From the Director’s Desk

Over the last two decades India has become one of the fastest growing economies in the world, primarily driven by the growth in services sector. Not all sectors have performed as well and job creation has been mainly for the English speaking elite; the growth has proven disappointing with regard to social inclusion and reduction of poverty levels. This is in stark comparison to its neighbor China, whose economic model of growth has been manufacturing led thereby creating structural change and low skilled jobs for the masses which has contributed both to an improvement in social welfare and reduction in the level of poverty.

As India, seeks more inclusive and sustainable growth and to capitalize from the country’s “demographic dividend”, it will require a more labor-intensive economic growth model. In this context, the manufacturing sector, which currently only represents 16% of its GDP, will become increasingly important. The challenge will be the urgent modernization of the country’s more than 27 million MSMEs. The majority of which operate in the informal sector and are often stuck with outdated technology, processes and business models, causing avoidable negative side-effects on the environment and society.

Against this backdrop, Germany is gaining relevance as a cooperation partner, given its MSME-based model of industrial development, which is decentralized and federal. The institutional ecosystem is rich and has successfully institutionalized collaborative action for implementation of policies. German institutions have also bred a high number of “Hidden MSME Champions” which despite their small size have innovated their way into global leadership positions in their respective market niches contributing significantly to the country’s economic growth. Indo-German cooperation in the field of private sector development aims to strengthen India’s 27 million micro, small and medium enterprises (MSMEs) helping them to modernize and innovate in order to develop their competitiveness to the full, in a socially and environmentally responsible manner.

Improving MSME’s access to financial and other services - including public support services - for India is the main lever for promoting MSME growth, thereby improving the business and investment climate, in which they operate.

Together with the Ministry of Micro, Small and Medium Enterprises (MoMSME), GIZ works on improving markets and delivery systems for public support programmes ("schemes"). Better access for MSME to adequate financial services is at the heart of GIZ’s work with the Small Industries Development Bank (SIDBI), and other banks and financial institutions. Together with the Confederation of Indian Industries (CII) and other partners, GIZ is addressing the challenge of modernization and innovation in the MSME sphere, and the targeted promotion of “social and green” business.

This newsletter presents some of our ongoing joint ventures and initiatives. I hope, it succeeds in illustrating their why and how, and that it arouses your interest in following or engaging with our work for MSMEs in India.

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Improving Access to Finance for Micro Enterprises: Lending to India’s Missing Middle

While micro, small and medium enterprises (MSME) are a major pillar of the Indian economy, the service environment does not cater to their needs and hampers the growth potential of enterprises in the sector. Access to finance is still a major challenge, for MSMEs especially those in the unorganized sector. Businesses such as Manish Finishers, a Delhi based finishing company for textile exporters, suffer from a lack of capital and face difficulty getting a loan due to a lack of collateral security. Micro enterprises such as these instead rely on funds from friends or relatives, expensive private financiers with interest rates varying between 36% - 200% p.a. or their own savings and private assets. Consequently, they are unable to make big investments such as purchasing modern machinery and equipment and to scale up their business.

To address this financing gap, in 2010, GIZ and Small Industries Development Bank (SIDBI) partnered with Satin Creditcare Network Limited, a leading micro finance institution in North India, to demonstrate the scaling up of credit from micro finance to micro enterprise financing. The pilot targeted the informal sector by introducing an innovative financial product and delivery model for the upstream apparel supply chain, operating in the industrial areas of Govindpuri, Sangam Vihar and Tughlakabad Extension in Delhi. It successfully demonstrated that the availability of credit has enabled micro enterprises to improve their production capacities, as well as production efficiency. Many were able to utilize loans to increase their productive assets and to meet their working capital requirements. Consequently, they have been able to employ more skilled manpower and generated higher revenues and profits.

Encouraged by the results of this pilot initiative, GIZ and SIDBI now aim to bring micro enterprise financing to the next level and are launching a joint initiative to disseminate the learning from this pilot to Regional Rural Banks, Urban Cooperative Banks and Non-banking Financial Institutions.

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GIZ and SIDBI’s experience in micro enterprise financing has been acknowledged by the G20 as an international best practice. To share the learning in micro enterprise financing internationally, GIZ recently launched a Technical Note Series on Micro Enterprise Lending which is available at Microfinance Gateway.
Social Innovators: Enablers for Change

Despite its importance to economic and social development, India has a severe shortage of electricity with 125,000 un-electrified villages and about 45% of the Indian population living without access to electricity. For the founders of Husk Power Systems, a social enterprise which provides decentralized power solutions to rural population in an environmentally sustainable manner, the lack of access to electricity in Indian villages constitutes a business opportunity, which they are exploiting innovatively. Increasingly, entrepreneurs are discovering innovative ways to address challenges faced by marginalized communities thus developing bottom of the pyramid markets.

