

# Private Sector Development Newsletter

Fostering Sustainability in the MSME Sector

October 2016

**giz** Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Innovative Approaches to Private Sector Development

Newsletter



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## 1 Editorial

The Indian Micro, Small and Medium sized Enterprise (MSMEs) sector is characterized by its vast diversity in terms of size, level of technology, range of products & services provided, among others. Recognizing its important role, the government has set-up various flagship programmes in the last two years such as "Make in India", "Skill India" & "Start-up, Stand-up" that seek to strengthen the role of the private sector and especially Micro, Small and Medium Enterprises including start-ups.

With its support of the MSME sector and its various initiatives in the start-up space as well as the new bilateral programme on "Skill Development" which commenced in August 2016, GIZ's activities in the area of private sector development are aligned with the priorities of the Indian government. We believe that a striving, innovative and skilled private sector plays a key role in India's path for more inclusive and sustainable growth.

In this edition we will therefore shed light on some of our initiatives that contribute to the development of India's MSME sector. The collaboration of industry and academia is essential for the creation of a thriving innovation ecosystem. That is why we have undertaken Student-SMEs Projects in Aurangabad's Auto Cluster which resulted in patent filing of two new innovative solutions.

We recently also started a Public Private Partnership with Zeiss which is focused on improving the accessibility and affordability of eyeglasses and respective services for the rural poor by setting up a local network of entrepreneurs.

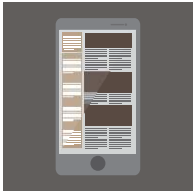
To promote an innovative ecosystem in itself, substantial support provided by the government can be essential. The innovation voucher can be one of such programmes and will be explained in detail in this newsletter.

We also encourage you to read more about our latest events and recent announcements in this Newsletter.

Happy reading!

**Wolfgang Leidig, Director of Private Sector Development, GIZ**





## 2 Articles

### Student - SME Projects in Aurangabad's Auto Cluster: An Innovative Approach to Bridge the Industry-Academia Gap



Cooperation between industry and academic institutes is vital for achieving a higher level of innovation. However, the current level of interaction in Aurangabad's auto-component and especially the contribution of academic institutes to the innovation processes in industries remains low. Although being recognized as one of the fastest growing sectors in India, innovation in the auto-component sector has been sporadic and scattered as most of the MSMEs are manufacturing purely as per customer designs.

In order to promote Industry-Academia cooperation for developing innovative solutions for local MSME units, GIZ along with the local industry association "Marathwada Small Scale industries Association", launched a Student - SME Challenge programme. As part of the programme, key SME problem areas were identified during SME factory visits and live industry projects for mechanical engineering students of third and final year developed.

Students from Maharashtra Institute of Technology (MIT) and Jawaharlal Nehru Engineering College (JNEC) along with one faculty guide participated in the projects. In total 22 students were engaged in 11 live industry projects in a group of two for every topic. To motivate the students an honorarium amount of INR 5,000 per project/month was announced, which was equally contributed by GIZ and the participating SMEs. The best solutions were

also financially supported after the completion of the programme.

One of the innovative solutions developed as part of the live projects was an automatic thread inspection system for accrete industries. The new machine has led to an increased productivity, quality and to a decreased operational cost. The solution has also contributed to an improved ergonomic condition for the operators, since they do not need to operate it manually. As a result of the live project, the students have received ten more orders from SMEs to build similar machines.

All eleven projects carried out by students resulted in good improvements for SMEs in different areas. Two student groups are currently filing a patent for their solutions. The programme thus acted as a catalyst in bringing academia and industry together for developing new solutions for SMEs. Students were also overwhelmed after receiving such an arousing welcome of their work in industries. Through this programme, they have realized their potential to work for SMEs and developing modern day technological solutions.

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## Developing a Social Business Model for Providing Affordable Eyeglasses to the Rural Poor

According to the World Health Organisation 625 million people are visually impaired globally, mostly due to uncorrected refractive errors and simply because they don't have access to eye examination treatments and appropriate spectacles. About 90 percent of them live in developing countries. A study by Essilor found that in mid-2000 65% of the population in India was in need of eyeglasses whereas only 7% wore spectacles. Visual impairment impacts the life of the poorest in many ways: It is among the major reasons for drop-out rates in schools. It negatively affects job opportunities and income for people who do not have access to corrective treatment. Besides access to corrective treatments, there is a general lack of awareness among poorer people regarding vision correction. Limited access to eyeglasses in rural areas adds to the challenges faced by people living there, as they are primarily available in urban optical shops. Eye screening centers are sparse in rural areas with a general lack of trained optometrists. Additionally, there is an acceptance problem – people in need of eyeglasses often consider it as disturbing or unaesthetic.

