



Confederation of Indian Industry

# SME Business

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Salil Singhal

Chairman  
CII National MSME Council

## FROM THE CHAIRMAN'S DESK

It has been an immensely inspirational and educative year for me as the Chairman of the CII MSME Council. I learnt that an MSME entrepreneur needs a unique combination of skills to do what he does; he has to be good in so many roles; a leader, a business executive, a fundraiser, and many times even the voice for your community. It's a tough job. So, first let me simply say a big thank you to all our MSME entrepreneurs for all that you do and make us a proud nation of 26 million MSMEs, providing employment to about 60 million people.

Your efforts have borne fruits - the report of the Task Force on MSMEs (constituted under the Chairmanship of the Principal Secretary to Prime Minister) that was presented to Hon'ble Prime Minister, Dr Manmohan Singh, by its Chairman, Mr T.K.A.Nair, provides a roadmap for the development and promotion of MSMEs in India.

You may recall that CII along with the representatives of 19 prominent MSME Associations met the Prime Minister on 26 August 2009 to highlight key concerns and issues regarding MSMEs. The Prime Minister subsequently announced the setting up of a Task Force to reflect on the issues raised by the associations and formulate an agenda for action after discussions with all stakeholders.

The report has identified measures that need immediate action, medium term institutional measures, legal and regulatory structures and measures for the North Eastern States and Jammu & Kashmir. The Task Force has also recommended the establishment of a Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which may oversee the implementation of the recommendations on a half-yearly basis. The MSME Ministry shall be the servicing arm for the Council.

I am very pleased to say here, that we in CII played an active role in the finalisation of the recommendations. The Prime Minister's Council is a very significant development for our MSME sector, which will now get the attention of the Government at the highest level.

Both the Economic Survey for 2009-10 and the Union

Budget 2010-11 have in fact reinforced the recommendations made in the Task Force report, besides proposing an increase in allocation for the MSME sector by over Rs 600 crore to Rs 2,400 crore for 2010-11, as against Rs 1,794 crore in 2009-10.

At CII, we believe that the renewed economic activity (after the slowdown) and Government initiatives will provide a fresh perspective on the policies and procedures to create a framework for the rapid growth of our sector.

This issue of SME Business has linked these issues with some of the key areas such as MSME role in food and agriculture, cluster development, international cooperation and corporatisation. This edition also features an exclusive interview with Mr Dinesh Rai, Secretary, Ministry of Micro, Small and Medium Enterprises, Government of India, which would be of great interest to our readers.

I would also like to mention that this edition has touched upon the provisions of the Limited Liability Partnership Act 2008 which I believe has great potential as a legal framework for the MSMEs. I would urge our MSMEs to exercise this option. This edition also talks about bilateral and multilateral SME cooperation with African countries, Canada and Czech Republic. Hope our MSME exporters find it useful.

Year 2010 is an opportune time for our MSMEs to step up their growth plans. In this, sharing of knowledge and information will play a key part. SME Business will aim to strengthen this information flow to the advantage of all stakeholders.

I also invite you to share your problems or difficulties that you face, and we in CII would try and help you sort them out.

Please write to me at [Chairman.MSMECouncil@cii.in](mailto:Chairman.MSMECouncil@cii.in) ■



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## Skill development key to sustained growth

➔ In spite of the multi-faceted development programmes, skill upgradation and sustaining growth in labour-intensive sectors continue to remain major challenges for MSMEs. Though industrial recovery is observed to be broad-based, there is a need to ensure balanced and sustained growth in some sectors which failed to revive in the current year, like food products, paper products, leather products, jute and cotton textiles and metal products, the Economic Survey has said. Skill development and cluster approach have

been accorded top priority to enhance productivity, competitiveness and capacity building of MSMEs. About 441 clusters have been taken up for the diagnostic study and soft interventions apart from imparting training to about 3.62 lakh trainees during 2009-10. The Survey pointed out that over 1 lakh MSE proposals for an amount of Rs 4,465 crore have been approved for loans without collateral guarantee. As per the fourth All-India Census of MSME, there were 26 million MSME's in the country which provided employment to about 60 million people. ■

## IFRS exemption for SMEs

➔ A Government-constituted core panel on International Financial Reporting Standards (IFRS) has decided to exempt SMEs from having to prepare their accounts as per these international standards from April 1, 2011. In the event, the SME sector will continue to follow the existing Indian accounting standards, which may be modified from time to

time to make the sector more competent in the international arena.

Convergence to IFRS is a costly exercise which includes an overhaul of operational and IT processes apart from training costs. A small enterprise for this exemption is likely to be one where the investment in plant and machinery is more than Rs 25 lakh and does not exceed Rs 5 crore. A medium enterprise is one where investment in plant and machinery is more than Rs 5 crore but does not exceed Rs 10 crore.