Incubation support to such innovative start-ups and MSMEs is still limited and concentrated around the metros, like Delhi, Chennai and Mumbai. Aiming to address this gap, GIZ is partnering with institutions like Ennovent to develop tailored support services and capacity building support in tier 2 and tier 3 cities (See: StartUp). With a view to building and strengthening a wider network of support institutions for social enterprises in India’s remote regions GIZ has also partnered with incubators like CIIE (Centre for Innovation, Incubation and Entrepreneurship) at the Indian Institute of Management Ahmedabad (IIM-A), UnLTD, impact forums like Intellecap’s Sankalp and the Bihar Innovation Forum (BIF) promoted by World Bank and the Bihar Rural Livelihoods Promotion Society. Together these organizations will work to strengthen capacities of interested support institutions and incubators across India to provide services for social enterprises and create a network of support institutions and platforms.

Having recognized this early on, GIZ together with the Confederation of Indian Industry - Centre of Excellence for Sustainable Development (CII-CESD) has organized a series of Sector Dialogues to facilitate exchange among peers in the same sector and matchmaking with investors, within the country and abroad for facilitating South-South dialogue on the subject.

Looking Forward:

“It is important to create an eco-system for innovation in India’s remote regions”, says Stefanie Bauer who is heading the initiative. GIZ and SIDBI showed their commitment to this agenda by supporting jointly with DFID the Sankalp-Samridhi Recognition for Social Enterprises in Patna in Bihar in October 2012 that awarded businesses that invest in India’s Low Income States and create development impacts through commercially viable models.

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Collaboration matters for Innovation –
Learning from the German experience

Interview with Thomas Laemmer-Gamp, Director at the European Secretariat for Cluster Analysis VDI/VDE Innovation + Technik GmbH.

Among other things, VDI/VDE implements innovation promotion initiatives of the German government and strengthens innovation networks and clusters.

Germany is considered to be the strongest economy in the European Union and Germany’s SMEs are a driving force. What do you think are the reasons of the German SMEs success in being innovative?

Indeed, SMEs are the backbone of the German economy thanks to their innovativeness. Studies show that 77.4 per cent of German SME are “innovative” companies, which means that they are active in product and/or process innovation. Despite the economic crisis, new products and processes are essential for German companies to stay competitive on the global markets. But what makes them be “innovative”? From my point of view there are three main reasons: the size of companies and corresponding to this the diversification of processes within the company, the availability of skilled workforce and constant training and – very important – collaboration with other companies and the research sector.

What role do clusters play in contributing to the growth of a nation’s economy and which role do cluster associations play in promoting innovations in businesses?

MSME clusters are key pillars of an economy. The majority of innovations in Germany develop within clusters. But clusters can only unfold their potential if they are considered as industrial networks. And networks need to be managed in terms of bringing the right partners together to develop new products, services and processes. Cluster associations – we call them cluster management organisations in Europe – are very important in this respect as they provide services to the cluster members that facilitate collaboration which is key to innovation. Successful clusters are driven by industry and develop bottom-up.

Cluster-based approaches in innovation policy play an important role for the promotion of clusters in Germany. Which policies could be transferred in the Indian context and where do you see parallels to the Indian context?

Having visited India three times in the past 1.5 years and having talked to many Indian cluster representatives and companies, I think that the concept of cluster management organisations is something India could learn from, in particular when it comes to the development of excellent cluster management structures and processes. In terms of policy transfer to India there are many good examples including a wide array of programmes ranging from the establishment of cluster management organisations, labeling and management advice to cluster organisations to specific networking programmes.

Germany is often said to be the leader in promoting sustainable innovations. What are the activities undertaken by the German government in this context and where do you see parallels to the Indian context?