Several social enterprises and charity-funded initiatives have emerged in recent years to tackle these challenges. While some seek to address the lack of qualified optometrists, others are focusing on providing affordable glasses or new technological innovations. Given the large scale of the problem, bigger corporates operating in the eye-care space & providing spectacles can play a significant role in providing affordable eyeglasses to the poor as they have networks, supply chains and outreach in place.

Against this background, ZEISS – one of the world's leading manufacturer of eyeglass lenses and dispensing tools for opticians – has joined hands with GIZ under the [develoPPP.de framework](http://develoPPP.de) supported by the German Federal Ministry for Economic Cooperation and Development (BMZ).

Objective of the project is to improve the access to affordable eyeglasses for poor people by developing a network of entrepreneurs that, in cooperation with local NGOs, not only offer affordable eyeglasses but also provide eye-screening services together with trained optometrists, thus offering a new approach to private sector development by generating employment for rural people. As part of the programme it is envisioned to develop a network of 60 entrepreneurs in Karnataka as a pilot and then scale it up to other regions in India. Training on basic ophthalmological services, entrepreneurship and the development of a functioning business model taking into consideration aspects such as key partners, value proposition, customer relations, cost structure, etc. is an integral part of the project. In addition, ZEISS and GIZ also seek to address issues related to awareness and acceptance by running multi-media awareness campaigns and workshops in isolated and rural areas of India. In Sohum Innovation Labs – one of the winners in this year's Sankalp Forum – Zeiss and GIZ have identified a capable partner to drive this initiative.

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## Fostering Innovation in SMEs through Innovation Vouchers

While the MSME sector is acknowledged and admired for its agility, dynamism, innovativeness, adaptability and maintaining a sustained annual growth of 10%, there is no denial that the potential of this sector to achieve "high economic growth and create more jobs" has not yet been fully realised. Moreover, SMEs continue to face several well-known constraints including strong international competition and pressure to build efficiency in their consumption of key resources like energy, water and raw materials. Existing mechanisms to support the growth of the SME sector often fail to achieve the desired results in enabling innovation, as they impose pre-designed schematic solutions not matching with more complex real-time situations and also missing the concrete, actual demand and limitations of the target group. Innovation promotion measures often focus only on technology upgradation and transfer and fail to contribute to the establishment of an innovation eco-system; wherein cooperation and networking between different actors lead to innovation. Therefore, new approaches have to be identified and adopted to tackle the well-known challenges faced by the SME sector in its pursuit of innovation.

The idea of Innovation Vouchers (IV) is not new, however, it approaches the support to SME from a different angle compared to existing mechanisms and tools. Rather than supporting entrepreneurs on a pre-decided areas, the Innovation Voucher concept aims to encourage entrepreneurs to come forward with their own ideas – where they want to innovate and with whom they want to cooperate.

A paper, published by the OECD in 2010 on innovation vouchers explains it "as small lines of credit provided by governments to SMEs to purchase services from public knowledge providers with a view to introducing small-scale or incremental innovations (new products, processes or services) in their business operations". The paper further identified two major impacts of innovation vouchers, both seeking to overcome major incentive barriers to the usual engagements between SMEs and knowledge providers. While the voucher on the one hand motivates SMEs to approach knowledge providers with their innovation-related problems – something that they might not have done in the absence of such an incentive, the voucher also provides an incentive for public knowledge providers to work with SMEs, although they usually tend to work with bigger corporates.

Innovation Voucher Programmes (IVP) have been implemented in various parts of the world e.g. Germany, UK, Europe, and Australia. The Voucher has proven especially useful in small companies, in which entrepreneurs are either unable to fully develop their innovative ideas or cannot define their problem in detail due to lack of funds to buy necessary additional expertise. The focus of the IVP has therefore primarily been on fostering interaction, exploration, access and improved performance. In the German federal state Baden-Württemberg for instance the Voucher can be redeemed against the cost of scientific services preparatory to the development of an innovative product, service or process (e.g. technology and market research, feasibility studies, materials studies, design studies, production technology studies.) or the cost of implementation-orientated research and technology services.

