

LINKAGE 2006

**Confederation of Indian Industry,
Hyderabad**

August 2006

Cygnus

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CONTENTS

1. Introduction	3
2. SME segment in India-An overview.....	4
2.1 Progress and Contribution of Andhra Pradesh.....	5
3. Role and Importance of SMEs in the economy.....	7
4. Current Global Environment and Its Impact	8
4.1 Challenges for the Indian Economy in the WTO Regime	8
4.2 Development Due to the Trade Liberalisation	8
4.3 Impact of WTO on SME segment in India.....	11
4.4 IPR and Patent Act	12
5. Opportunities in store for the SME segment.....	13
6. Challenges faced by SMEs.....	15
6.1 Business Environment Issues	15
6.2 Issues related to Role of Government	16
6.3 Company level competition issues	16
7. Technology Upgradation and Quality	17
7.1 Need for up-gradation of technology	17
7.2 Technology adaptation and Transfer.....	17
7.3 Sourcing of technology.....	17
7.4 Technology policy.....	18
8. Strategic Policy Initiatives to strengthen SMEs.....	19
8.1 Financing SMEs	19
8.2 Institutional measures for supporting SMEs.....	19
8.3 Marketing and Policy Initiatives	21
9. Need of the Hour	23

1. Introduction

In India, SMEs sector has acquired a prominent place in the socio-economic development of the country during the past 50 years. SMEs constitute 95% of the industrial units in the country, contributing 40% of the total industrial output and 35% of direct exports. According to the latest statistics, there are about 3.57 million SMEs units in India, employing about 20 million people, which is the second highest employment sector, next only to agriculture.

This achievement has been possible due to the consistent and sustained policy support from the Government by way of protection to the sector by reservation of items and credit financing through priority lending. The economic reforms that started in 1991 in India provided opportunities to SMEs to expand more and explore more business.

There have been some sweeping changes which have taken place in the SMEs sector in the last two years. While WTO offers immense opportunities, Indian SMEs face serious competition from other developing countries like China, where manufacturing productivity is 60-100% more than that for Indian companies. The hitherto protection of the SSI sector by way of reservations and quantitative restrictions have been removed. The ministry of small scale industries on the recommendation of the Advisory Committee de-reserved 108 items (including ten sub items), ranging from textile products to agricultural implements, from the list of items reserved for exclusive manufacture in the small scale sector. The government of India, announced a further de-reservation of 180 items from the list. With this the number of items reserved for the SSI sector will be 326.

The vulnerable areas as experienced by the SMEs have been low capital base, difficulties in accessing technology, credit constraint, low access to business development services, competence and productivity of human resources and infrastructural constraints.

Competitiveness can be achieved by SMEs only if there is a technology up-gradation and adoption of new technologies. There is a need to introduce new tools and equipments for production, changes in manufacturing process, improvement in the quality of products and quality assurance, introduction of new designs and diversification, use of new raw materials and usage of modern management and IT tools.

While in the earlier phases, focus of the government initiatives were protection oriented, of late, it has started taking steps to make them more competitive globally – by way of funding, technology upgradation, business development services and strengthening of institutional framework. SMEs also must do their bit to seize the opportunity and strengthen themselves by broadening their outlook and professionalizing their organisations. That is the only way, they can become globally competitive.

2. SME segment in India-An overview

According to Small and Medium Enterprises Development Bill 2005 a ‘small enterprise’ is defined, in case of manufacturing enterprises, as an enterprise with investment in plant and machinery not exceeding Rs. 5 crore and, in case of enterprises engaged in providing of services, as an enterprise with investment in equipment not exceeding Rs.2 crore.

According to the estimates, India has nearly 3.57 million SSIs, which account for over 95% of the establishments, 40% of industrial output and 35% of direct exports. They also account for over 50% of private sector employment and 40% of value addition in manufacturing. About 8,000 different categories of products are manufactured by this sector.

While the contribution of SMEs in India is one of the highest (as can be seen from the following table), it can be noticed that India is perhaps the only country, where the Industry is categorised as SSI on the basis of fixed investment.

Table-1 Contribution of SMEs to Economy in different Countries

Country	Share of Total Establishment (%)	Share of Output (%)	Share of Employment (%)	Share of Exports (%)	Criterion for Recognition
India	95	40	45	35	Fixed Assets Investments
USA	98	NA	53	NA	Employment
Japan	99	52	72	13	Employment and Assets
Taiwan	97	81	79	48	Paid up Capital, Assets and sales
Singapore	97	32	58	16	Employment and assets
Korea	90	33	51	40	Employment
Malaysia	92	13	17	15	Share holders fund and Employment
Indonesia	99	36	45	11	Employment
China	90	60	84	50	Employment

Source: Public Source

Currently there are estimated to be 3.57 million SSI units in the country and about a third of them are in the 5 Southern states of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Pondicherry. Andhra Pradesh has 2,30,000 small scale industries contributing 4,800 crore to the National State Domestic Products as of 2005-06.