Earlier, there were plans to introduce a watered-down version of IFRS for the SMEs. However, it was felt that reporting company's accounts as per IFRS will involve huge cost and is being considered as a hurdle for SMEs. However, all entities having networth in excess of Rs 1,000 crore will have to follow IFRS. This will include all NSE and BSE listed companies, entities having foreign borrowings of more than Rs 500 crore, insurance entities, mutual funds, venture capital funds and all scheduled banks having operations outside India. ■



## SME business confidence on the upswing

↓ On the back of a strong economic recovery, a major chunk of the small companies in India are expected to hike their business investments in the first half of 2010, said an HSBC survey report. Nearly 50% of the SMEs which were surveyed said they are more confident to invest in business as growth prospects have returned and would increase capital expenditure. HSBC Small Business Confidence Survey, participated by 6,000 SMEs across 20 markets including Asia, the Middle East, Europe, North America and Latin America, evaluates the six-month outlook of SMEs on economic growth, capital investment plans and recruitment. According to the survey, the confidence of Asian SMEs has bounced back to the pre-crisis level. Indian firms showed an upward trend, emerging among the most confident when compared to their global counterparts. More than 50% of Indian SMEs expect the country's GDP growth to maintain the same pace in the next six months while 41% expected the pace to increase. ■





## CII-PwC study on Gujarat MSMEs

← A joint study released by Confederation of Indian Industry (CII) and PricewaterhouseCoopers, titled 'The Gujarat vision: Making MSMEs globally competitive', has analysed how the MSMEs in Gujarat are undergoing a significant transformation with several large-scale investments being undertaken by the public and private sector players. The report highlighted the present scenario of MSMEs in Gujarat, their significance and the state's vision for them. There are a number of opportunities for the MSMEs in sectors like defence, railways, automotive and foundry. However, the MSME sector isn't bereft of its share of challenges as it struggles with working capital shortages and looks for greater support from the financial institutions, and credit rating agencies. The study probes two key themes for the Gujarat MSME industry and key recommendations for the Gujarat MSME industry. The report also brought to light the fundamental challenges faced by the MSME sector, such as, lack of financial assistance and credit availability, market orientation, accessibility to markets and technology as well as lack of availability of risk capital. ■

## Govt launches design scheme for MSME units

↓ Government has announced a Rs 73-crore scheme for MSMEs to provide them design expertise and make their products more competitive. Under the design scheme, the designers would conduct workshops at cluster level across the country and prepare a report which would talk about design deficiencies and requirement of new designs. The scheme is a part of the National Manufacturing Competitiveness Programme during the 11th Five-Year Plan. The National Institute of Design (NID) will act as a nodal agency, where it would undertake on behalf of the MSME Ministry the necessary planning, coordination and follow-up on the scheme. The programme named "Design Clinic Scheme for Design Expertise" is a combination of design awareness programmes and project based assistance, which would cover about 200 MSME clusters during the 11th Five-Year Plan. Of the total scheme budget of Rs 73.58 crore, Rs 49.08 crore will be funded by the government and the balance amount will be contributed by the beneficiary MSME. ■

## Working longer hours to combat recession



↓ Small and medium-sized business owners are changing products and services and, where necessary, working longer hours to combat the effects of the recession, the Centre for SME Research in Aucland has reported. The centre, part of Massey University's College of Business, surveyed more than 1,400 businesses and found 53% had introduced new or improved products and services to survive the global downturn. Forty-four per cent were making increased sales efforts and 48% of owners reported working longer hours. Yet, just over a quarter of the businesses say they have had felt no negative impact. ■

## FTAs will open up opportunities for MSMEs

→ The rapid pace of globalisation, buttressed by free trade agreements, will see India moving towards a zero tax regime (nil customs duty) by 2018. This in turn is expected to open new vistas of opportunities as well as challenges for MSMEs. They will be called upon to adopt new strategies for better management of trade and commerce in the changed business environment. It would be equally important for the MSMEs to understand the developments and implications of the new global trade regime and learn ways and means to defend themselves while dealing with various countries. The MSMEs would have to know the significance of cross-country business opportunities and prepare to stand on par with their counterparts in other countries. ■

## Leveraging the Web to move up value chain

→ The domestic education industry has seen the emergence of a large number of small training outfits that prepare students for higher technical education and entrance examinations. They also assist in the training of professionals in specific verticals. However, these service providers are seen to be following conventional teaching methodologies such as regular classroom teaching programmes, paper notes and book-based study, which hamper their teaching efficiency by limiting their reach, the degree of information sharing and data management capabilities. In this scenario, web-based technologies such as web content management and web-based learning are seen as viable options to improve their service delivery. A cost-effective Web Content Management System could help these SMEs to move up the value chain. Such a system can be used to create and manage huge, dynamic data repositories in HTML format. ■



