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1 Editorial



First and foremost, I would like to take this opportunity to wish all our colleagues and partners a happy new year. I am glad that my journey has led me to India, such a colourful and diverse country with both commercial and cultural wealth. I am looking forward to the upcoming opportunities and challenges.

Having generated prosperous results, the MSME Umbrella programme concluded in December 2014. Together with our partners, the Ministry of Micro, Small and Medium Enterprises (MoMSME) and the Small Industries Development Bank of India (SIDBI), we can look back at four successful years in which we succeeded in encouraging many entrepreneurial and system-building initiatives as well as inculcating responsible business behaviour within the private sector in India. Some key milestones were the establishment of platforms to create linkages between various stakeholders, introduction of best-practice business processes and multitude training programmes to strengthen the capacity of the various stakeholder.

In particular, our efforts have contributed to an improved access to financial and non-financial services that are innovative and tailored to suit market needs. With our partner SIDBI, we introduced a loan product targeted at missing middle enterprises to further bridge the financing gap for MSMEs. Together with the Ministry of Micro, Small and Medium Enterprises, GIZ has been effectively working on improving support policies and programmes and enabling intermediary

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organisations such as associations, Tool Rooms, Development Institutes among others to act as implementation agencies for these support programmes on behalf of the ministry. To foster the service environment for MSMEs the programme has been constantly strengthening the capacity of Business Membership Organisations (Industrial association and chambers of commerce) as well as intermediary organisations which seek to promote innovation among enterprises that have positive impacts on the bottom of the economic pyramid.

However, challenges to upgrade the MSME eco-system persist. For instance, collaboration between MSMEs, academia and government authorities remains low, resulting in a reduced innovation capacity and sustainability of MSMEs. Given this background, GIZ in cooperation with the Ministry of Micro, Small and Medium Enterprises commenced a new project on 'Innovation Promotion of the MSME sector in India' with the beginning of this New Year. The project aims at increasing cooperation between companies, research institutions, service providers and larger enterprises by initiating joint innovation projects.

This newsletter will provide a detailed overview of the MSME Umbrella Programme entailing key achievements and challenges encountered during the implementation of the project. To conclude the newsletter we will provide you a review on events happened in the past months, new studies as well as upcoming events.

Happy reading!

Wolfgang Leidig,
Director Private Sector Development, GIZ





2 Articles

Aiming High: An Improved Financial Eco-system Offering MSMEs Tailored Financial and Non-Financial Services

Micro, Small and Medium Enterprises play a crucial role in the Indian Economy. They contribute around 9% to the GDP and account for about 45 percent of the manufacturing output. The lack of access to financial and non-financial services has played a critical role in obstructing the growth of micro and small enterprises in India. Only 5% of MSMEs have access to credits from the formal banking system – commercial banks and financial institutions. Many MSMEs suffer from the lack of capital and struggle to avail bank loans due to the lack of collateral security. These enterprises instead rely on funds from friends or relatives, expensive private financiers with high interest rates or their own savings and private assets. Consequently, they are unable to make big investments such as purchasing modern machinery and equipment to scale up their business. In order to increase the access to finance for MSMEs, the MSME Umbrella Programme has undertaken various initiatives which not only focused on the demand and supply side but also sought to improve the service environment for MSMEs.

Beyond Micro-Finance: Getting Capital for SMEs to Boost Faster Development - Introducing a Missing Middle Finance Product

Enterprises usually have loan requirements ranging between Rs.50,000 to Rs.10 lakhs. However, this segment of enterprises, typically referred as “Missing Middle”, is not adequately served. It is neither catered to by Micro Finance Institutions nor by other financial institutions that find it unviable to handle small loans. In order to close this gap, GIZ and SIDBI joined hands to develop a software-based Missing Middle finance product for Regional Rural

Banks (RRBs), Urban Cooperative Banks (UCBs) and District Cooperative Banks (DCBs). Subsequently, a series of sensitization workshops were held for chairpersons of RRBs/UCBs/DCBs on credit downscaling techniques and software demonstration for appraising credit proposals of micro and small enterprises. SIDBI consequently signed Memorandum of Understanding with 20 RRBs/UCBs for effective roll-out of the loan product. Taking note of this initiative, KFW has committed a line of credit of Euro 100 million to SIDBI for missing middle enterprise financing. It is expected that once entirely rolled out, the outreach of the product will be 250,000 MSMEs.

Enhancing Financial Literacy among Enterprises

Although banks are increasingly offering innovative finance products, many MSMEs are unable to actually access these products. Some of the common reasons are their low level of awareness of necessary statutory compliances, accounting procedures and financial management as well as a lack of financial planning and financial discipline to just name a few. In order to address these challenges, GIZ in cooperation with SIDBI, State Bank of India (SBI) and Bank of India (BOI) facilitated one day workshops on MSME Financial Literacy and Education covering various topics. 50 workshops were held in 22 states, reaching out to more than 2500 participants, wherein 25 workshops were exclusively funded by other stakeholder such as BSE, IDBI Bank, SBI, Vijaya Bank, Sriram Finance, Mahindra Finance, Reliance Commercial Finance among others. Owing to the overwhelming response additional 150 workshops were organized and funded by banks, stock exchanges, NBFCs, Industrial Associations, MSMEs etc.

Financial Innovations to Foster Energy Efficiency Measures

A recent study conducted by UNEP and World Bank concludes that 'although the Government of India's investment and trade policies have provided impetus towards Energy Efficiency, the efforts towards realizing the energy efficiency potential have gained momentum only in large enterprises'. Efforts towards promoting Energy Efficiency among Micro, Small and Medium Enterprises (MSMEs) are still at a nascent stage. While the enterprises individually can only contribute little to energy savings, their aggregate saving potential is enormous. The impediments then arise in the form of lack of awareness, flexibility to adopt new technology, lack of managerial skills, and lack of financial and non-financial assets to undertake such changes. In order to promote green finance, GIZ contracted the Frankfurt School of Finance & Management to conduct a study on international experience, analyze international good practices and propose a loan product that would

improve the eco-system for the adoption of energy efficiency measures. Based on the findings, a pilot on the loan product was conducted in cooperation with State Bank of India in two MSME industrial clusters. Alongside, over 2000 bankers from 50 clusters were sensitized on the need for energy efficiency finance.

While the final assessment of the activities revealed an overall success of the activities, some challenges, however, persist. Due to the slowdown of the Indian economy in 2013 and 2014, the energy efficiency loan product could not be rolled out yet. However, efforts in this direction are currently being pursued under the "Responsible Enterprise Finance" project which is jointly implemented by GIZ and SIDBI. The project has the capacity to upscale many activities started under the MSME Umbrella Programme that target a wider eco-system development.

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MISSING MIDDLE FINANCING

Outcome

- Software based loan product for credit downscaling from RRBs/UCBs/DCBs to micro and small enterprises (missing middle) developed.
- Training Module on credit downscaling technique for capacity building of RRBs/UCBs/DCBs for assessing credit needs of MSEs and appraisal of loan proposals of MSEs developed.

Impact

- Top management of 27 RRBs, 10 UCBs and 29 DCBs sensitized about the need for credit downscaling techniques for assessing and appraising credit needs of micro and small enterprises.
- SIDBI has signed MOU with 20 RRBs/UCBs for implementation of Credit downscaling techniques and training of their staff and 5 RRBs have already implemented it.
- KfW has committed a line of credit of Euro 100 million to SIDBI for missing middle enterprise financing.

MSME FINANCIAL LITERACY & EDUCATION OF MSMES

Outcome

- Course curriculum and Training Module for MSMEs on Financial Literacy developed.
- One day workshops were conducted in 50 industrial clusters across the country, covering 22 states of India.

Impact

- More than 2500 MSMEs and 200 other stakeholders are better equipped to prepare and submit loan proposals to banks.
- Business Model has been developed. More than 200 workshops have already been held which are funded by banks, stock exchanges, NBFCs, Industrial Associations, MSMEs etc.