Sustainability is at the heart of today’s German national identity, if I am allowed to be a bit provocative. It is rooted in a strong societal environmental awareness that developed in the 1970s and 1980s. Experiences such as the so-called “Waldsterben” – which caused huge damage to forests because of air pollution – or the Chernobyl nuclear disaster ignited lots of ideas for new technologies. The German government promotes the development of such technologies mainly through regulation that creates a market for the technologies – in the case of the two examples it was the Large Combustion Plant Regulation and various regulations in the field of renewable energy production. R&D programmes only complement regulation. Parallels to India? This is difficult to answer in a few words. My impression is that there is still a lack of awareness in the broader public. Government is certainly doing a lot, but it appears to me that there is still a lack of understanding on behalf of society why change is necessary. Education is critical in this respect.
Towards an Enabling Environment for Effective MSME Development

India’s 1000+ SME Business Membership Organisations (BMOs) play an important role in the development of their 26 million business members. However, while BMOs with predominantly large enterprises as members have flourished, those serving Micro, Small and Medium Enterprises (MSME) remain excluded from this growth story. BMO’s in India date back a century with the Confederation of Indian Industry (CII) founded as early as 1895. These big, often national-level associations are effective in lobbying for the interests of larger companies, and have also entered the space of service delivery to their members.

The potential of BMOs to enable inclusive and accelerated growth of the MSME Sector has not been adequately leveraged, neither by government, nor by the MSMEs themselves. The main reasons cited for this include “capacity constraints” and absence of any “systematic efforts and institutional mechanism” to build BMOs competencies. Even though there is consensus on the crucial role BMOs could play in MSME development, there are obvious questions about their capacity to deliver with their current capacities.

To address the capacity constraint of BMOs, GIZ together with Sequa gGmbH, is promoting “Capacity Building of BMOs”. This ongoing initiative leverages Sequa’s experience acquired in implementing BMOs projects across the globe. The current initiative offers capacity building support to BMOs in India that aim to strengthen their impact and the eco-system around them. Simultaneously the process of establishing an ‘Accreditation and Certification System’ has been initiated in partnership with the Quality Council of India. Introducing a system of accreditation will ensure standards of quality and performance amongst the BMOs, will lead to more processional management, and bring in greater transparency within BMOs. It is envisaged that the accreditation will also help to better target capacity building efforts of government and other agencies to specific training and advisory needs.

Vision 2013

The “Indo German SME forum” is being planned to create networks and linkages between Indian and German BMOs.

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The monsoon rainfall in 2012 has been below the long-term average, affecting livelihoods as well as the agricultural and industrial production. Similar to what happened in the United States, Russia and Australia, the drought hit India, the second largest wheat producer in the world. Unusually weak monsoon rains and lower harvests of grain, corn and soybeans contributed to rising global food prices, leading to the third price shock in only five years.

Rising temperatures, unpredictable and extreme weather situations will increasingly mark the coming decades, exacerbating the challenges to a business sector which already faces the challenge of sustainable management of resources. India’s MSMEs, being small players in the economy, suffer the most from climate change impacts, especially if they depend on agricultural inputs in their value chain. Moreover, as India gets increasingly integrated into the global supply chain the demand for compliance to social and environmental standards as well as carbon or water footprint is intensifying. Suppliers who report on their environmental activities by documenting their Carbon Footprint or integrating water labels are viewed positively by buyers and investors as a sustainability-focused and responsible company and hence taken into consideration for further collaboration. Since 2009 Walmart for instance is assessing its supplier’s sustainability to cut 20 million metric tons of emissions by the end of 2015. Walmart’s sustainability team made clear that top performers will be identified and rewarded. This offers enterprises a unique selling point for their products in a competitive market and strengthens their “responsible competitiveness”.

Recognizing this opportunity forward looking clusters like the Okhla Garment Textile Cluster (OGTC) launched its OGTC Goes Green Initiative. Under this initiative, GIZ supports the introduction of carbon footprint methodology to enterprises in the cluster. This allows enterprises to measure and track their carbon footprint, thus enabling them to take necessary steps to reduce their carbon impacts and gain a competitive advantage.

However, businesses and entrepreneurs also need to start dealing with the impacts of climate change which are bound to happen. No strategic approach towards building business resilience has emerged among MSMEs. Their level of awareness on climate change remains low, resulting in additional costs and missed opportunities. Realizing the need to enable MSMEs build resilience and adapt to climate change impacts, GIZ in cooperation with SIDBI has set up a pilot initiative to raise awareness on climate change risks and opportunities. GIZ kicked off the process in 2011 by developing an E-Learning Tool (See: Climate Expert) which guides MSMEs on: 1. how to adapt to climate change; 2. how to reduce its risks and; 3. how to tap into its business opportunities. In cooperation with its implementing partner Cluster Pulse, GIZ has created a multiplier network across India for offering consultancy services to MSMEs on how to adapt to climate change.