During the period 2000-01 to 2004-05, the small enterprise sector registered continuous growth in production, employment and exports. During this period the average annual growth in the number of units was around 4.1% and whereas growth rate in employment was 4.3%. Further, the annual average growths in production, at current and constant prices, were 12.4% and 8.1% respectively. Thus, there has been a significant increase in the contribution of this sector to the economic development and employment generation in the country. Following table will show the quantitative performance analysis of SSIs in India.

Performance of Small Scale Enterprises							
Year	No. of Units in lakh			Production (Rs cr.)		Employment	Exports
	Regd.	Unregd.	Total	Current	Constant	In lakhs	Rs crore
2000-01	13.10	88.00	101.10	2,61,289	1,84,401	239.09	69,797
2001-02	13.75	91.46	105.21	2,82,270	1,95,613	249.09	71,244
2002-03	14.68	94.81	109.49	3,11,993	2,10,636	260.13	86,013
2003-04	15.54	98.41	113.95	3,57,733	2,28,730	271.36	97,644
2004-05	16.57	102.02	118.59	4,18,263	2,51,511	282.91	N.A.

Source: Development Commissioner (SSI)

2.1 Progress and Contribution of Andhra Pradesh

Andhra Pradesh has embarked upon a mission to be at the forefront of industrial development in India by the year 2020. One of the policies of the New Industrial Policy articulated by Andhra Pradesh government in 1995 was to promote the growth of small scale and cottage industries.

The state Andhra Pradesh has total 2,30,000 small and tiny industries presently and the contribution of the small scale industries towards the NSDP is about Rs 4800 crore and further more SSI accounts nearly 35-40% of the state's exports. In the line of Central government's initiative for the development of SMEs Andhra Pradesh government is in the forefront to devise policies suitable to the SMEs in the state.

The Policy by Andhra Pradesh for Small Enterprises aims to create conducive atmosphere where Small Scale Sector can grow at faster rate. The broad policy objectives are given below:

- To achieve an annual growth rate of 15%.
- To assist the small scale industries in the State to become competitive both at domestic and international market.
- To increase employment generation - particularly by promoting the labour intensive segments.
- To improve the export performance of the SSI sector by providing adequate support services.
- To create a more congenial and hassle-free environment for the functioning of the SSI sector.
- To help the SSI sector acquire new technologies and skills so as to compete effectively in the market place.
- To promote appropriate linkages between the large and small scale sectors in the interest of harmonious industrial development
- To strive to promote an appropriate institutional mechanism to revive sick industries.

There are many initiatives taken by state government for the overall development of SMEs. Main initiatives are discussed below:

1. **Fiscal Concession:** In the line with Central Government, the state government has also introduced, in the year 1995, a liberal scheme of fiscal concessions to all new

industries, which includes 7 years of sales tax exemption or 14 years of sales tax deferment limited to 135% of fixed capital investment and an investment subsidy of 20% of the fixed capital investment limited to a ceiling of Rs.20 lakh. A power rebate of 25% is also given for a period of 3 years restricted to a limit of Rs.30 lakh in respect of small scale industries.

2. **Supporting and Marketing:** The APSSIDC was set up in 1961 to assist the SSI units in the procurement of controlled items and in the marketing of their products mainly to State Government departments and undertakings under the Marketing Assistance Scheme (MAS) and investing capital in new SSI units.
3. **Infrastructure Support:** The Andhra Pradesh Industrial Infrastructure Corporation has been entrusted with the responsibility of setting-up industrial estates throughout the State, providing basic infrastructure such as sheds, internal roads, power, drainage etc.
4. **Technical Support for Modernisation and Access to R&D facilities:** The small scale units can aim at global competitiveness by acquiring ISO 9000 certification. The cost of acquiring such certification is about Rs 2 to 3 lakh at present. The Government of India gives 75% of the cost of acquiring the certificate as a subsidy, limited to a ceiling of Rs.75,000 for the first 100 units throughout the country. The State Government has introduced a scheme to subsidize an additional 25% of such cost, limited to a ceiling of Rs. 25,000 per unit for all those units which are located in Andhra Pradesh. In order to encourage the small scale industry to improve productivity, annual awards have been instituted by the State Government for SSI units which achieve high levels of productivity, quality in products, innovative technology and high safety standards.
5. **Simplification of Government Procedure:** A major concern expressed by the small scale entrepreneurs is that they face considerable harassment from Government officials who inspect their units without any prior intimation, thus disrupting production. There are complaints that during inspections, frolicsome objections are made and petty lapses highlighted merely to dig out illegal indulgence. The State Government set-up a One Man Commission to review all the existing industrial laws and advise Government on the simplification, rationalization and consolidation of such laws. The Associations of Industries in the State set up a Joint Review Committee to review the existing rules enacted by the State Government. Prompt action will be taken to simplify the laws and rules in the light of the recommendation of the One Man Commission and in the light of the recommendations of the Joint Review Committee, set up by the Associations of Industries. The recommendations regarding the Central laws will be communicated to Government of India.
6. **State Advisory Board for SSIs:** The State Government has constituted a State Advisory Board for SSIs with the Chief Minister as the Chairman. This Board will be used as a forum for greater interaction between the Government agencies and the SSI Associations. The Board should meet at least twice in a year. Regional meetings will also be organized with local Industry Associations which will be attended by senior Government officials from departments such as Industry, Commercial Taxes, Labour, Pollution Control Board .to solve local problems of SSI.