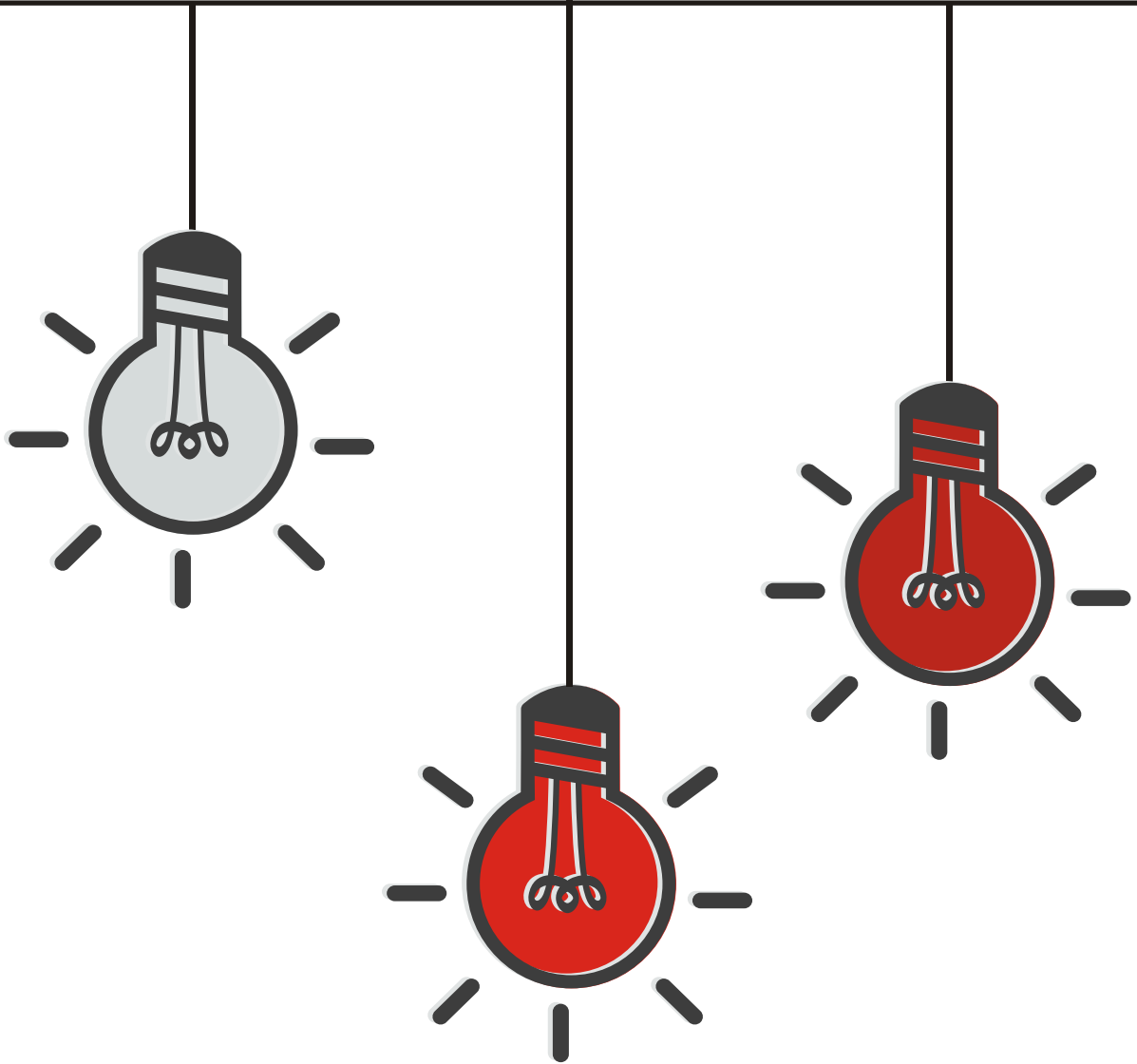
The Quantum of funding per Voucher usually ranges from Euro 5,000 – Euro 50,000; in a few cases it even goes as high as Euro 200,000. However, most of the vouchers are low in value and do not cross a value of Euro 10,000. The Implementation mechanisms slightly vary from country to country but basically follow an approach based on trust and decentralisation. The funding agency (state departments /ministries) gives the mandate to an implementing agency (private or public) that creates the necessary framework, lists the network of eligible knowledge institutions, runs the call for SMEs to apply and selects the winner – normally with the help of a selection committee. After the use of the voucher and confirmation of services, payment is released to the institutions directly avoiding that SMEs have to bear the expenses upfront for the approved voucher amount. A pilot project on Innovation Voucher was implemented with the support of Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Germany from 2012-2015 in the state of Tamil Nadu, India.