MSMEs and business associations interested in the e-learning tool and business responsibility can contact Stefanie.bauer@giz.de
Bringing Public Support Schemes closer to MSME

To boost competitiveness and growth of India’s MSME sector, over 22 public support schemes are offered by the Office of Development Commissioner (Micro, Small and Medium Enterprises) or DC-MSME, which is the nodal development agency under the Ministry of MSME, along with its field offices across India. Despite their number, the utilization of most schemes has been limited mainly because the target beneficiaries (e.g. associations, intermediaries) lack awareness, but also due to the complexity and non-transparency of the application process, inadequate supporting framework and a lengthy processing time.

Information and Communication Technologies (ICT) can help in addressing challenges of limited accessibility, efficiency, transparency and accountability in the delivery of public services. The use of ICT not only promises easy, fast and secure access to the end-users, it also offers benefits to the service providers by ensuring faster processing time, improved accountability and streamlining of operations.

Drawing on lessons learnt from across the country, a similar effort is being undertaken by the Office of DC-MSME to introduce e-governance as one of the key service delivery channels for MSME related schemes and support programmes. GIZ under the “MSME-UP Policies and Programmes” is supporting the Office of DC-MSME in the implementation of an e-services portal. GIZ is assisting the Office of DC-MSME at multiple levels including project conceptualization, bid process management, institutional strengthening, project implementation, human resource development and communication among internal and external stakeholders.

It is envisioned that the e-portal goes beyond provision of only G2B services and acts as a networking (B2B) platform and business development tool. Other than MSME the target beneficiaries also include other entities like associations, government agencies, expert agencies and large enterprises procuring from MSMEs.

It is expected that a success of this intervention will enhance the provision of timely and smooth support from the government to MSMEs and hence play an important role in strengthening their competitiveness.

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In collaboration with GIZ MSME Umbrella Programme, Small Industries Development Bank of India (SIDBI) has initiated a project focused on capacity building of select Tier-II banks viz. Regional Rural Banks/Urban Cooperative Banks/District Cooperative Banks with an objective to enhance the credit flow to micro enterprise sector. Under the project, the Enterprise Loan methodology and software developed by SIDBI for micro enterprise loans from Rs.0.50 lakh to Rs.10 lakh, Missing Middle Segment, would be shared with these banks, besides extensive training of their officials on this methodology. Initial capacity building training was delivered to 31 officials from 6 RRBs on the 26-27 of December, 2012 in Jaipur, India. The programme was inaugurated by GM-In-charge of Jaipur RO, Shri M K Sharma in the presence of GIZ representatives Ms. Stefanie Bauer & Shri Anand Srivastava and was lead by Mr. S.V. Kelkar Dy. General Manager SIDBI. A second workshop in this series on Missing Middle Enterprise Finance, to
explore how credit flow can be enhanced to these enterprises, has been held by SIDBI in Kolkata from 28-31 January, 2013.

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**Responsible Investment Research Association**

The Sustainable Investment Forum India was launched on the 29 January 2013, in Mumbai with a view to promote the integration of sustainability factors in the financial sector decision making. The founding members are GIZ, Bloomberg, Yes Bank, IDFC and MCX Stock Exchange. The forum will provide advisory services, capacity development and investor education. I: http://www.ri-research.org/

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**Roundtable: Identifying an Agenda for Action for Innovation Promotion**

On 8th February, 2013 a roundtable on Innovation Promotion took place at the New Delhi office of GIZ. Different stakeholders from development institutions, the financial sector and the field of social impact investment were invited. The occasion was to exchange insights and ideas on how to improve the financial and non-financial service environment for innovative business models of MSMEs which aim to achieve a positive social and/or environmental impact. The Indian Angel Network presented the "India Inclusive Innovation Fund" and GIZ & MART introduced to the results of a Gap-Analysis with respect to the current support and ecosystem for Innovation as well as gaps and bottlenecks within this environment for MSMEs. Afterwards a discussion took place in order to implement perspectives and experiences of the participating stakeholders into the final report of GIZ & MART as well as to initiate further action on the topic.

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Recent Publication

Enablers for Change: Strengthening the Eco-System for Social Innovators

Responsible Finance: A Catalyst for Responsible Business

Mapping the Social Enterprise Landscape in North East India

The Advantages of Adaptation: Big Opportunities for Small Business

Enablers for Change

Responsible Finance

Social Enterprise Landscape in the North East

Climate Change Adaptation for Small Business

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