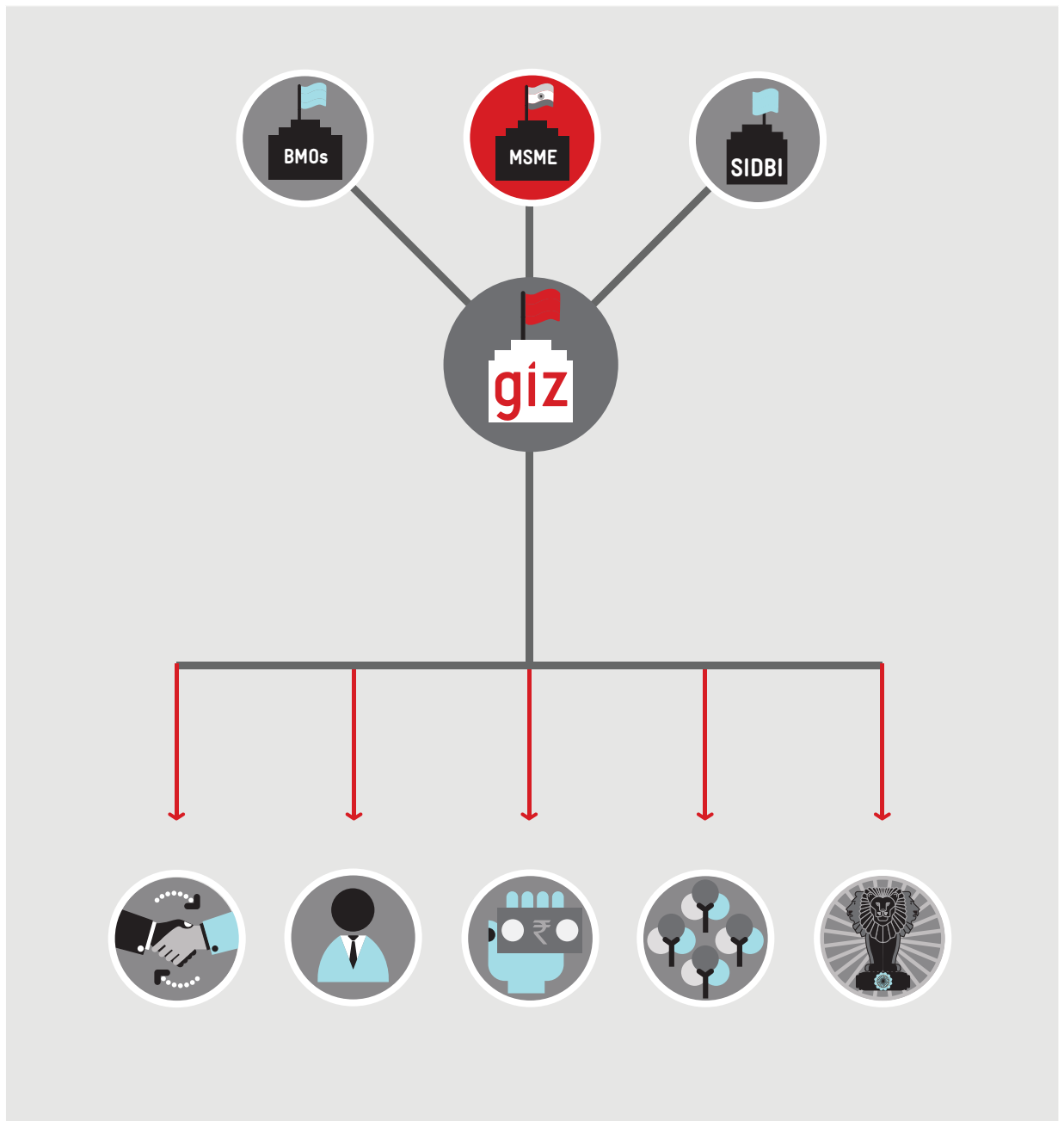
ENERGY EFFICIENCY FINANCE

Outcome

- A specialized loan product on energy efficiency finance has been developed which has been piloted and tested by SBI in two cluster.
- Course curriculum and Training Module on MSME Energy Efficiency Finance for banks' MSME Relationship Managers, Credit Managers, Trainers etc. is developed.

Impact

- More than 2100 bankers trained in 50 workshops across the country on MSME Energy Efficiency Finance. These bankers are now better equipped to process and appraise the loan proposals for energy efficiency finance received by MSMEs.



Laying the Foundation for Sustainable and Irrevocable Reforms of MSME Support Policies and Programmes

The Indian government offers a variety of support programmes for MSMEs in order to alleviate the various challenges such as access to finance, services, skills, etc. faced by MSMEs. Besides the 20 support programmes of the Office of DC MSME, the Ministry additionally offers a range of services implemented by its 70 specialized field institutions that exclusively target MSMEs. Despite the presence of this support infrastructure and the various MSME promotion mechanisms, many of these opportunities remain untapped and not adequately leveraged by MSMEs, resulting in a limited impact on the overall competitiveness of the MSME sector.

Given this, GIZ and the Office of DC MSME, Ministry of Micro, Small and Medium Enterprises, under the aegis of the MSME Umbrella Programme came together to improve the efficiency and effectiveness of the MSME support policies and programmes offered by the Ministry.

The project thus adopted a multi-pronged approach that sought to tackle four key bottlenecks hindering the effective implementation of the support programmes, namely: Most schemes are supply driven, not essentially based on a structured need assessment, prioritization and often without adequate consultation with the MSME sector and other stakeholders; thereby resulting in a rigid and straight jacket design, cumbersome procedures and unrealistic conditions. Additionally, the ministry has been favouring to either directly implement the schemes or through nominated public institutions, not taking into account market competition. However, this has resulted in the service portfolio and delivery mechanisms of these support institutions being out of sync with the changed demands of the industry and market reality as many of the services are now offered by private service providers in a more efficient manner. Furthermore, limited awareness among enterprises about the schemes and services, combined with concerns regarding complexity involved in accessing these schemes and delayed decision making have further negatively impacted

the successful implementation of these schemes. Against this background, the interventions sought to systematically address each of these challenges.

Increased Accessibility and Transparency of Public Support Schemes

At the beginning of the project, funding opportunities for MSMEs remained largely untapped due to various reasons. Through advisory, consulting and implementation support, the MSME Umbrella Programme significantly contributed to simplification of the application process and the design of a user-friendly delivery channel for public support schemes (i.e. an online search, application, and national portal). The further development of the national portal has been taken up for implementation under the \$ 400 million World Bank project. As on date, 50% of the support schemes can be applied online and the further development of the national portal is at an advanced stage; helping the ministry to reduce the human interface and ensure single window clearance.

Improved Public Outreach

One of the important reasons for the slow uptake in the utilization of MSME support schemes has been the lack of knowledge and understanding of the schemes and their benefits by MSMEs. Business Membership Organisations (BMOs)¹ can take over the role of an intermediary between the government and the MSME sector and roll out many schemes on behalf of the ministry. However, due to the low capacity of many BMOs their role as implementation agencies for the support programmes of the ministry could not adequately be leveraged. In order to overcome these challenges, GIZ introduced an initiative (Schemes@Clusters) which sought to improve the access to information for MSMEs in order to increase the utilization of the ministry schemes. Overall, a total of 1176 MSMEs participated in the 15 workshops, and 1169 new applications were initiated by interested participants for availing government support under various schemes, resulting in enhanced awareness on the support provided by the Government among

¹ For further information on GIZs work to strengthen the BMO eco-system, please refer to the next article.

MSMEs. In addition, to increase the visibility and effectiveness of the support programmes, the project supported the Ministry to develop a communication strategy and media plan.

Strengthening of the Field Implementing Agencies of the Ministry as Service Providers for MSMEs and Focal Points for the Implementation of Public Support Programmes

The project focused on advising the two field implementing agencies (Tool Rooms and Development Institutes) of the ministry which play an important role as service providers for MSMEs and in the implementation of support programmes. With the support of the MSME Umbrella Programme the existing structure and operations were reviewed and measures suggested accordingly. The recommendations made by the project (e.g. role of institutes, service portfolio, process re-engineering) were integrated in a roadmap which is currently implemented in order to achieve an improved service delivery system for MSMEs.