# Budget 2010-11: Boost For MSMEs

In keeping with the broad objective of boosting MSME growth in the aftermath of an economic slowdown, Government has provided significant budgetary support to the sector. Budget 2010-11 has raised the fund allocation to the MSME sector by over Rs 600 crore, to Rs 2,400 crore for the next fiscal. The budgetary provision follows the recommendations made by the Task Force on MSME in its report to the Prime Minister that the government stimulus package to the MSMEs should be extended for one more year. In fact, Finance Minister, Mr Pranab Mukherjee, in his Budget speech underlined the importance of the MSME sector when he said that the sector contributes 8% of the country's GDP, about 60 million people through 2.6 crore enterprises and contributes about 40% to the country's exports.

To further the MSME goals, the Budget has provided for:

- Extension of existing interest subvention of 2% for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.
- A High Level Council on Micro and Small

Enterprises to monitor the implementation of the recommendations of High-Level Task Force constituted by Prime Minister.

- Doubling the corpus for Micro-Finance Development and Equity Fund to Rs 400 crore.
- Setting up a National Social Security Fund for unorganised sector workers with an initial allocation of Rs 1,000 crore.
- Limits for turnover over which accounts need to be audited to be enhanced to Rs 60 lakh for businesses and Rs 15 lakh for professions.
- Limit of turnover for the purpose of presumptive taxation of small businesses to be enhanced to Rs 60 lakh.
- Facilitating the conversion of small companies into limited liability partnerships, and transfer of assets as a result of such conversion not to be subject to capital gains tax.
- Small-scale manufacturers to take full credit of Central excise duty paid on capital goods in a single installment in the year of their receipt. They would also be permitted to pay Central excise duty on a quarterly, rather than monthly basis.
- Reduction in Central excise duty on corrugated boxes and cartons from 8% to 4%.
- Enhancement of weighted deduction

on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research from 125% to 175%.

Stating his views on the budgetary provisions for the MSME sector, Mr Salil Singhal, chairman, CII National MSME Council, said, The Budget is good for the MSMEs. He said that the MSME Task Force recommendations have been given attention in the Budget.

The MSMEs have also been given several tax concessions and benefits. The proposed

reduction of surcharge for Indian companies from 10% to 7.5% will provide marginal relief. However, the proposed increase in the basic rate of minimum alternate tax (MAT) on book profits from 15% to 18% will put additional strain on SMEs, opined industry leaders.

The beneficial revision of income-tax slabs for an individual will increase the take-home for an individual who carries his business in proprietary or partnership form. Moreover, the LLPs stand protected from the levy of dividend distribution tax and MAT. However, the Budget has proposed to introduce several provisions to grant tax neutrality to conversion subject to certain basic conditions.

The Budget has given special consideration for textile industry. Some of the provisions in the budget that could have a direct and indirect bearing on the textile and clothing industry are: the fund allocation for the Cotton Technology Mission has been substantially increased by 182% to Rs 141 crore in 2010-11; Government has allocated Rs 350 crore, an increase of 32%, for the schemes for integrated textile parks for 2010-11 as against Rs 265 crore in the revised budget 2009-10; to sustain knitwear industry. Government has also proposed a one-time grant of Rs 200 crore to the government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur.

The textile industry was also given grant to launch an extensive skill development programme by leveraging the strength of existing institutions and instruments of the textile ministry to train 30 lakh persons over 5 years. To boost R&D activity, weighted deduction on expenditure incurred on in-house R&D has been enhanced from 150% to 200%. The current surcharge of 10% on domestic companies has been reduced to 7.5%.

Overall, the Budget has been perceived as forward-looking for the MSME sector in particular and the national economy as a whole. ■





## The Way Forward

The Task Force on MSMEs has put forth key recommendations for the growth and development of MSMEs

In preparing a roadmap for the overall development and promotion of the MSME sector, the Task Force on MSMEs, chaired by Mr T K A Nair, Principal Secretary to the Prime Minister, in its report presented to the Prime Minister, has classified the common issues faced by the enterprises into six thematic areas and constituted separate Sub-Groups for detailed examination. The thematic areas covered are (i) credit, (ii) marketing, (iii) labour, (iv) rehabilitation and exit policy, (v) infrastructure, technology and skill development and (vi) taxation. A separate Sub-Group was also constituted to look into the development of MSMEs in the North-East and J&K.