3. Role and Importance of SMEs in the economy

Small and Medium Enterprises (SMEs) are vital component of any economy, be it developed or developing. They are the lifeblood of an economy and play an important role in economic development. Managers that are taking off the blinkers and seeking innovative ways to establish cross cultural relationships are becoming the leaders and positioning themselves for future opportunities in the growth markets of the world. With world heading towards becoming a borderless village, the role of SMEs in generating new jobs and meeting the demand of goods and services is going to increase manifold.

So far, SMEs make up a majority of the domestic business transactions but have been playing a limited role in international trade. Globalization of world trade and the imperative of the large global companies to cut costs are presenting an opportunity for them to grow into the global markets rapidly. Given their size and diversity of sectors in which they function, SME are highly adaptable and can make a mark. Recognizing the pivotal role of SMEs, governments in all countries also have been vigorously seeking ways and means to promote and develop them.

4. Current Global Environment and Its Impact

The 1990s have ushered in irreversible trend towards globalisation. Firstly, outsourcing, subcontracting, and collaborating even with competitors has become a business imperative. Business processes are shifting internationally to the lowest-cost producer or service provider regardless of geographic compulsions.

Secondly, with WTO GATT and GATS conditions becoming fully operational, the constraints of tariff barriers have all disappeared. Indian SMEs are feeling the heat of the international competition hitherto unfamiliar to them. Today, they cannot take their domestic markets for granted. They now have to be globally competitive to survive even in their own local market.

Thirdly, technological advancement and communication is changing at faster rate. Thus, new opportunities to produce new products and render new types of services are opening to SMEs. Earlier, these opportunities were shut for them due to exorbitant costs or limitations of their reach.

4.1 Challenges for the Indian Economy in the WTO Regime

With the formation of the World Trade Organisation and virtually all countries in the World making all efforts to become the Members of the WTO, the business enterprises have to synchronise themselves with the transformed New World Economic Order. They have to think their operations not in terms of national level but in terms of global level competitiveness and acceptability. This is applicable not only to big business enterprises but also to small and medium enterprises. In other words, the impact of WTO is all pervasive and every individual and business entity has to prepare them to adjust to the new legal, social, economic and operating environment. The developments leading to the new world economic order may be grouped under two areas.

- ❖ Developments due to the liberalisation or opening up of national economies consequent to becoming the member in the World Trade Organisation
- ❖ Developments due to the adoption of protective trade laws by members of the World Trade Organisation

4.2 Development Due to the Trade Liberalisation

Salient features of the new business environment posing the challenges due to liberalisation or opening up of national economies are as follows:

- ❖ **Emergence of Global village**
With tariff and non-tariff barriers including the restrictions on movement of individuals across the globe gradually diminishing over a period of time – all the countries have been economically integrated into a global village.
- ❖ **Barrier Free International Trade**
One of the foremost objectives of formation of the WTO is all restrictions for free and fair flows of international trade across national boundaries have to be completely lifted.

So that there will be more business integration and free flow of goods and services. This trend will definitely fuel competition among the members of WTO.

❖ **Strategic Approach by Governments and Business enterprises**

WTO Member countries as well as business Enterprises have to adopt perspective plans with strategies, policies – focusing on development of core competencies – in terms of product innovation and quality and cost – so that the globalisation challenges could be converted into strategic advantage to the companies in terms of global demand and supply.

❖ **Economies of Scales**

Economies of Scale are one of the fundamental economic assumptions, which have been contributing towards building cost competitiveness to business enterprises. The same concept has to be adopted – not in terms of national level but in terms of global level with the onset of globalisation so that Indian Enterprises have to go in for Mega Ventures with world class technologies and capabilities. Existing capacities have to be developed accordingly.

❖ **Share in International Trade**

Every country has to make all possible initiatives to increase their share in the International Trade. Perhaps they have to focus on the areas wherein they have built their competencies over a period of time. Exchange and cross-flows of goods and services in international trade is the order of the day necessitating the need for strategic alliances among the competitors rather than involving in cut-throat competition which may result in wastage of precious wealth of those entities which may fail in long run.