Design and Implementation of Policies for the Promotion of MSMEs

Besides the improvement of the central institutions of the Ministry of Micro, Small and Medium Enterprises, the programme continuously supported the ministry in planning and implementation of new policies based on national and international best practices, feedback from enterprises and associations. For instance, in March 2012 the Government of India notified the Public Procurement Policy which mandates that all Central Government Ministries, Departments and Public Sector Undertakings shall procure a minimum of 20 per cent of their annual value of goods and services from Micro and Small Enterprises starting from 2015. Continuous support was provided to help the

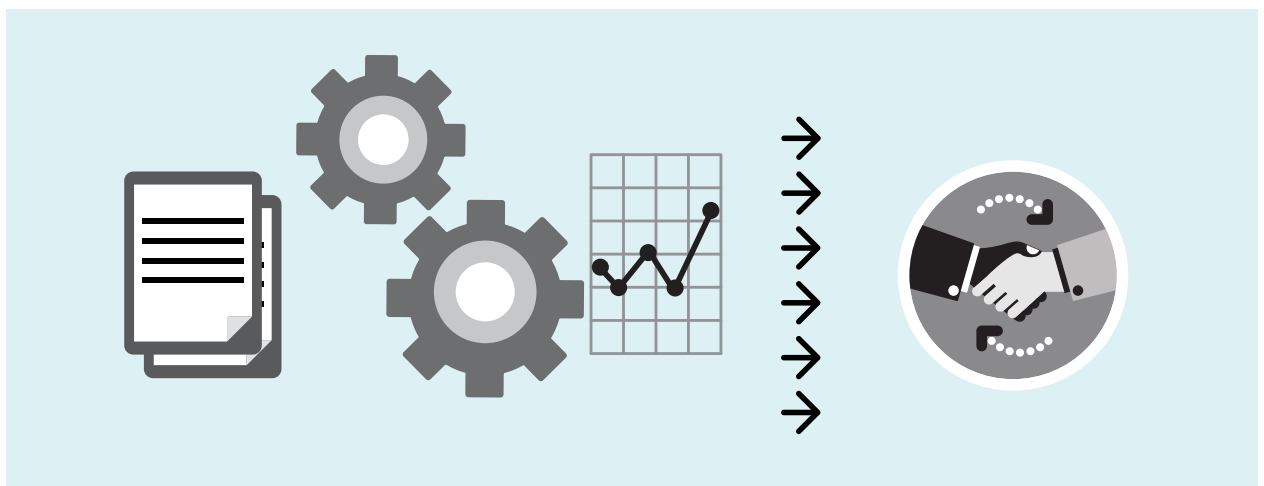
ministry in the effective roll-out of the policy.

International Exchange on MSME Promotion

To intensify the exchange between India and Germany on the promotion and support of small businesses and business associations, the project conducted several roundtables and dialogues with the German Confederation of Skilled Crafts (Zentralverband des Deutschen Handwerks), the Association of German Engineers (Verband Deutscher Ingenieure) and the Institute for Innovation and Technology (Institut für Innovation und Technik). Additionally, the project published a study on German approaches towards the promotion and support of the Mittelstand (MSME sector) in order to derive learning for the Indian SME sector. Taking into account that it is an endeavor of the German and Indian government to strengthen relationships between Indian and German SME, GIZ with various partners organized the Indo-German SME Forum to provide a platform to foster linkages between public authorities, cluster, associations and other service providers from India and Germany. The first forum saw an attendance of around 110 participants from Germany and India. The success led to the constitution of this forum on an annual basis. The second forum was conducted in September 2014 and evolved around the topic of "Cluster Internationalisation". The forum was successful in initiating dialogue between the participating BMOs from both the countries to leverage cooperation potentials.

Summarizing the efforts, the programme has been able to lay the foundation for sustainable and irrevocable reforms and an overall shift in the perspective of policy makers.

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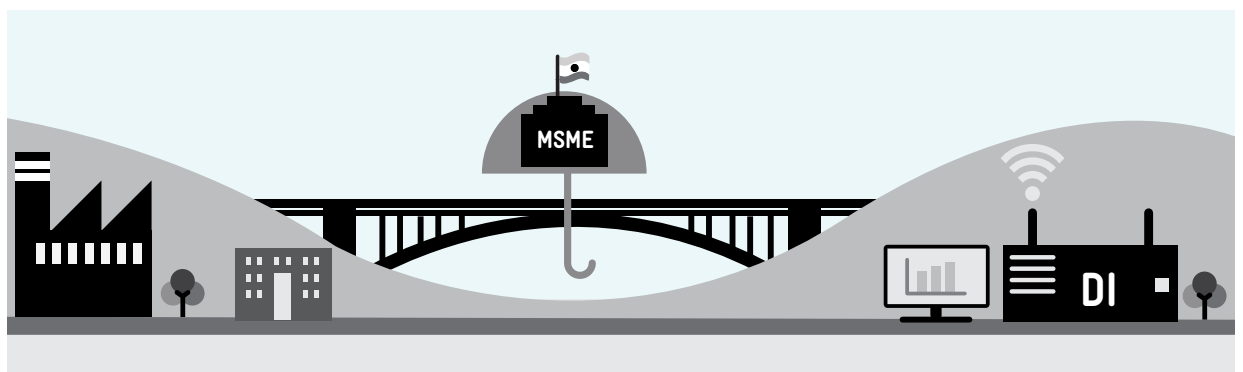


Fostering MSME Development Institutes as an Example for an Effective Public Service Delivery System for the MSME Sector

The major objective of the Office of DC MSME, Ministry of Micro, Small and Medium Enterprises (MoMSME) is to create an enabling eco-system for MSMEs to grow and develop. For this purpose, its support schemes and business development services are offered through its various field implementing institutions which include MSME Development Institutes (MSME DIs), Testing Centres / Stations and Technology Centres / Tool Rooms. With 58 functional DIs in the country, it is the ministry's largest institutional network. However, with the change in the overall business environment and the nature of MSMEs as well as the emergence of new private service providers, many DIs are challenged to initiate a systemic structural reform process to align their role, function and services to the changed environment; making many DIs unable to perform their role as a service provider effectively. This has resulted in a growing gap between the MSME sector and the DIs. To overcome this gap, the MSME Umbrella Programme provided constant advisory and consulting support in order to introduce a systematic change in the way DIs are operating.

Against this background, a comprehensive organizational and structural review of MSME DIs was carried out. The review involved an overall assessment of the organizational performance and capacity (i.e. outputs, impacts, human resources, processes, structures, IT systems and other enabling infrastructure) as well as the factors influencing it; changes in the external business and economic environment and the presence of alternative service providers. In order to ensure that the process was owned by DIs rather than being driven top-down, the review adopted a participatory approach. It

involved extensive stakeholder consultations, one-to-one meetings, field visits and questionnaires to gain consensus on the existing state and the way forward. Multiple rounds of feedback on the findings and recommendations were taken both from DIs and the Ministry to take into account all factors such as the overall mandate of the Ministry, evolving requirements of MSMEs, institutional constraints and international best practices. An assessment report with baseline data, recommendations and an actionable implementation plan was prepared in May 2012. It suggested a change in the overall role and function of the DIs as well as an adapted service portfolio. Additionally, a new organizational structure was outlined in the roadmap as well as steps to remove process bottlenecks, improve HR processes and set-up IT support systems. With the change in the overall structure of DIs, a need for human capacity adaptation and development also emerged. To help the MSME DIs to evolve into a learning and development organization, the MSME Umbrella Programme supported the HR profiling of manpower (covering 493 technical/managerial personnel of MSME DIs, Testing Centers and office of DC MSME). The programme also assisted the DIs in the preparation of a consolidated database of all relevant employment related information (basic, education, work experience, training requirements, skill sets, career interests, etc.) and an online Human Resource Management System (HRMS) to facilitate the end-to-end provision of all services involved in the management and development of employees. In order to ensure that employees will have the desired level of expertise in all of the required competencies, the project carried out a Training Needs Analysis Survey to determine the gap between the existing and



desired level of techno-functional, industry-specific and behavioral competencies. Based on the findings, training priorities were determined and capacity building of DI officers initiated. Consequently, three capacity building trainings of 82 DI officers were conducted. Further, in order to institutionalize a systematic approach for training within the Office of DC MSME a training framework (plan, organization structure, methodology, manpower, performance management, etc.) has been developed and shared with the Ministry.

Given the systemic nature of interventions, the roll-out of several recommendations may take additional time. It requires decision making at the highest political level. However, in order to ensure the support of all relevant stakeholders, the programme adapted a multi-pronged approach:

- **Participatory approach:** In order to create ownership and earn the confidence of DI officers, the project followed a participatory approach right from the stage of project conceptualization to its implementation. Extensive stakeholder consultations and field visits ensured that feedback was regularly collected and duly incorporated to bring improvements.
- **Proof of Concept:** The programme developed several proof of concepts to showcase the benefits of the proposed interventions and get the buy in of all associated stakeholders.
- **Capacity Building:** The MSME Umbrella Programme also focused on building the capacities of DI officers in areas such as change management, innovation and other soft skills needed for a smooth transition.
- **Role of Leadership:** The project worked in close association with senior level officers to

create the desired impact. Each activity of the MSME Umbrella Programme was facilitated by a designated nodal officer from the Ministry.

