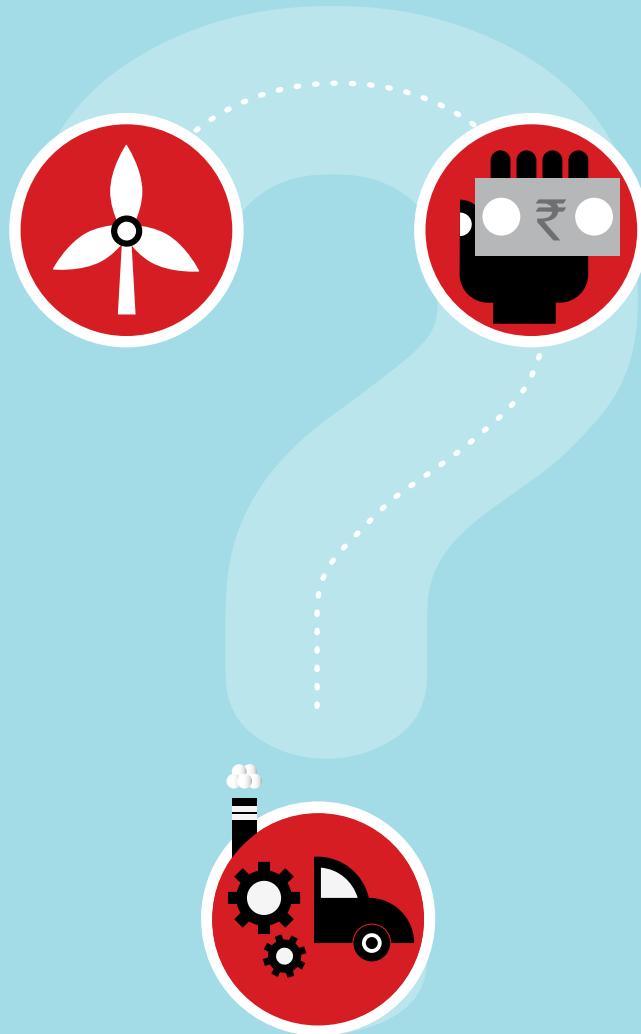


GIZ helps banks and financial institutions with tools to integrate sustainability and to report on social and environmental aspects of their business



## What's the problem?

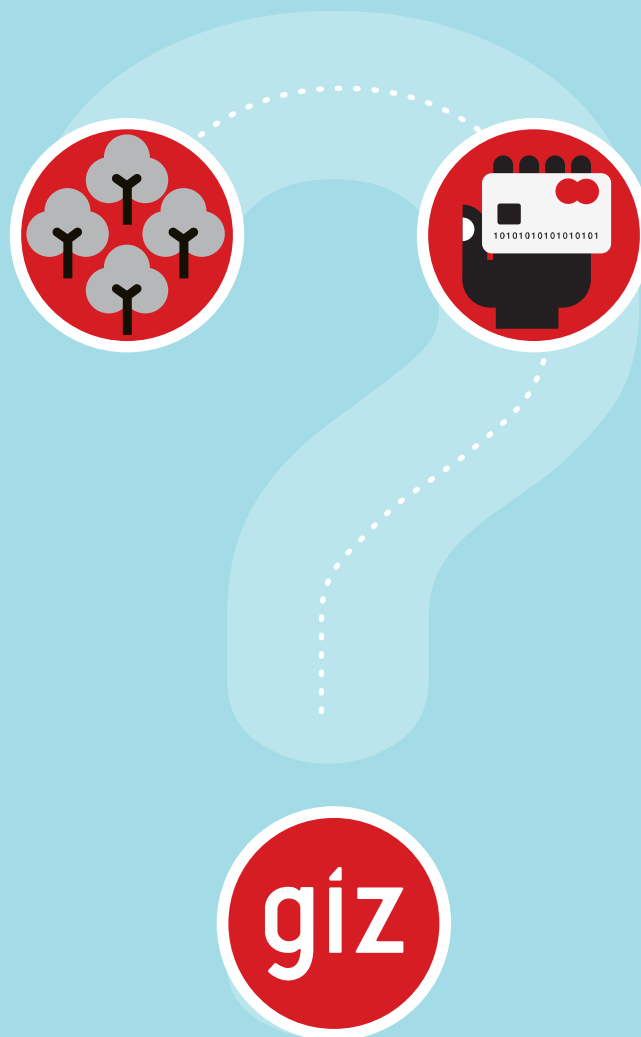
MSME often use production technology that is old and polluting. Switching to more energy efficient technology is not only good for obvious reason but also has the potential of reducing operating costs (e.g. lower costs of energy, less wear and tear on machines, less heat generated which in turn lowers expenditure on insulation etc). But these technologies are expensive and it is difficult to persuade MSME to invest a large sum today for projected benefits tomorrow. It's not just about money either. The MSME would also need help in setting up the new plant and machinery and in training for employees on how to use and maintain the machinery. This technical expertise is either expensive or is not available in the Indian market.