❖ **Impact of information technology**

Probably the most important driver for change in business is the impact of technology and innovation. Technology and innovation are not only breaking down barriers to entry, it is also fundamentally changing the rules of the competitive game. There is no longer any need to have fully owned integrated operations and companies can have almost complete freedom of location and can provide immediate responsiveness to customer demand so that they can emphasize on their core competencies. Accordingly WTO members have to adopt appropriate information technology in their governance at macro level. Business enterprises have to go in for computerisation at micro level focusing both on business's international operations and markets.

❖ **Electronic Commerce**

Enterprises have to access the customers and provide the best services through every possible ways including through electronic commerce. There are number of success stories of business enterprises those have been proactive towards utilising the e-commerce as well as information and technology as their business expansion strategies. The big success stories are Amazon.com, Dell Computers, Wal-mart and Asian Paints.

❖ **Development of Knowledge based enterprises**

There have been number of business enterprises – right from Microsoft of USA to Infosys of India – who have benefited by building knowledge based enterprises. Knowledge-based enterprises could be implemented by all enterprises involved in business and services. This strategy will put the companies in unique advantage in this competitive world.

❖ **Emergence of Service Sector as a driver for economic growth**

The Multilateral Trade Agreements have led to emergence of Services sector as an engine for development. The WTO members who had built up competencies in terms of expertise as well as manpower having specialised knowledge such as Accounting, Auditing, Law, Insurance, Banking and other similar services are taking the advantage. Previously it was manufacturing sector which was contributing highest in the overall economic activities but now it is service sector that has taken the lead. The GDP of developed economies is dominated by service sectors and all emerging markets are also following the same trend. Governments and regulators of service providers have to come up with proactive action plan to utilise this emerging sector for the economic development of the countries concerned.

❖ **Communication Skills**

Business Intelligence has become the key for achieving business success. Better information and communication systems determine the success rate of the company. Every one involved in the business or service is expected to have greater communication and information technology skills. Information has to flow at the tip of the mouse both within the enterprise and among the stakeholders so that they will be better informed to each other and to the world as a whole.

❖ **Management Information Systems**

Management Information System of business and service enterprises which are now dominating the top level management have to be sound and contributing towards increasing the efficiency and effectiveness of responses to the challenges and emerging opportunities in the world.

❖ **Better utilisation of information**

With the onset of Internet technologies – information flow has gained momentum. Necessary information for conducting the business and for providing the service across the nations has to be curled out for the benefit of whole nation.

❖ **Erosion of restrictions of entry**

The world economic integration process has resulted in complete erosion of restrictions of entry – such as quotas, licences, and inspections necessitating the need for appropriate adjustments by the WTO members in general and the business and service providers in particular.

❖ **Global competition**

Globalisation has ushered a new era in world business environment. Each and every country has to prepare them to face the global competition. Opening up of economies has to be seen as an opportunity rather than continue to complain about the negative aspects of globalisation. A good example is India where licence raj was removed in early 90's and there was no direction how the Indian companies will sustain but the reverse happened as more and more Indian companies are competing successfully with international giant.

❖ **Need for Better Human Resource Management System**

Business enterprises and service providers have to think in terms of integrated performance management - including adoption of new organisational techniques such as -

- self managing working teams,

- development of competitive intelligence
- research and development skills
- balanced scorecard approach
- benchmarking our performance standards

❖ **Multilateral Trade Agreements**

Last but not the least, the existence of Multilateral Trade Agreements (MTAs) would constitute the backdrop of the entire global business environment. As per one of the fundamental principles of MTAs, all member nations have to ensure synchronisation of their domestic rules and regulations with the MTAs this may amount to dilution of the sovereign rights of the nations.

Protective Trade Laws are posing major checks and balances, Salient features of the new business environment posing the Challenges due to the adoption of protective trade laws are as follows:

1. Imposing of anti-dumping duties, anti-subsidy duties safeguard duties by governments.
2. Promulgation of National Trade Laws to protect national interests.
3. Protective lists of goods and services.

4.3 Impact of WTO on SME segment in India

WTO presents opportunities to expand SMEs growth in the numbers of participants, the value of merchandise and the range of markets they enter. Recognizing the pivotal role of SMEs, governments in all economies are finding ways and means to promote and develop them.

There are certain apprehensions over the impact of WTO on SMEs in India on issues like patents, copyrights and trademarks. The drugs and pharmaceutical industry could be affected. SMEs can adapt quickly, innovate, and respond rapidly to challenges and opportunities in the global marketplace. The WTO sets global rules for international trade to ensure that international trade flows smoothly, predictably, and as freely as possible,.