- **Pooling of Resources:** The programme constantly focused on combining the best of experts and resources to implement the project interventions.
- **Knowledge Transfer and Hand-over:** The MSME Umbrella Programme also ensured full transfer of knowledge and know-how to the concerned officers responsible for the management of deliverables post the completion of the project.

The process of bringing about organizational improvements and effectiveness is an ongoing process. It is expected that the Office of DC MSME will ensure speedy decision making and continue working in areas initiated by MSME Umbrella Programme.

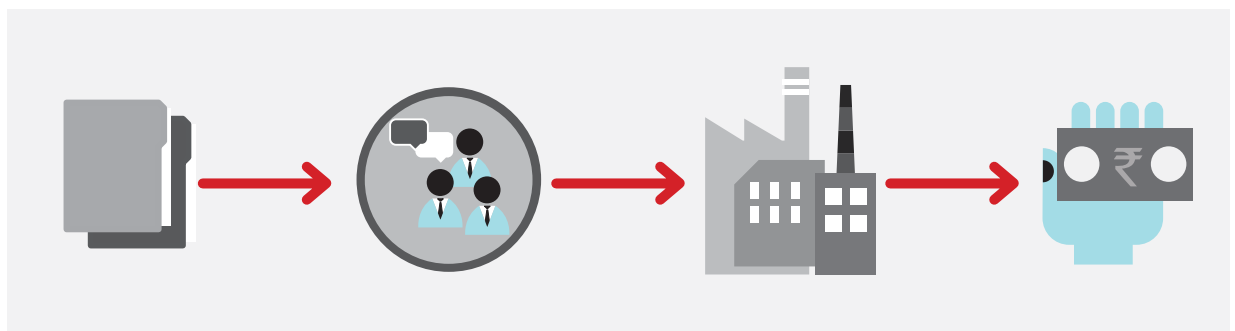
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Outcome

- Standardization of training curriculum and reduction of DIs direct involvement in the training delivery.
- Initiation of effective cadre structures.
- Enhanced decision making autonomy of DI directors.
- Establishment of linkages between Technology Centers (specialized technical skills imparting institutions) and the technical workshops of the DIs.

Impact

- Significant increase in the number of MSMEs being able to benefit from the support of MSME DIs in availing public support schemes.



Capacitating Industry Associations and Chambers for an Improved Service System for MSME: Let's Keep the Effort Ongoing!

Industry associations and chambers of commerce – often referred as Business Membership Organisations (BMOs) – serve as a critical link between industries, government and other service providers. They also play a critical role in aggregating the needs and demands of individual units and help their members in overcoming challenges. Hence, they are an important stakeholder in the MSME eco-system. However, given the absence of well-functioning BMOs in India, not only weakens the dynamic relationship of different players but also negatively impacts the growth of enterprises and the overall business environment.

It is estimated that there are roughly 4000 BMOs in India with a wide variation in terms of their competency and outreach. Though their importance is well-recognized by different stakeholders, there is a lack of systematic efforts and institutional mechanisms to enhance their capacity. Against this background and in order to achieve the objective of the MSME Umbrella Programme – an “improved business and investment climate as well as service system” – the project has strategically focused on strengthening BMOs representing MSMEs at cluster, district and state level.

For this purpose a two-pronged approach was adapted: On the one side the project worked with selected BMOs to foster their capacity and on the other side a sustainable mechanisms was developed to capacitate various stakeholders to carry out capacity building exercises and engage with BMOs beyond the project. During the start of the project 102 associations were assessed to establish a baseline of BMOs and to prioritize intervention areas. Based on the assessment, training curricula, methodologies, trainers manual and tools on topic such as BMO management, income generating services, access to public support programmes, effective advocacy and business responsibility were developed. The materials and tools were used to train and support 35 selected BMOs and revised based on the feedback received. Additionally, the capacity building of these 35 BMOs involved on a pilot basis

a leadership orientation programme, training of secretariat staff, continuous advisory, networking as well as exposure to international good practices and consulting support.

In order to create a sustainable mechanism beyond the project period, GIZ entered into a partnership with 8 national / apex level institutions located in various regions. A pool of 28 trainers was created that progressed through a 8-day training course familiarizing them with various materials and providing them first-hand experience of running a training session on their own with subsequent feedback by their fellow participants and the master trainers.

Additionally, through the development of policy papers, the capacity development of and continuous engagement with policy makers as well as the organization of workshops / conferences the issues faced by BMOs moved to the fore of policy makers. Along with this, the development of an accreditation system for BMOs with the Quality Council of India (QCI) is likely to usher an era of enhanced transparency and trust between the government and BMOs.

Furthermore, the project supported the launch of the “Knowledge and News Network www.knnindia.co.in” which is leveraging the presence of 167 BMO from all across India and mainstreams MSME news and at the same time provides a platform for MSME and local associations to access customized supply side information and knowledge.

All of this has undoubtedly helped in laying the foundation for creating a favorable environment for the Government to support and engage with BMOs on various issues to effectively promote MSMEs. However, a critical analysis has revealed various challenges. Initially the project team had to seek for solutions to balance the various expectations as preliminary interactions revealed that GIZ was seen as a financial supporter rather than a facilitator. Through a continuous stakeholder consultation

process and interactive sessions a common understanding was developed.

Furthermore, the BMOs selected for the project represented a diverse set, not only in terms of geographical and sectoral representation, but also in terms of their capabilities. The capacity building of trainers therefore needed due consideration in order to adequately equip them to manage heterogeneous groups.

Additionally, during the implementation it became evident that the presence of a secretariat is the key differentiating factor to scale the impact of the programme support. BMOs with a functioning secretariat have been able to leverage additional finances through public support schemes and income generating services and thus have benefitted more compared to their fellow BMOs.

Long-term sustainability of the efforts undertaken to capacitate the partner institutes remains a

challenge due to the limited project duration. It is expected that additional public support is needed in the initial years.

However, the final project assessment revealed that the BMOs that participated in the pilot have experienced various positive results and are therefore likely to carry forward the learning. More importantly, an institutionalized framework has been created for sustaining the efforts. The 8 intermediary institutions and the pool of trainers developed through the initiative are expected to form the backbone of future efforts in this direction. The repository of training manuals and self-help manuals will serve as a strong foundation for replication and up-scaling in the coming years. The accreditation system introduced by QCI also has the potential to be used by all stakeholders for greater engagement with BMOs in a transparent manner for the larger benefit of MSMEs.

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Outcome at the system level

- Accreditation System for BMOs, aligned with International Best Practices has been developed in association with National Accreditation Board for Education and Training (NABET), Quality Council of India (QCI) and was formally launched by the Ministry of MSME in August 2014.
- 8 intermediary institutions and 28 trainers (nominees from 8 intermediary institutions as well as freelancers) have been capacitated for ongoing need-based training support to BMOs.
- 5 trainer manuals and 5 self-help manuals for BMOs have been developed and disseminated amongst stakeholders for use.
- Indo-German SME Forum introduced as a platform to facilitate linkages between Indian industry associations, public authorities and institutions and their counterparts in Germany.

Impact with participating BMOs

- Creation of websites by 11 BMOs
- Review of membership fees (4 BMOs) and increased membership base (15 BMOs).
- Development of Newsletters / Magazines (3 BMOs) and publication of new membership directory by 8 BMOs.
- More number of exhibitions and buyer-seller meetings organized (16 BMOs).
- Enhanced awareness about public support schemes in India in the field of MSME promotion (31 BMOs). 6 BMOs have already received support under various Government schemes and another 5 have applied for the same. Further, 12 BMOs are in the process of preparing and submitting their applications.
- Better representation of members interest through:
 - Seminars & Networking events (82% of the BMOs)
 - Delegation of members to Government officials for specific issues (85% of the BMOs)
 - Submission of written memos/petitions to the Government on MSME related issues (76% of BMOs)

Fostering the Eco-System for Sustainable and Inclusive Innovations

“Innovation is better in India than anywhere in the world”, venture Capitalist Gururaj Deshpande recently said. Adding to this he also stated that “India has all the ingredients required for making the country a hub of global innovation.” Indeed, start-ups and social enterprises that provide innovative solutions and serve the bottom of the economic pyramid (BoEP) are on the rise. However, many challenges persist. Start-ups are often unable to unlock their full innovation potential. The reasons for this are manifold: Start-ups that pursue inclusive business models often do not receive quality support that help them to strengthen their innovative capacity. Additionally, start-ups themselves often lack the capability to improve their business model significantly and to generate innovations. Against this background, GIZ under the aegis of the MSME Umbrella Programme worked towards improving the capacities of key actors to offer innovation supporting services for start-ups and social enterprises. At the same time the project directly supported start-ups in order to enable them to generate more inclusive innovations.