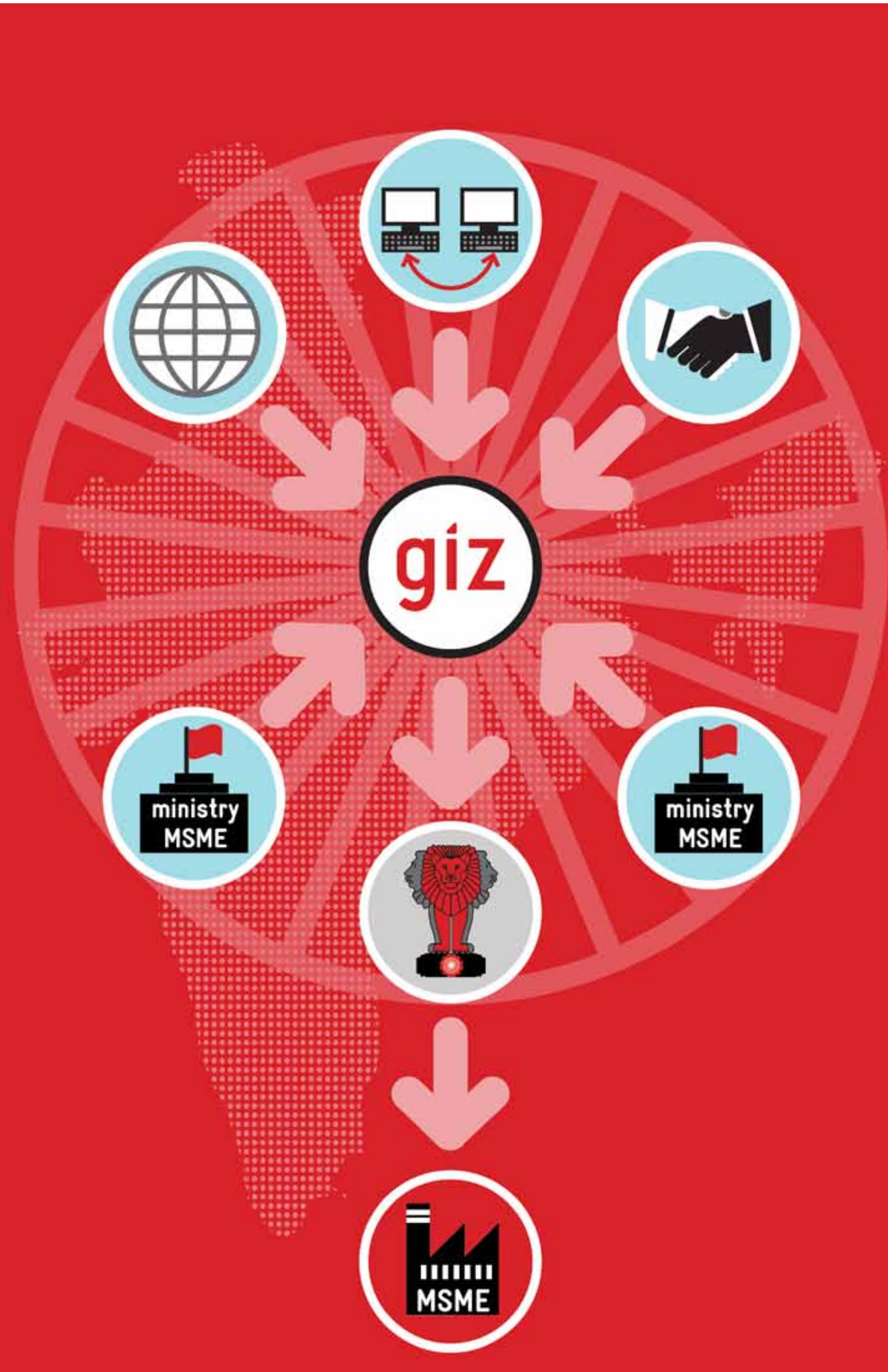


## What's GIZ doing?

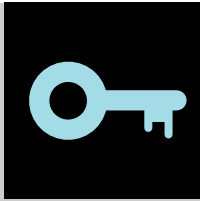
GIZ is working with knowledge partners such as Frankfurt School of Finance and Management to develop financial products and training packages that enable MSME to quickly access finance to switch to green technology. This loan product is based on projected reductions in carbon emission and projected cash flows from the business making it easier for the MSME to get a loan without pledging collateral (which it may not have anyway). It has tied up with some of India's biggest nationalised banks (SBI, Bank of India among others besides its project partner SIDBI) to pilot and later roll out these products through their branch networks. GIZ assists banks in developing and implementing their Sustainability Strategy as financial actors, and through that strengthen their role as multipliers for sustainability and responsibility in the business sector.