Impact of WTO agreements:

- Reduction in tariffs and reduction in QRs (Tariffication of QRs)
- Increased competition through de-reservation of items & permitting import under OGL
- Export competitiveness hampered due to removal of export subsidies
- Adherence to stringent technical standards
- High & lumpy costs related to modernization
- Affect short-term viability, profitability
- Pressure for transparency in policies, subsidies
- Roll back of present protection structure for SMEs
- Rules on intellectual property/ patent protection
- Make product upgradation, technology purchase & modernization costlier for SMEs
- Increase in number of foreign players in domestic market
- Higher domestic competition for SMEs
- Application of non-tariff standards (social, environmental standards like child labour, input restrictions of azo dyes)
- Pushing SME current socio-economic scenario into disequilibrium

- Rise in trade disputes & counter-measures
- Adverse political fall-out

Vulnerability of SMEs

- Low capital base
- Opaque financials, non-formal nature of operations
- Difficulties in accessing technology
- Credit constraints
- Low access to core business development services
- Constraint on quality of human resources
- Low awareness of technology and financing avenues
- Low lobbying capacity

4.4 IPR and Patent Act

IPR and Patent Act

IPRs are the legal rights governing the use of creation of the human mind. The objective of IPR is to exclude third parties from exploiting protected subject matter without explicit authorization of the right holder for certain duration of time. There are several kinds of intellectual property e.g. patents, designs, trademarks, copyright. The IPR deals with all this. However patents are the most important intellectual property in the industry technology domain & pose the greatest challenge.

The amendments not only make Indian law TRIPs compliant, but also rationalize the procedures for patent prosecution. These changes now allow patents on products and remove provisions relating to EMRs (Exclusive Marketing Rights).

India, as you know, had so far permitted Patents only for processes and not products. With the new amendment to the Patent Act, it would now be possible to obtain Patents for product patents in Pharmaceuticals and Agro Chemicals. Under the Product Patent regime no new-use Patents would be granted.

5. Opportunities in store for the SME segment

Local SMEs networks and clusters improve the competitiveness and innovativeness of companies and increase the attractiveness of territories. In the era of globalization, the internationalization of companies and increased competition in the emerging global economy, the concept of the provision of competitive advantages to SMEs through the formation of local networks of companies can be developed.

The opportunities exist in competitiveness – as it increases productivity which in turn is influenced by the following:

- Economies of Scale
- Technology
- Innovation
- Human Resources
- Macro-economic Variables
- Infrastructure
- Firm Strategy

The creation of local networks allows SMEs in a given geographic area to gain competitive advantages and strengths otherwise inaccessible using their own resources alone. Depending on the aims and objectives of such local networks, the companies may;

- Share tasks or functions.
- Constitute groups with higher critical mass aimed at achieving cost economies.
- Develop groups with original combinations of special competences, which provide them with a competitive edge in the marketplace which will help them to be competitively efficient to tackle the challenges due to globalization.

Opportunities –Through Partnerships

The success of a business largely depends on its capacity to identify and implement a pertinent strategy, which will provide it with long- lasting and efficient competitive advantages.

- Firms which have access to an end market, will seek out suppliers of components for everything it does not produce itself; those firms which are specialized in an upstream aspect of production process will on the contrary seek alliances with firms which assemble and commercialize.
- Companies in similar businesses will seek to create alliances to fulfill together, in more advantageous conditions, tasks that are non-strategic, in the sense that they do not contribute to the creation of distinctive advantages.
- Enterprises, which have established relationships of confidence, can share strategic activities, as for instance R&D programmes or commercial development activities, where such collaboration will enable them to do more, better with lower cost.

Opportunities for Small Business due to WTO

- The exports of SMEs to other countries would increase owing to the significant reduction of tariffs which would also help them to compete on a more level playing field with companies located there.
- As the customs and licensing procedures will be simplified and made uniform throughout, the paperwork costs for SMEs will be reduced significantly.
- Easier access to and more control over distribution systems will allow SME companies to oversee commission agents' services, franchising services, transportation, wholesaling, repairs, and retailing of their products.
- SME exporters will receive uniform treatment with regard to tariffs and the same treatment as domestic firms for taxes. The streamlining of requirements for trading is particularly valuable to SMEs, which typically have fewer resources than larger businesses to deal with often complex and costly regulations.
- Each Member country will be required to confirm its standards and inspection procedures to WTO norms, eliminating excessive testing requirements and other barriers that are especially disadvantageous for SMEs.
- Companies which are making “cutting-edge” products that involve unique technologies or processes will benefit due to stronger enforcement of intellectual property rights through WTO.

The companies have always welcomed the product technologies, methods and systems from developed countries. Establishing a relationship with the right company and undertaking appropriate due diligence in a framework of open co-operation can facilitate entry into a lucrative market that would otherwise not be possible.