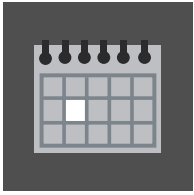
Based on these and other international experiences as well as empirical evidences about the utility of this instrument for promoting innovation in SMEs, GIZ together with the Ministry of Micro, Small and Medium Enterprises (MoMSME) is currently exploring the potential mechanism of this support programme for adoption in India.

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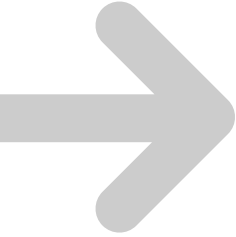
**International Workshop on  
"Innovation Voucher" for Policy Makers**

On 24th to 25th November 2016, GIZ jointly with Office of DC MSMEs, Ministry of MSMEs and in partnership with FISME, IFC and TFSC is organizing an international policy workshop on "Innovation Voucher" in New Delhi. Day 1 of the workshop has been designed with an objective to understand and analyse the design, structure, implementation mechanism, different approaches, and success and risks factors of the "Innovation Voucher Programme (IVP)" – as a support instrument to facilitate innovation in SMEs. Day 2 will be devoted to analyse the appropriateness, feasibility of IVP for India and develop a roadmap for the adaptation of the instrument in India. Indian and International speakers from Germany, Austria & Sweden will provide their experiences on the instrument during the two days.





# 3 Events



## Practice Oriented “Innovation Management Training for Small Businesses”



Giving Small and Medium Sized Enterprises (SMEs) the opportunity to enhance their innovation management capacity, IIM Calcutta, IIM Indore, ISB Mohali and IIT Delhi jointly with German based technology transfer agency Steinbeis and CEFE organized a 7 days training programme on “Managing Innovation in Small Businesses” between the 8th to 12th August and 26th to 27th September 2016 in Bangalore. The training has been initiated within the framework of Indo German Bilateral Development Cooperation programme “Innovation Promotion in MSMEs”; jointly implemented by Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH and the office of DC MSME, Ministry of Micro, Small and Medium Enterprises (MoMSME), Government of India.

The workshop aimed at enhancing the innovation management capacity of SMEs and has been designed to equip the participants with hands-on tools to start or manage product, process or business model innovation in their enterprises. It included exercise based sessions, practical case studies and an opportunity to work on individual innovation ideas/projects – supported by experts and facilitators from Germany and India. The workshop was divided in three phases, viz. a 5-days of practical training conducted between the 8th to 12th August in Bangalore followed by a 4 weeks implementation break and ending with a 2-day finishing school between the 26th to 27th September during which the participants got the chance to present their innovation projects and get further feedback. 25 SMEs from across India participated in the training.

**Given the success and the demand of the training, it is offered again by Indian Business School in cooperation with Steinbeis & GIZ between the 11th to 15th November in Mohali/Chandigarh. For registration please refer to: <http://www.isb.edu/managing-innovation/about-workshop>.**

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## Accelerating Start-ups from the Energy Space – 1st Indo-German Start-up Bootcamp

Looking at the looming trend and potential of start-ups in the Indian as well as German market, GIZ along with Bosch, SAP, Social Impact Lab and Intellectap had a call for applications inviting impact driven start-ups from the energy sector for the first Indo-German Start-up Bootcamp in Berlin. In response to the call, 100 applications were received, out of which five Indian and five German start-ups from the Energy space were selected to take part in the Bootcamp hosted by Social Impact Lab (an incubator fostering social innovation in



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Germany) from 18th July to 27th July, 2016 in Berlin.