Together with the Centre of Excellence for Sustainable Development of the Confederation of Indian Industries (CII-CESD) a methodology was developed that helps companies from social and environmental relevant sectors such as education, health, energy, water and sanitation among others to further refine and develop their business model. The methodology was tested in three workshops with about 70 social enterprises, incubators, investors, etc. However, given the feedback during the workshops it was identified that a further adaptation of the methodology would unlock additional potential to use the methodology to also support commercial enterprises that seek to pursue a more inclusive business model or to identify new sustainability-oriented business areas. After adapting the methodology training of trainers were conducted in 5 countries (India, Egypt, Indonesia, Thailand and Germany) in order to establish a network of service providers that offer innovation-enabling services. Approximately 70 Trainers have been equipped to replicate and use the approach. At the same time the approach was tested with companies as part of the training module. Subsequently 100 companies have been enabled to refine their business model and make it more innovative. Additionally, 3 sector

dialogues were conducted that aimed at improving the business model of social enterprises covering sectors such as water, education, ICT, among others.

In order to increase access to innovative services for businesses, the project also focused on strengthening the capacity of selected stakeholders. In particular, the programme focused on service providers and incubators that seek to strengthen social enterprises that offer inclusive innovation for the BoEP. India does not have enough incubators, even lesser outside of the bigger metros such as Bangalore, Delhi and Mumbai. Support organisations including but not limited to NGOs, foundations, regional industry associations, etc. can take up the role of an incubator and support social enterprises in remote areas to improve their business model. Together with the Centre for Innovation, Incubation and Entrepreneurship, one of the largest incubators in India, GIZ launched an initiative that aimed at building the capacity of those support organisations to act as incubators. Thus, about 70 organisations from smaller cities of India were trained to offer services for social enterprises. Simultaneously, the workshops facilitated a first interaction with social enterprises. The organisations were subsequently able to support social enterprises in the field of infrastructure (e.g. office space), access to potential customers and provide support for marketing activities. In order to ensure the sustainability of the initiative, the new GIZ project on Responsible Enterprise Finance jointly implemented with SIDBI, has been taking up the initiative and is further supporting these organisations. In addition, other support organisations have been identified and are currently strengthened in their capacities.

The project also supported the replication of the franchising approach of UnLtd. Two incubators were set up in Hyderabad and Tamil Nadu, now operating under the brand of UnLtd. Both incubators have assisted 10 social enterprises each in the initial pilot phase. In addition, they were able to generate 25,000 Euro through crowd-funding activities, wealthy individuals, etc. The incubator in Hyderabad has been able to advise further 17 social enterprises until today.

Under the aegis of the programme, Ennovent, a company that seeks to strengthen social enterprises that offer sustainable and inclusive innovation in low-income markets, was supported to expand their start-up service offerings. As a result, Ennovent set up a new department that is exclusively offering start-up services. With the support of the new department 115 inclusive innovation could already been introduced by social enterprises that were supported by Ennovent. Further, a network of 135 mentors has been launched that offer support to start-ups in rural and remote areas.

To bring the experience to the policy level, GIZ conducted a quarterly roundtable on various topics on innovation promotion which was attended by donor agencies, intermediary organisations, investors, policy makers, etc. Based on the discussions during these roundtables, GIZ joined hands with the UK development agency, DFID, to develop a virtual pre-incubation platform (www.startupwave.co). With the support of mentors, start-ups can refine their business model on the platform. Successful enterprises are then referred to incubators. Till today around 200 enterprises have been supported with the help of the platform.

With the support of the MSME Umbrella Programme, GIZ has been able to position itself as a reliable partner in the start-up eco-system. Moreover, with the new government in place the start-up eco-system is experiencing greater importance, i.e. the Indian government has introduced a new ministry for entrepreneurship. Additionally, 25 million Euros have been allocated for incubation and innovation promotion in the new government budget. However, many challenges persist. There is still a gap between the bigger metros and rural areas. Further, long-term sustainability of the efforts undertaken to capacitate the incubators remains a challenge due to the limited outreach and capacity. However, in order to ensure long-term sustainability many of the activities continue under the two new bilateral programmes on innovation promotion and responsible enterprise finance.

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CAPACITY DEVELOPMENT OF START-UPS & SOCIAL ENTERPRISES

Outcome

- Development of methodology that seeks to assist companies to refine their business model and make it more inclusive
- 5 ToT conducted in 5 countries and 70 Trainer trained
- 10 case studies conducted and disseminated

Impact

- 200 start-ups/social enterprises supported to improve their business model
- Results replicated in other countries
- Higher awareness on the challenges faced by social enterprises; focus of the Indian government on start-ups

CAPACITY DEVELOPMENT OF SERVICE PROVIDER AND INCUBATORS

Outcome

- Development of training module for support organisations that can act as incubators
- 70 support organisations trained from various locations in India
- Set up of two incubators in Hyderabad and Tamil Nadu
- Support of Ennovent in introducing start-up services for social enterprises
- Virtual pre-incubation developed in cooperation with DFID

Impact

- Trained support organisations have the potential to provide support to start-ups and social enterprises in form of infrastructure, customer contacts, etc. summing up to an amount of 1.4 million Euro
- 37 start-ups have been supported with the help of the new incubators in Hyderabad and Tamil Nadu
- Introduction of 115 inclusive innovation since the introduction of Ennovents' start-up services
- Ennovent Network of 135 mentors that support start-ups in rural and remote areas has been launched
- 200 enterprises have been supported with the help of the virtual pre-incubation platform

Creating 'Productivity Enhancement Eco-systems for Growth and Competitiveness' of MSMEs in India



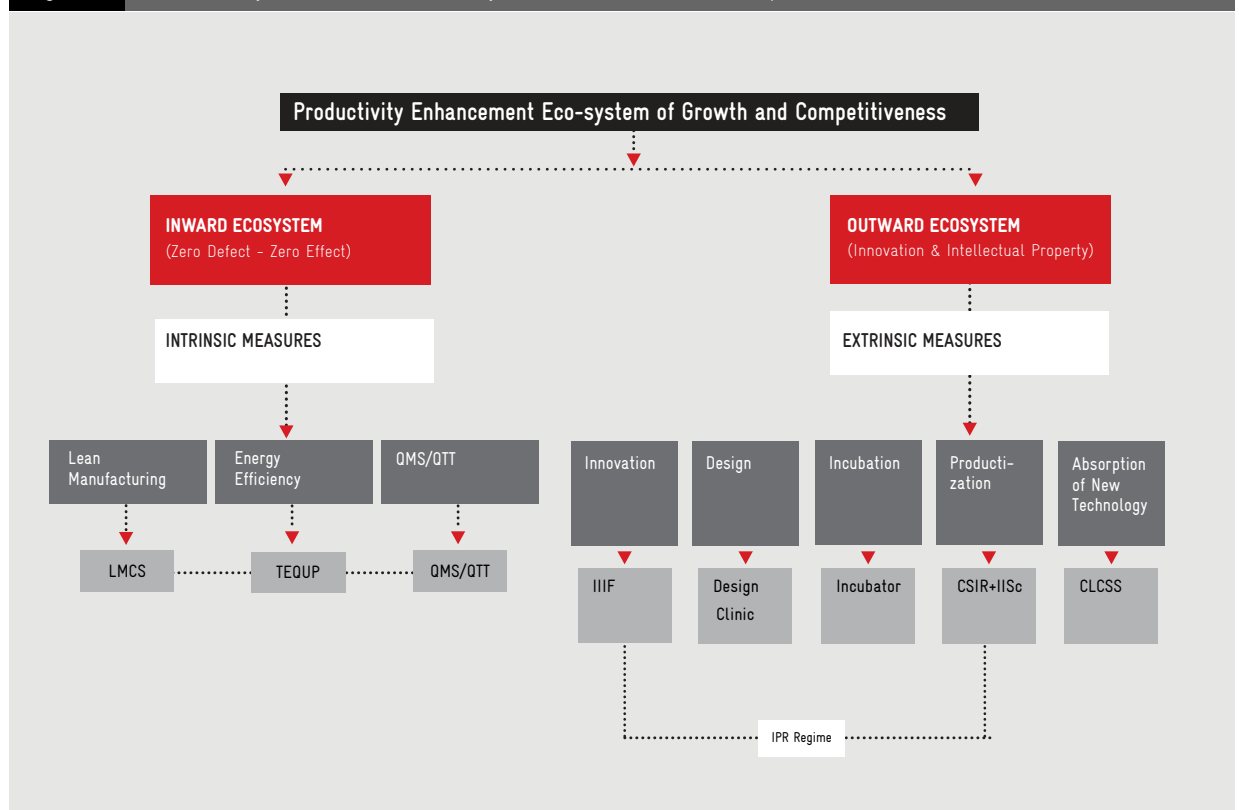
By Sh. Ramesh K Pandey, Joint Development Commissioner, Ministry of Micro, Small and Medium Enterprises