6. Challenges faced by SMEs

Common Problem

- Lack of credit/finance/capital-the cost of capital is often too high, and in times of economic uncertainty, lenders tend to be very risk averse.
- Access to technology-the digital divide is a significant problem in many countries. Improving access to technology networks of international standard is also very expensive.
- Training/human resources development -both on job training and broader education system. There is greater need for improve skill bases in a range of areas which again becomes a big issue for SMEs.
- Funding for research and development–SMEs lack assistance both for developing new ideas and turning these ideas into commercial products.
- Extent of government regulation/compliance costs- this can range from taxation and reporting requirements to laws to promote occupational health and safety or to end discrimination in hiring practices. The cost of complying with national and international standards (e.g. ISO) can also be very expensive for SMEs.
- WTO commitments -especially for developing countries, compliance with government commitments in the WTO (such as TRIPS etc) can be difficult for SMEs.
- Weaknesses in transportation and infrastructure -this can effect access to markets and business revenue
- Limited information on possible markets and clients -many SME owner/operators have little experience in exporting into foreign markets. This limited information on possible markets and clients will clutch their growth.
- Economic Cycle -SMEs are often the most vulnerable in times of economic recession. Lack of insurance and subsequent business failures can often make the economic situation worse.

Other challenges

- China's entry into WTO will enable it to have greater market access. This would be a major challenge for India in terms of competition.
- Bilateral/ regional agreements run counter to WTO spirit e.g. NAFTA which may restrict market access to India.
- Labour & environmental issues are being pushed in multi-lateral forums as 'non-trade' issues / political levers- may act as additional detriments and may not be in sync with socio-economic realities of developing countries.

6.1 Business Environment Issues

- Labour in the Indian SMEs segment is highly cost competitive, even after discounting a comparatively Labour productivity. But since the labour factor proportion is low (approximately 7% to 21%) in the total factor usage, this doesn't translate into a significant relative advantage.
- The raw material price indices have risen faster than the machinery price index but very few of them have resort to value engineering techniques for efficient raw material usage and cost reduction.

- Due to lower industry-institute interaction in India, even with large pool of talented scientists and engineers, the technological competitiveness of Indian manufacturers is low.
- Negative perception about “Made in India” image has damaged the ability of Indian Goods to compete at optimal capacity in world market.
- Despite large scale SME presence in engineering sector-it is characterized by relative lack of sub-contracting arrangements, thus losing out on opportunities to exploit horizontal economies of scale or specialization.

6.2 Issues related to Role of Government

- Relatively high incidence of indirect taxation.
- Export transaction costs for Indian manufacturer are among the highest in the world.
- It also lags in strong institutional mechanisms for export credit and promotion. Credit periods in international markets ranges from 90 to 360 days at interest terms varying from .25 to 4% with 1 to 3 years moratorium. In India the interest rates vary from 6.5 to 10%.

6.3 Company level competition issues

- Firm level innovation is very low. The research spending as a percentage of sales is very low.
- Companies’ operational efficiencies are comparatively low. Very few Indian firms use technology to make their business processes like procurement, distribution, marketing and servicing more efficient. Also the use of techno-managerial processes like JIT, TQM, TPM are limited.
- Companies invest less in marketing activities and have low customer orientation. Very little effort is expended on branding. The trend internationally has been towards adopting a solution approach to selling. Indian companies continue to adopt a product-oriented approach towards their customers.

7. Technology Upgradation and Quality

7.1 Need for up-gradation of technology

In the present era of liberalisation and market-oriented economy, the two big global economic forces which are competing for world attention are;

- (a) The emergence of a 'new economy' underpinned by information and communication technologies, and;
- (b) Growing instability and uncertainty linked to globalization.

With the removal of quantitative restrictions (QRs) on import of 715 items with effect from April, 01, 2001, a large number of items are now under Open General License (OGL). There has also been reduction in import duties in recent years. These have emerged as challenge before the SME sector since these warrants that the SME sector must be more competitive and efficient to face the international competition successfully. There have been changes in the types of products demanded and their quality as well as in fashion and tastes. There has also been changes in the mode of production and technology. To cope up with these changes, the SME sector will have to undergo many internal and external transformations.

7.2 Technology adaptation and Transfer

Many of the items produced in the small-scale sector are becoming redundant because of the change in tastes, preferences, and also due to emergence of new technology. The entry of foreign brands in the white goods segment has not only given consumers a wide choice of hi-tech and good quality products at competitive prices but has also given them improved after sales services. This improvement can come through the use of latest technology. Hence, the need for change in technology is more relevant for SMEs than large units. As a result, all over the world, large companies have been withdrawing from direct manufacturing activities and concentrating more on marketing, technology creation, diffusion and networking with SMEs in manufacturing related activities. Thus, in the new environment, the competitiveness of large firms greatly depends on the efficiency of small firms.