The programme – spread across 10 days – brought together entrepreneurs, mentors, corporates, technology experts and other key stakeholders. In order to equip the participants with all the necessary skills to efficiently run their start-ups, the programme was structured into three modules: Design Thinking Workshop by Social Impact Lab, Business Model Creation by SAP and Individual Coaching by mentors from BOSCH and Beth Susanne, a renowned communication and pitch coach, which culminated into a final Demo Day providing an opportunity for participants to pitch their ideas to corporates such as RWE, Vattenfall, Solenia, Weltenergierat, InnoZ, VNG, AtomLeap, Bundesverband Solarwirtschaft among others. To understand more on the offering of corporates for start-ups, the tables were turned during the demo-

day – Green Field (accelerator of Vattenfall), Bosch, VNG Verbundnetz, InnoZ and the Innovation Hub from RWE got the chance to pitch their support to the start-ups.

Interesting connection could be established during the Bootcamp. “We have our second meeting with a German medium sized company in September to explore the possibility of setting-up a pilot with our IoT solution in one of their wind plants”, says Vibhav Gupta from Algo Engines. “Without the support of GIZ and Social Impact Lab this would have not been possible”, he further elaborates.

The next Indo-German Bootcamp will evolve around the topic of sustainable transportation and mobility and is planned for March 2016 in India in cooperation with IIM Calcutta’s incubator.

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### Workshop for Bankers on Financing of Energy Efficient Technologies for MSMEs

Under the framework of the Responsible Enterprise Finance Programme, SIDBI and GIZ organized a series of workshops in 5 clusters (Jaipur, Gurgaon, Chandigarh, Chennai and Coimbatore) on financing of energy efficient technologies for MSMEs. The workshops took place between May and August 2016 and were attended by SIDBI Bankers of 25 branches. The following workshops were covered in the course of the trainings:

- Energy Efficiency: Basics, Potential and Institutional Set-up in India
- Energy Audit and Role of M&V
- EE focus areas sector wise
- Viability Analysis for Energy Efficiency Project (IRR, NPV, Payback)
- ESCO Models & Partial Risk Sharing Facility
- Solar Rooftop – Basics and Potential

Energy efficiency and therefore energy efficiency finance has been put high on the political agenda. Although there have been a number of activities in this domain, MSMEs still face challenges in understanding the importance of the topic and are taking limited action in response to proposals by the numerous energy audits, awareness campaigns and capacity buildings conducted. In order to catalyze investments on energy efficient technologies by MSMEs, SIDBI is offering handholding support through their associate organization – India SME Technology Services Ltd. (ISTSL). The end to end energy efficiency services (4E) offered by ISTSL cover assessment of energy savings potential, implementation support as well as monitoring and verification.

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## Workshop Series on Financing for Innovation



Access to finance to carry out innovation activities is one of the major challenges faced by enterprises- particularly MSMEs. While there exist a large number of support schemes and funding programs targeted at improving the innovation potential of SMEs, their outreach and impact is limited. This is primarily due to limited level of awareness amongst enterprises about such schemes. Further, there are concern on part of majority of MSMEs regarding the complexities involved in accessing these schemes; thereby negatively impacting the coverage and usage of schemes.

To address the issue of low awareness and to enhance the uptake of the innovation promotion schemes particularly those which promote innovation & technology development, GIZ is implementing a workshop series on 'Financing for Innovation'. The objective is to sensitize and create awareness amongst SMEs and supporting stakeholders such as academia, innovation service providers and knowledge brokers about the available funding instruments for financing innovation including the funding opportunities for acquisition of Clean, Green & Energy Efficient Technologies.

Till now 5 such workshops have been organized (Aurangabad, Ranchi, Pune, Hyderabad & Thane). The 6th workshop in the series is planned in Bengaluru on 5th of October with representatives of the Ministry of MSME, SIDBI, Ministry of Communication and IT & Karnataka State Financial Corporation. Over 250 MSMEs participated in these workshops and several of them have already initiated the process of applying for various schemes.

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## 4 Announcements

### India and Germany join hands on Skill Development in India



India and Germany are deepening their collaboration in the area of skill development. In presence of the German Ambassador to India, Dr. Martin Ney, the implementation agreement was signed in Delhi between the Ministry of Skill Development and Entrepreneurship (MSDE) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. This agreement marks the launch of a new bilateral project supported by GIZ that focuses on adapting elements of the German dual system in selected industrial clusters in India.