The MSME sector currently contributes about 8 per cent to India's GDP. However, their potential has yet to be fully leveraged. A recent study jointly conducted by KPMG and CII suggests that the establishment of a vibrant entrepreneurial eco-system could increase the share of MSME contribution to India's GDP to 15 per cent by 2020. The Ministry of Micro, Small and Medium Enterprises and various other central ministries as well as state governments have been actively engaged in developing support policies and schemes to enhance growth and competitiveness

of MSMEs. However, some challenges continue to persist: A large chunk of MSMEs still operate in the informal sector, thereby limiting their access to institutional finance and public support measures and on top of it making it almost impossible for the government to create meaningful policies that cater to the MSME sector as a whole. Additionally, the productivity of Indian MSMEs remains low for a variety of reasons, making it difficult for the sector to compete internationally. While public policy has accelerated efforts to support the MSME sector in India, the need today is to address challenges by altering the view on the MSME eco-system and adapt the way support measures are implemented in a more targeted manner. Hence, boost the overall MSME performance.

Against this background, it is essential to adopt a systematic approach to support MSMEs by facilitating the creation of an eco-system that focuses on enhancing productivity in order to promote growth and competitiveness for MSMEs in India. In order to achieve this, the MSME eco-system can be redefined and classified in an inward and outward eco-system (see figure 1).

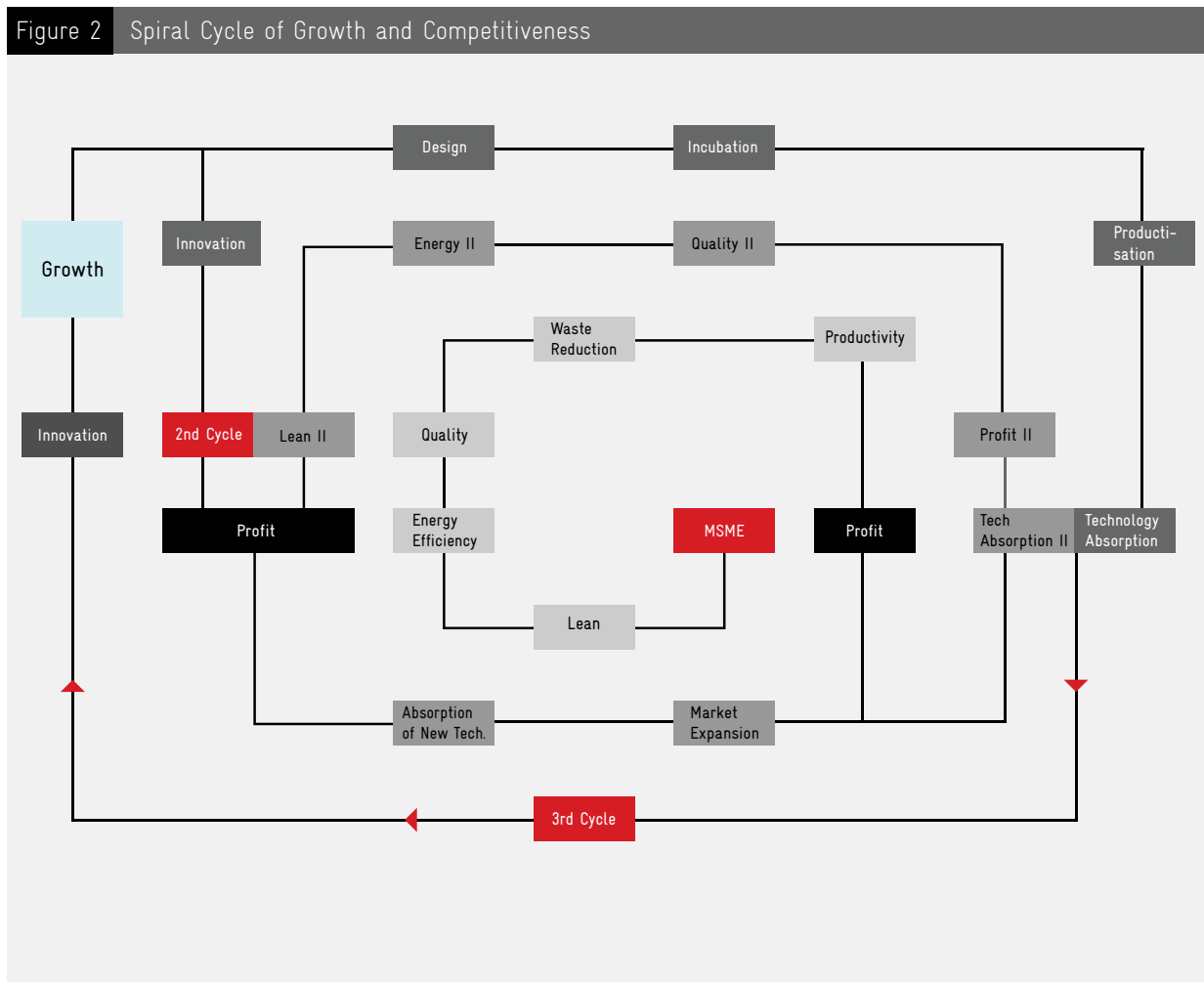
Figure 1 Productivity Enhancement Eco-system of Growth and Competitiveness



While an inward eco-system is characterized by the enterprise's boundaries, the outward eco-system accounts for all impacts of exogenous variations on the business. Policy incentives therefore can attempt to first target at strengthening the inward eco-system so as to ensure a strong foundation for the enterprise before it begins to operate outside its own boundaries. This intrinsic eco-system may also be understood as eco-system of zero-defect and zero-effect. Moreover, intrinsic measures to support the inward eco-system of MSMEs particularly in the area of productivity, quality and energy efficiency would be needed to make MSMEs robust and competitive. The productivity enhancement by reducing waste, adopting quality technology tools and quality management systems and absorbing energy efficient technology must therefore be taken on priority which can easily be supported through schemes such as lean manufacturing competitiveness scheme (LMCS), Technology and quality up-gradation scheme (TEQUP) and quality management standards / quality technology tools (QMS/QTT) scheme of the ministry. For better result all these schemes may be

merged and up-scaled to cover MSMEs in clusters all across in the country in days to come.

Subsequently, as the business matures and increasingly interacts with the outward eco-system the focus must shift from internal to external support measures which seek to foster innovation, absorption of new technologies and reverse engineering among others. Since these require extensive interaction with other eco-system players, these measures should only be taken once the operational eco-system is stable. Various schemes by the Ministry of MSME such as the Design Clinic scheme, the support for entrepreneurial and managerial development of SMEs through incubators or the credit link capital subsidy scheme for technology up-gradation support an enterprise in overcoming challenges that it encounters within the outward eco-system. The natural growth pattern of any enterprise- evolving from the inward to the outward eco-system over time with idiosyncratic challenges at every stage- can be summarized in a spiral cycle of growth and competitiveness of MSMEs (see figure 2).



2 Articles

The phase when an enterprise commences market expansion characterizes its entry in to the outward eco-system. However, at this stage measures to support the inward eco-system as well the outward eco-system have to be simultaneously anchored as both the systems overlap each other in this period of growth.

Economic development institutions such as development institutes, tool rooms, chambers and associations, etc. play an important role in this regard. They act as intermediary organisations that offer tailored services to MSMEs or implement support programmes and schemes of the ministry. However, these organisations are often unable to offer need based services to MSMEs. It is therefore essential to invest in enhancing their capacities and capabilities to offer need based services which a MSME requires while being in the inward or outward eco-system. While doing so their service portfolio can be refined as certain services are required only at a particular growth stage of the enterprise and not all schemes may apply at all stages. In return this would offer the ministry an opportunity to design schemes more effectively by adopting a systematic approach on classifying the growth stage of an enterprise. Doing so will also enable significant alterations to the support system for MSMEs, thereby supporting MSME where they most need it.