7.3 Sourcing of technology

In the SME sector, technology is mainly sought in the form of processes and product know-how. The different sources from which technology flows into the SMEs are;

- (a) Government institutions
- (b) Local suppliers of machinery and equipment
- (c) Foreign suppliers
- (d) Research and development institutions
- (e) Industry associations
- (f) Parent companies in case of ancillary and subcontracting units
- (g) Collaborators and
- (h) Re-engineering of machines and equipments

Recent studies on sources of technology for SMEs have found that the entrepreneurs obtained technology largely from the local machinery suppliers. Technology identification, technology acquisition, technology transfer, technology adoption and technology upgradation are some of key issues in relation to technology management relevant to SMEs.

7.4 Technology policy

By impacting training to engineers and technologists, and encouraging them to innovate by rewarding them generously with both real and psychic income, India will ably compete in the world economy and thrive by trading high quality, high-tech products over international boundaries. This vision has three components;

- (a) High quality training
- (b) Promotion of innovation and
- (c) Production of internationally competitive high-tech products

Objectives

1. Make Indian technology internationally competitive, so much so, no manufacturer will have the need to seek, or have, trade protection.
2. To make India a technologically advanced country. In evidence there of, it will import, and not export, talented people.
3. To deploy technology to promote good ecology. It will ensure thereby (a) high quality of air, water and soil, (b) smooth flow of goods and people, and (c) free flow of information.
4. To minimize income disparities and do so by minimizing poverty rather than by reducing wealth.
5. To maximize employment by matching employment skills to technology innovation and by promoting employment multiplication.
6. To be self-reliant in technology. It will have enough capability to exchange whatever foreign technology is needed with comparable indigenous ones.

8. Strategic Policy Initiatives to strengthen SMEs

8.1 Financing SMEs

Issues in financing SMEs have two dimensions. Banks perceive SMEs to be a risky proposition to finance mainly because of information asymmetry. The main concerns of bankers with regards to MNCs are:

1. High transaction costs
2. High failure proportion
3. High vulnerability to incessant changes in the market, and;
4. Low profitability

The fact that SMEs fail to keep proper accounts, furnish low collaterals, and bring in less capital also adds to the reluctance of bankers. On the other hand, SMEs perceive banks to be unfriendly or even reluctant to lend. Banks have no special financing schemes for investments in projects involving emerging technologies. Their insistence on cent per cent collaterals plus third party guarantees and procedural delays only accentuates the problem. Moreover, being perceived as a risky proposition, SMEs are charged higher interest rate on loans.

Need of the hour is innovative financing schemes like lease financing or hire-purchase schemes instead of conventional equity and long-term debt financing for SMEs.

The working capital limit for SMEs, which is determined presently at the rate of 30% of the sales turnover, has been raised to Rs 40m. This has eased the flow of capital to SME sector. Further, managers of SSI branches of most nationalised banks have been empowered to clear credit proposals at the branch level itself. Small Industries Development Bank of India (SIDBI), which has been de-linked from Industrial Development Bank of India (IDBI), has been designated to play greater role in providing credit to SMEs as shareholding of IDBI in various State Finance Corporations has been transferred to SIDBI.

SMEs having a sales turnover upto Rs 5m have been exempted from paying excise duty. Excise duty, however, will be charged at the rate of 5% flat on all sales of SMEs exceeding Rs 5m up to Rs 10m.

8.2 Institutional measures for supporting SMEs

- **Small Industries Development Organization (SIDO) – under Ministry of Industry**

1. Formulates and monitors policies and programmes for small-scale sector
2. Provides business services (from quality control to consultancy) by a network of institutions
3. Establishes product-cum-production development centres (R&D institutions
4. to carry out advanced development work and act as centres of excellence)
5. Establishes district industry centre
6. Establishes industrial estates

- **Small Industries Development Bank of India (SIDBI) – a special financial institution for SMEs**
 1. Special schemes for direct financing for bigger credit needs through its regional offices
 2. Refinances state financial corporations and state industrial development corporation for long-term credit needs of SMEs
 3. Marketing and export promotion
 4. Marketing assistance to SMEs by SIDBI
 5. Sector specific export promotion councils

World Bank Support to SIDBI

To support the development of India's small and medium enterprises (SMEs) sector, the World Bank, in Dec 2004, approved a US\$120m loan to the Small Industries Development Bank of India (SIDBI), backed by a Government of India guarantee. This loan is aimed at improving SME access to finance and business development services, there by fostering SME growth, competitiveness and employment creation.

The Small and Medium Enterprise Financing and Development Project is supported by this loan, is designed to achieve this objective through a multi-pronged approach. It will address key constraints to SME financing and development by focusing on the creation of a more enabling policy/regulatory and institutional framework for SME financing; helping banks gain better access to longer term financing for lending to the sector, mitigating banks' risks related to lending and reducing transactions costs of such lending, and strengthening business development services and market linkage programs for SMEs.