This new project will run for three years starting August 2016, aiming to foster conditions which will help create and improve cooperative workplace-based vocational training in India. The project will be implemented in three selected industrial clusters, which include the Automobile cluster in Maharashtra and the Electronics cluster in Bangalore. The new project will also play an

important role in supporting the government's flagship initiatives - "Skill India" and "Make in India" as well as MSDE's existing programmes to scale up apprenticeship training.

Commenting on the Indo-German partnership in the area of skill development, Shri Rajiv Pratap Rudy, Union Minister of State (I/C) for Skill Development and Entrepreneurship said, "We in India recognize the fact that Germany's dual system is widely acclaimed as one of the best in the world, noted for its close linkages between industry and training institutions. This provides a competitive edge to Germany's industry and businesses. We need to adapt elements of the German VET system to the Indian context to ensure that skill training in India is closely aligned with the requirements of industry."

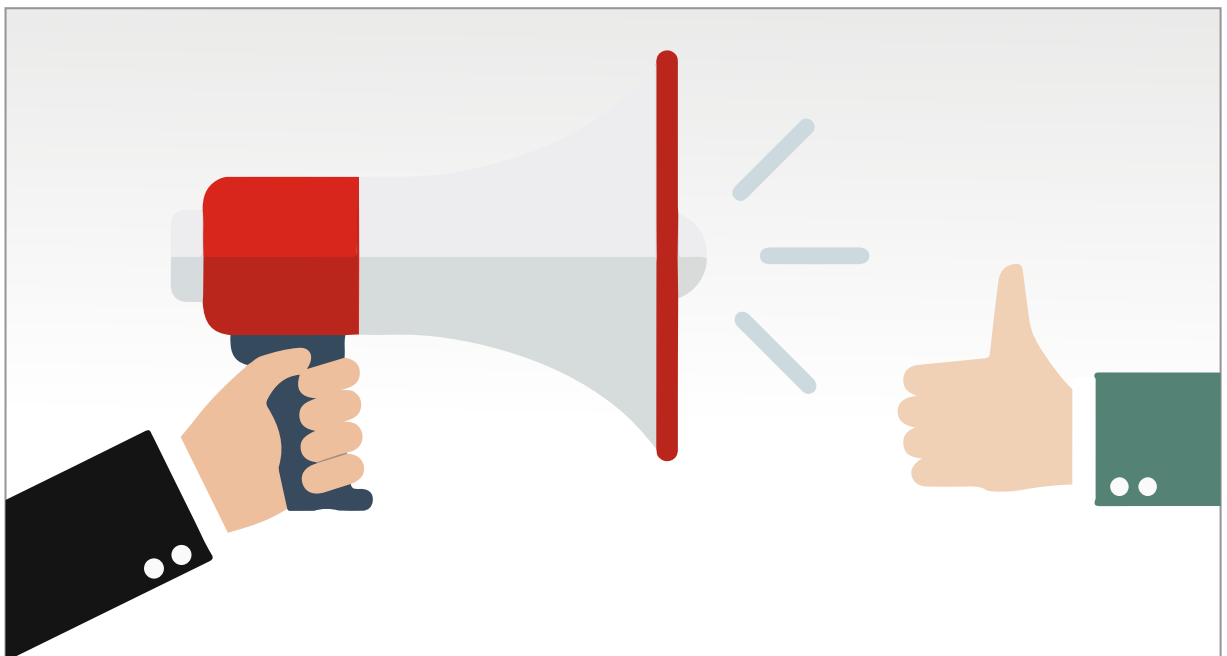
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## Training for 'Technology & Innovation Facilitation Organisations' – Fostering Innovation in SMEs: Enabling Services and Tools

Intermediary organisations such as Chambers of Commerce and Industry Associations, Public Support Institutions (e.g. Tool Rooms, Development Institutes, District Industries Centre and TCOs.), Incubators and Academic Institutes play an important role in strengthening the local innovation eco-system and thus fostering innovation in SMEs. Giving these organisations the opportunity to enhance their service portfolio for SMEs and gain a better understanding on the innovation eco-system approach, IIM Calcutta, IIM Indore, ISB Mohali and IIT Delhi jointly with German based technology transfer agency Steinbeis and CEFE are organizing a 5 days training programme for intermediary organisations on "Fostering Innovations in SMEs: Enabling Services & Tools" between the 29th November to 2nd December in Hyderabad. The training has been initiated within the framework of Indo German Bilateral Development Cooperation programme "Innovation Promotion in MSMEs"; jointly implemented by Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH and the office of DC MSME, Ministry of Micro, Small and Medium Enterprises (MoMSME), Government of India.