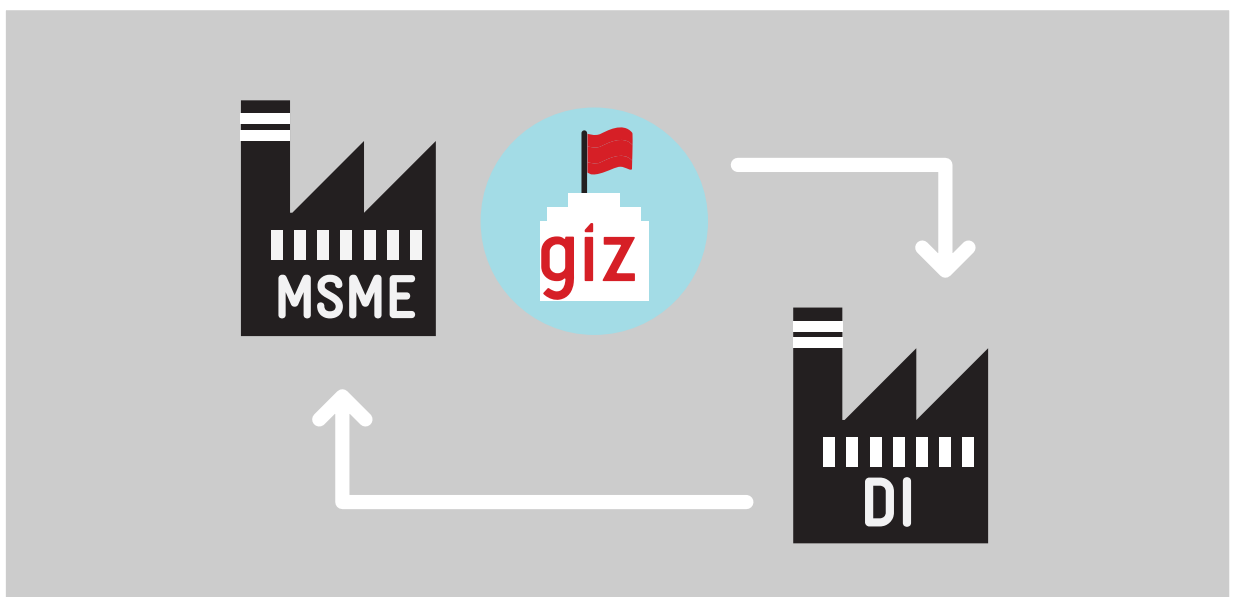
Together with GIZ under the aegis of the MSME Umbrella Programme, the Ministry has taken up various initiatives to foster and strengthen economic

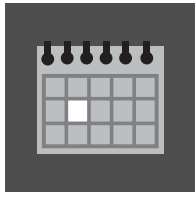
development institutions to provide more demand oriented services. Under the Technology Centers System Programme (TCSP) of the Ministry which is being supported by World Bank, 15 more Technology Centers will be established and 18 existing Tool Rooms and Technology Development Centers would be strengthened. Furthermore, with the support of GIZ, Business Membership Organisations (BMOs) are being strengthened in their capacities to play a more vital role in future. Additionally, an accreditation system for BMOs has also been developed in partnership with QCI, which can serve as a basis for the ministry to engage with accredited BMOs for the administration of schemes.

It is the constant endeavor of the Ministry of MSME and GIZ to improve the MSME eco-system and offer better tailored services for MSMEs that take into account their individual growth stage. Together with GIZ under a new project on "Innovation Promotion in MSMEs", the efforts would continue. It is also expected that a 30 million USD GEF-UNIDO-MSME project as envisaged for market transformation in energy guzzling clusters may also get through in near future. Both these projects would be helpful in shaping the support for the MSMEs in the outward eco-system and the inward eco-system.

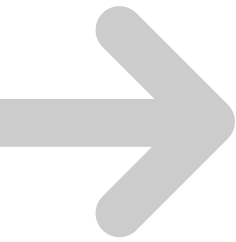
Views expressed are personal and do not define the official position of the Ministry of Micro, Small and Medium Enterprises.

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3 Events



Fostering Cluster Internationalisation: 2nd Indo-German SME Forum

Industry clusters which seek to foster collaboration between various stakeholders from businesses, academia, research and government have gained reasonable significance in recent years. Small and Medium Enterprises (SMEs) play an important role in the development and success of these clusters and serve as engines for economic growth in both India and Germany. Many SMEs are organized in Cluster Organisations or Associations that provide various services and unique opportunities for their members to engage in collaboration. However, sharing of international experiences and collaborating on international platforms has become equally important. While the scale of clusters in India is large in terms of numbers, geographical outreach and people employed, clusters in Germany have evolved more organized, structured and technologically advanced with better access to research and development.

In order to foster dialogue and experience sharing and provide a platform for German and Indian SME clusters, industry associations alongside other important players of the SME eco-system such as research and academic institutions, policy makers,

service providers; the second Indo-German SME Forum was held on the 22nd-23rd of September, 2014 in New Delhi. The Indo-German SME Forum, the second consecutive forum since its launch in 2013 was jointly organized by Deutsche Gesellschaft für Internationale Zusammenarbeit, Ministry of Micro, Small and Medium Enterprises, Small Industries Development Bank of India and Indo-German Chamber of Commerce. While the first Forum lay the foundation for a mutual partnership between German and Indian intermediary organisations, the second forum emphasized the importance of cluster development as the foundation for Cluster Internationalisation.

In his key note speech, Mr. Madhav Lal, Secretary MoMSME, highlighted that while MSMEs have the potential to innovate and adapt to market challenges, the weak link in the MSME eco-system is the inefficient backward and forward integration. He further stressed on the need for a comprehensive framework to service MSMEs through cluster development, promoting innovation and technology platforms.



3 Events

Further responding to Mr. Lal, Dr. Martin Hanz, Deputy Chief of Mission and Head Department for Economic and Global Affairs, German Embassy offered that Germany would be keen to work closely with India as there exist plenty of opportunities to leverage the competitive advantages and develop mutual beneficial relationship through enhanced cooperation. The forum witnessed extensive participation from German and Indian cluster organisations, associations, policy makers, research and academic institutions, incubators and service providers. Around 150 participants followed discussions on collaboration opportunities in the areas of technology transfer, innovation and incubation. The second day of the forum was

dedicated to key emerging sectors like automotive, food processing and electronics, which offer significant opportunities. Taking away from the discussions and building on ideas that emerged during these two days, the key sectors will find mention in the new bilateral programme "Innovation Promotion in the MSME Sector" which seeks to develop an innovation eco-system and foster collaboration in selected clusters. During the two day event, approximately 40 one-to-one meetings were held between German and Indian organizations to identify specific areas of interest for cooperation.

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Empowering Women and Girls: Building and Investing in High-Impact Enterprises Targeting Women Products and Services

According to the ambitious Millennium Development Goal, all gender disparity is to be eliminated at last by the year of 2015. Moreover, **gender equality and women's empowerment** is set out in several international conventions including working rights of International Labour Organization (ILO). However, in India women are still being denied the opportunity to participate equally in decisions that affect their lives despite their substantial economic power as entrepreneurs, customers and employees. In particular, per capita income growth, poverty reduction and sustainable development were found

to be closely connected to increased economic opportunities for women. Thus, promoting gender equality and women empowerment by establishing **high impact enterprises**² not only makes commercial sense but also builds support for the bottom of the economic pyramid.