- National Small Industries Corporation (NSIC) – a public sector enterprise under Ministry of Industry
- Special institutions for technology and R&D related services

Technical consultancy organizations at state level involved in project report preparation, feasibility studies, technological information, manpower deployment, technology clinics, and technology up gradation.

- National institutions for specific industries – fashion design, packaging, glass and ceramic, new products training manpower, technology up gradation
- Small industries information and resource centre networks (SENET) –creates electronic network for small enterprises.
- Technology Development Board (TDB) – set up by Department of Science and Technology

Financial assistance (soft loan, equity and grants) for industrial concerns, attempting commercialisation of indigenous technologies or adapting imported technologies for wider domestic application.

- **Technology Information, Forecasting and Assessment Council (TIFAC)**
 1. Technology assessment and forecasting studies
 2. Technology watches on global trends
 3. Nationally accessible technology information system

4. Home-grown technologies – further upscaling of indigenous technologies from lab to commercial, scale
5. TIFAC line – technology-related information service to industries

Venture capital

In Asia, the venture capital funding is mainly concentrated in Hong Kong, China; and Singapore. In other countries this mechanism of financing is yet to make its presence felt. In India too, the penetration of venture in the new enterprises is low. The first origin of modern day venture capital in India can be traced to the setting up of a Technology Development Fund (TDF) in the year 1987-1988, through the levy of a cess on all technology import payments. In 1988, Technology Development and Information Company of India (TDICI) (now Industrial Credit and Investment Corporation of India (ICICI Ventures) and Gujarat Venture Finance Ltd. (GVFL) were formed. In 1996, SEBI came out with guidelines for venture capital funds, which paved the way for entry of foreign venture funds into India.

Current trends in VC funding

- Capital is pouring into private equity funds
- First generation entrepreneurs are finding easier to raise funds
- Most States are setting regional VC funds
- VC firms are getting professionalized
- Incubators and serial entrepreneurs are germinating
- VC firms are getting specific industry focused

With the burst in IT boom, the VCs are no longer interested in IT and dotcoms and presently are focusing mainly in biotechnology, telecommunication, food technology, entertainment, education and new materials sectors. At present, there are over 100 established VCs operating in India at the national level, state level mainly from the Government (financial institutions) and private sector. The total pool of Indian venture capital today, stands over Rs 50 billion.

8.3 Marketing and Policy Initiatives

Market Access Initiative (MAI) Scheme is an Export Promotion Scheme envisaged to act as a catalyst to promote India's exports on a sustained basis, during the 10th five year Plan. The scheme is formulated on focus product- focus country approach to evolve specific strategy for specific market and specific product through market studies/survey. Assistance is provided to Export Promotion Organizations/ Trade Promotion Organizations / Exporters. for enhancement of export through accessing new markets or through increasing the share in the existing markets.

Clusters

The future policy focus for SMEs will be on the development of industrial clusters which have been found in several studies to be efficient in terms of resource use and in promoting inter-industry and inter-sectoral linkages. A cluster is defined as a geographically bound concentration of similar, related or complementary businesses. A UNIDO study defines clusters as 100 registered small-scale units. There are estimated to be 350 SME clusters in India which contributes directly and indirectly to 60% of India's exports. However, the spatial concentration in clusters will mean a slower dispersion of industrial activity to backward areas. The location-wise distribution of clusters shows 65% concentrated in cities and metros

and only 13% in small towns and rural areas. There is scope for encouraging the development of clusters in rural areas and rural-based artisan centres.

To enable SMEs to mitigate problems of their access to new technologies, it is imperative to give them a conducive environment with tacit knowledge playing a predominant role. One of the most successful innovations is the concept of industrial clusters.

The experiences in different countries show that clusters of enterprises provide a better environment for knowledge sharing and transfer because of the proximity, mutual trust and common goal of the enterprises. Cluster like companies have their own lives, their own rise and fall but importantly they stay for longer periods.

The cluster concept has proved to be helpful in building local capabilities, competence building, public private partnerships, skill upgradation, technological development and a host of other aspects necessary for the growth of SMEs. There is increasing agreement that clustering helps small enterprise to overcome growth constraints and compete in international markets. To achieve these objectives, knowledge sharing enterprise units in a cluster have come to occupy a central place.

9. Need of the Hour

In view of current globalization, SMEs in India and AP has enormous potential. India's SME sector is gearing up to face the competition both in India as well as globally; which arose competition pressures such as pricing, products marketability etc. But, there are various issues which have to be addressed carefully to explore the potential.

- SMEs in India should make their product as par international standards;
- It has to look for stable operation and market;
- The sector has to remove some bottlenecks such as labour laws, improve financing methods etc;
- Penetration of modern technology is very low in SMEs in India, which has impact on output and quality of the product;
- There are no regular training programmes for the employees which is essential to upgrade the skills of the employees.
- Infrastructure should be developed like power, roads etc and more clusters and exclusive parks for SMEs are needed