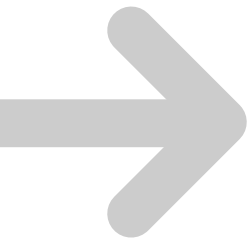
This programme has been designed to equip the participants with practical hands-on tools and proven methodology on how to introduce innovation enabling services for SMEs. During the training the participants will also be enabled to identify innovation projects in SMEs and how to systematically promote cooperation between industry, academia and government to strengthen the innovation capacity and sustainability of SMEs. It includes exercise based sessions, practical case studies and an opportunity to work on individual innovation ideas/projects - supported by experts and facilitators from Germany and India. This Training is a 4 days programme with a 3-days of Class-Room Training and 1-Days of 'Active Short Consulting' whereby participants will learn how to offer innovation-enabling consultancy services (also focusing on how to interlink academia and industry) in practice with a selected company.

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# 5 Studies

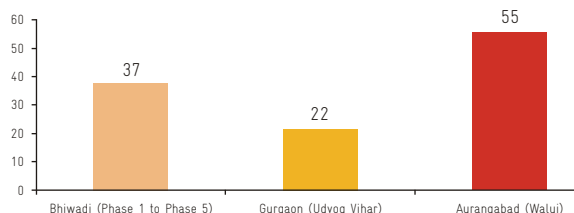


## Does the Sun Shine Brightly for the SME Sector in India?

The SME sector can contribute significantly to the government's target of 40 GW from solar rooftop installations by 2022. Solar projects present a strong business case for the SME sector on account of rising electricity tariffs, declining costs of solar, clearer regulations and benefits of accelerated depreciation. However, actual implementation has been fairly low in the SME sector due to apprehensions and lack of sufficient knowledge on the performance of the technology, inability to assess the various technology providers available in the market, lack of financing and at times lack of clarity on implementation process. The business case for both SMEs and financiers needs to be clearly demonstrated. Keeping this in mind, GIZ commissioned studies to strengthen the case for solar rooftop projects in the SME sector. The major findings of the study can be summarized as following:

**Business Case for lending to Solar Rooftop Photovoltaic (RTPV) Projects in the SME sector.** The objective of the study was to explore the business potential for banks to lend for solar rooftop projects. Following the techno-commercial assessment of RTPV projects in select SME units in SME clusters of Bhiwadi, Gurgaon and Aurangabad, a sizeable potential (see graph) was identified.

**Analysis showed that self-owned net metered systems would be most suitable for the sites surveyed. System sizes range from 20 kW to 100 kW and payback periods are estimated between 6 – 7 years.**



Rooftop Solar PV potential for specific clusters

An analysis was also undertaken of the existing loan products to assess their suitability for RTPV projects. Bank financing for rooftop projects (if any) has been based on the traditional method of collateral based lending. Increasingly, SMEs are lobbying for RTPV financing to be on the asset based model. However, current market conditions do not support asset based lending due to limited experience of lending for RTPV projects in the SME sector and lack of redeployment options for solar rooftop systems.

Documentation of five installations of solar rooftop systems in the Delhi – NCR Region. The objective was to capture the motivation for SMEs to install solar rooftop systems, technology provider selection process, challenges in implementation, source of financing, realised savings etc. Key findings included:

- i. Significant savings were realised by rooftop installations with payback periods ranging from 7 – 9 years and almost all units indicated plans for expansion.
- ii. None of the systems were bank financed.

Clearly, the case for RTPV projects is strong. However, there is a long way from realising the government's target of 40 GW. GIZ will follow up these studies with matchmaking workshops and pilots in select clusters to facilitate financing and implementation of solar rooftop projects in SME clusters. It is a win-win situation as SMEs become competitive in a sustainable manner and contribute to the government's clean energy agenda.

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