Against this background, GIZ in cooperation with United States Agency for International Development (USAID) and the Department for International Development (DFID) hosted two successive workshops on the establishment of an **accelerator**

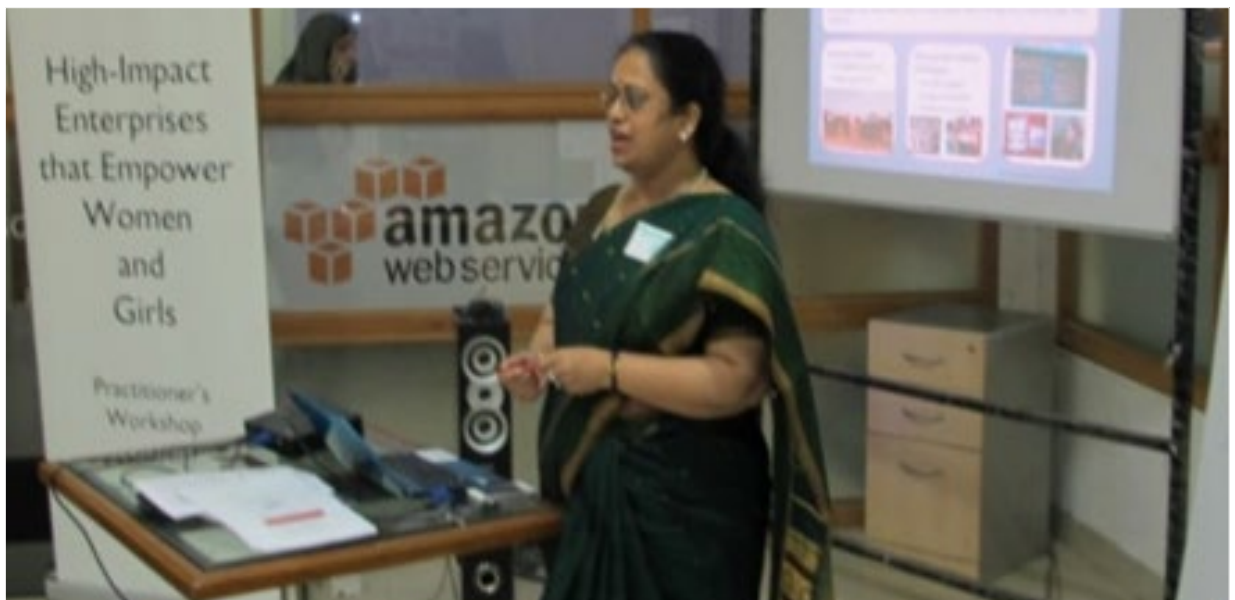
3 Events

programme for women entrepreneurs or social enterprises with products and services targeting women and girls at the base of the pyramid. While the workshop held on the 4th of September, 2014, focused on the question how social entrepreneurship can contribute to develop an action plan on gender lens incubation and investing and the exploration of a potential framework for an accelerator programme, the practitioner's workshop on the 5th of September, 2014 countered the purpose of exploring business models that target women and girls as consumers within the low income market or rely on women as owners, suppliers, employees or distributors.

The half-day **consultation workshop** on the 4th of September with 21 participants including women leaders of high impact enterprises and representatives of hosting organizations focused on developing the content for a potential accelerator programme. The workshop was structured in an initial reaction round on topics such as sexual harassment faced in their daily life and in discussions within subgroups on important topics women are challenged with and would like to see covered in an accelerator programme.

The following participatory one-day **practitioner's workshop** comprised discussion rounds with 37 attendees, 16 enterprise representatives, 6 women entrepreneurs as mentors, 6 incubators and 9 host representatives who were divided into subgroups with two mentors in each subgroup. Competition from large companies, production and product disposal issues as well as problems with the operating environment and government policy especially in the area of menstrual health awareness were reviewed. Moreover, in the workshop the mind-set of women, lower willingness of families to pay for training of girls and the general environment including lack of sanitation, phone ownership and bank accounts for women were pointed out as key challenges. The workshop concluded with an investor speed dating session. The enterprises that participated in the practitioner's workshop were selected keeping in mind their potential to be part of the accelerator programme which will be conducted in 2015 with the support of USAid, DFID and the Inclusive Business Action Network of GIZ.

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² Impact enterprises in this regard are enterprises either with women leaders or business owners, enterprises generating positive livelihood returns for women including employment and organisational practices as well as enterprises which provide products or services for the needs of women such as in the area of reproductive health.

Fostering Responsible Enterprise Lending in the MSME Sector

GIZ in collaboration with SIDBI (Small Industries Development Bank of India) is implementing a project on **Responsible Enterprise Finance**. One of the objectives of the project is to promote the integration of environmental, social and governance (ESG) factors in lending and investment decisions of financial institutions with a focus on the MSME sector, besides other efforts to strengthen and capacitate the eco-system for the same. In order to achieve its objectives the project facilitates wide scale dissemination of good practices, undertakes advocacy and capacity building of Financial Institutions (FIs), and engages in evidence based and stakeholder-led policy dialogue. Guided by a multi-stakeholder approach, the project engages public and private sector banks, investors, credit rating agencies, the SME sector, industry associations, international and development agencies, experts and thought leaders.

In order to set the tone for the project, four major **events** were held last year. Three working group meetings elucidated the development of voluntary banking guidelines, the development of an ESG framework for SME lending and the development of an end-to-end energy efficiency (4E) model. Furthermore, a symposium on the relevance of natural capital for financial institutions was conducted.

The **working group for development of voluntary banking guidelines** consisted of high level banking representatives that seek to support the project by connecting with specific departments within the participating financial institutions such as SME business units, risk departments, NPA department in order to discuss and test pilot activities. The first meeting took place in Mumbai at the Indian Banks' Association (IBA) on 31st July 2014.

Likewise, the **working group for development of an ESG framework for SME lending** held its first meeting

in Mumbai on the 25th of September, 2014 with participation of representatives from banks that have a strong focus on SME lending, rating agencies and implementation agencies working in the field of ESG integration. The group emphasized on ESG issues as they are becoming a dominant theme where discussions regarding competition, business continuity, customer demand and regulation are concerned.

Moreover, a first meeting of the **working group for the development of a 4 E model** took place in Delhi on the 8th of October, 2014. The working group comprised of participants from banks with experience in lending for energy efficiency projects and implementation agencies working in the field of energy efficiency for SMEs.

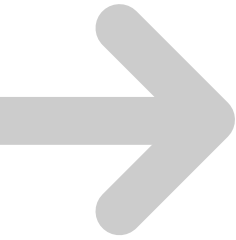
Finally, a **Symposium on Natural Capital** held on the 14th of November, 2014 in Mumbai went on to elaborate on the business case for financial institutions with a view to raise awareness among senior management representatives of financial institutions and plan and prepare trainings for representatives from the financial sector.

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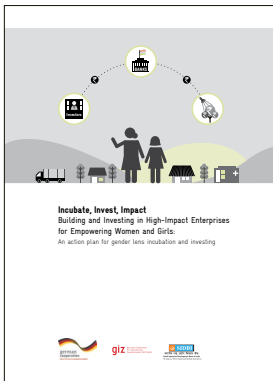




4 Studies



Incubate, Invest, Impact: Building and Investing in High-Impact Enterprises for Empowering Women and Girls



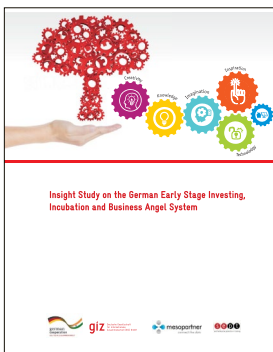
Against a background where women are still being denied the opportunity to participate equally in decisions that affect their lives, gender lens incubation and investment can act as a key enabler of women’s empowerment and gender equality. The preliminary premise of Incubate, Invest, Impact is that there is a commercial case to support gender

lens incubation and investment in start-up ‘high impact enterprises’ that focus on gender equality and the empowerment of women and girls. Gender lens investing is an investment approach that purposefully deploys gender as a category of analysis and value to create both financial return and positive social impact that is actively measured.

This study explores how the social entrepreneurship eco-system can unite to develop an action plan on gender lens incubation and investing for enterprises focused on the low income market segment in India. It adopts an international perspective with a geographical focus on India an emerging leader in innovation for the bottom of the pyramid (BOP) and is supported by examples of such innovative high impact, sustainable enterprises.

You can find the study [here](#).
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Insight Study on the German Early Stage Investing, Incubation and Business Angel System



The existence of highly dynamic and successful micro, small and medium-sized enterprises (MSME)

is one of the distinctive features of the German and Indian economy. Both the German and Indian MSME Sector have continued to be the country’s growth and job engine. In India 27 million MSMEs employ roughly 60 million people. However, the support environment is rather weak and 90% of the MSMEs are in the informal sector. They experience limited access to finance, non-availability of suitable technologies, constraints on modernization, non-availability of skilled labour, etc. Moreover, the MSME sector will have to grow and innovate if India wants to ensure its long-term competitiveness. In order to be more competitive in the international market, India must therefore improve its start-up and MSME eco-system. Germany’s strong performance in this regard has generated interest in other countries with less dynamic MSMEs.

4 Studies

Against this backdrop, the study has been designed to provide an insight into the German start-up ecosystem with the specific objective of highlighting innovative incubation and start-up finance models. The study focuses on the institutional embedding of incubation and start-up finance models in Germany, instruments, new trends, success factors as well

as possible ways of exchanging learning between Germany and India.

You can find the study **here**.

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