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# 7 Learning from others

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→ **GIZ** is assisting the government to improve the impact of **MSME** policies and programmes

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## **GIZ's approach**

By bringing in professional expertise and international best practices, GIZ is working with the Office of DC MSME of the Ministry of MSME to improve its programmes in terms of design, delivery and monitoring results.



# GIZ's work on policies



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GIZ is advising the Indian government to enhance the efficiency, effectiveness and impact of its MSME development programmes



Evaluating key MSME programmes to see how their impact can be increased



Learning from German and international best practices



Improving the Ministry's management of its ground level network of offices



Improving impact monitoring systems

# 7



## What's the problem?

Most MSME policies and programmes were originally conceived at a time when India had a centrally planned economy with heavy government regulation of the economy. Much has changed since then. Internally, government intervention in economic activity has changed – moving from a direct provider of goods and services to a regulator of private sector production of such goods and services. Externally, integration of markets and supply chains due to globalisation has increased competition and accelerated the need for greater efficiency in responding to market demand. Government policy making in such an environment must complement the role of the private sector and create an environment for fair competition so that performance is rewarded.



## What's GIZ doing?

GIZ is bringing in best practices in the design of policy incentives and their delivery in the form of government schemes. It is helping the Ministry of Micro Small and Medium Enterprises to assess the performance and management of its field network of such as tool rooms and MSME-Development institutes across India. It is bringing in international small business experts to advise the Ministry on how it can provide best-in-class services to MSME at par internationally. GIZ is assisting the ministry to improve the service delivery system through improving the monitoring of its policies and programmes. A principal focus of its work relates to how public programmes can be complemented with MSME services offered by Business Membership Organisations (BMOs) and Business Development Service Providers (BDS). Overall, the GIZ through this programme aims to strengthen the efficiency and impact of the delivery system for support services, thereby improving the service environment and business climate for MSME.



## About GIZ

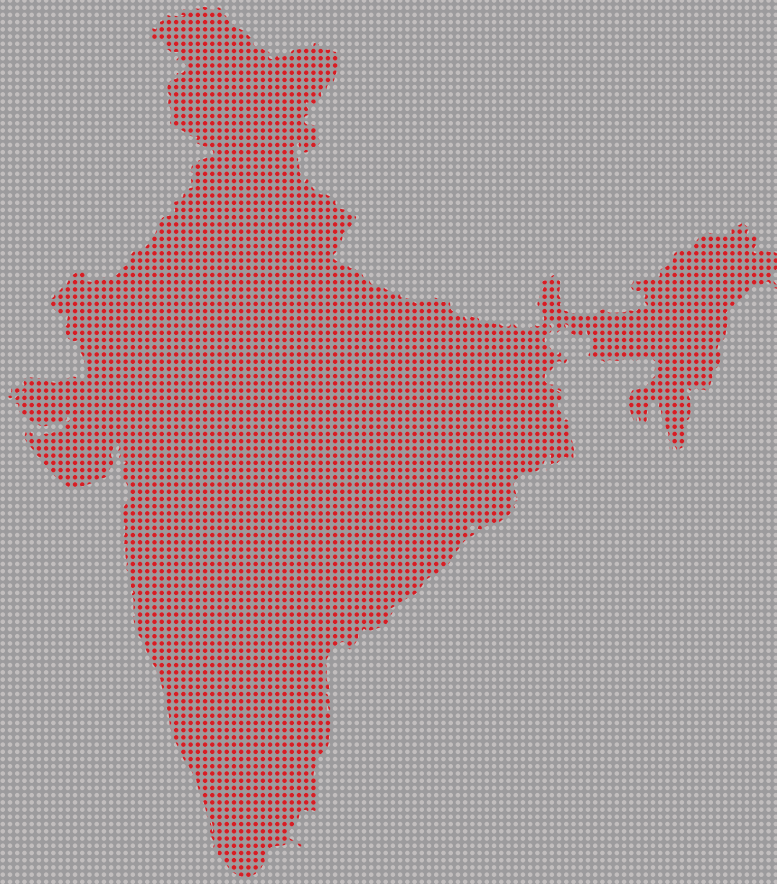
Working efficiently, effectively and in a spirit of partnership, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH supports people and societies worldwide in creating sustainable living conditions and building better futures. The services delivered by GIZ draw on a wealth of regional and technical competence and tried and tested management expertise.

It is owned by the German Government and works in the field of international cooperation for sustainable development. GIZ is also engaged in international education work around the globe. It currently operates in more than 130 countries worldwide.

## GIZ in India

Germany has been cooperating with India by providing expertise through GIZ for more than 50 years. To address India's priority of sustainable and inclusive growth, GIZ's joint efforts with the partners in India currently focus on the following areas:

- Energy- Renewable energy and energy efficiency
- Sustainable Urban and Industrial Development
- Natural Resource Management
- Private Sector Development
- Social Protection
- Financial Systems Development
- HIV/AIDS-Blood Safety



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