In the immediate run, the Task Force recommended:

- The government should extend, for a further period of one year, beyond March 31, 2010, the components of the stimulus package which are specific to MSMEs.
- The government should ensure strict adherence to the stipulated targets by the commercial banks for the micro enterprises.
- A separate fund may be created with SIDBI named Special Fund for Micro Enterprises for exclusively lending to the micro enterprises.
- A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development Act, 2006.
- The Offset policy of the government, particularly in the defence and aviation sectors, should give priority to MSMEs. A permanent guidance mechanism under the Raksha Utpadan Rajya Mantri (RURM) with Secretaries of Defence Production, MSME and Civil Aviation and CEOs of Defence PSUs should be considered for this purpose.
- Government should earmark additional public spending of Rs 5,000-5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set up. These funds may be used to: (a) support the establishment of Rehabilitation Funds in the states for the revival of potentially viable sick units; (b) assist MSMEs in the acquisition and adaptation of modern clean technologies as well as

creation of technology banks and product-specific technology development centres; (c) promote establishment of business incubators in educational institutions of repute; (d) renovate existing industrial estates and develop new infrastructure for MSME sector; (e) re-engineer, strengthen and revitalise district industries centres; (f) strengthen NSIC's equity base for enhanced market support to MSMEs; and (g) up-scale the programmes of entrepreneurship and skill development targeted at MSMEs.

- Government should create an enabling environment using appropriate legal and fiscal instruments, to incentivise the transition of MSMEs from the unorganised to the organized sector as well as for their corporatization.

In the medium term, the Task Force has called for institutional measures, such that:

- Government should set up an independent body at the national level for the promotion and development of MSMEs. This body may provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganised sector, promote technology development, provide marketing support and coordinate and disseminate information relevant to MSMEs.
- A Standing Review Committee under Member (Planning Commission) should be set up to monitor flow of credit to MSME sector and its apportionment to the more vulnerable sections like micro enterprises and the unorganised sector.
- Government should encourage MFIs to form self-help groups and finance micro enterprises in unbanked/identified excluded rural/Semi urban areas at reasonable rates.
- The DICs should be strengthened with provision of modern IT-enabled communication facilities and re-training of human resources available with these institutions.
- Rehabilitation package should be made binding on all stakeholders.
- The government should infuse industrial estates which are currently in a state of decay and neglect, with fresh capital and upgrade them to Industrial Townships.

- New clusters for MSEs should be created to meet the requirements of planned development and growth.

- Government should strengthen NSIC's equity base to give a demand side impetus to MSME enterprises.

- Government should consider earmarking funds to the tune of Rs 1,500 crore within the enhanced investment package to support clean technology initiatives of different Ministries involved with MSME growth, particularly in the context of the National Action Plan for Climate Change (NAPCC).

- The concept of business incubators in educational institutions of repute should be encouraged by setting aside Rs 1,000 crore within the overall package.

Among the legal and regulatory structures that the Task Force has recommended, the main ones are:

- Government should expedite the establishment of a SME Exchange.
- Legal options should be developed for the securitisation of trade credit receivables and for the promotion of factoring services.
- Wide publicity should be given to new formats like LLPs.
- The insolvency legislation should be comprehensively reviewed.
- Labour laws should be simplified, especially those applicable to enterprises in the MSME sector.

To ensure speedy and effective implementation of these recommendations, the Task Force has recommended the establishment of Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which may oversee implementation of these recommendations on a half yearly basis.

- Labour laws should be simplified, especially those applicable to enterprises in the MSME sector.

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# 'Product Quality, Cost Competitiveness: Central To Global Presence'



**Dinesh Rai**

Secretary, Ministry of Micro, Small & Medium Enterprises, Government of India

**Lack of access to timely and adequate credit has been the bane of the MSME sector. This has been taken up by the MSME Task Force as well while submitting its recommendations. What steps are needed to ameliorate this credit problem? Will the creation of an SME exchange partly address this issue?**

To address the problems faced by the MSME sector in access to timely and adequate credit, the Task Force held detailed discussions with the stakeholders. Based on these discussions, the Task Force had made extensive recommendations for improving the overall credit flow to this sector. These include: (i) Ensuring strict adherence to the stipulated targets by the commercial banks for the micro enterprises (viz. 20% year-on-year growth for micro and small enterprises lending with 60% apportionment for micro sector); (ii) Creation of a separate fund with SIDBI, using the shortfalls, if any, against the MSE credit targets set for the commercial banks. This fund named Spe-

cial Fund for Micro Enterprises should be utilised exclusively for lending to the micro enterprises; (iii) Setting up of a Standing Review Committee under Member (Planning Commission) to monitor flow of credit to MSME sector and its apportionment to the more vulnerable sections like micro enterprises and the unorganised sector; (iv) A target of 15% annual growth in number of micro enterprises accounts; (v) Removing fiscal/regulatory impediments to enhance the ability of MSMEs to access alternative sources of capital like angel funds/risk capital; (vi) Expedite setting up of SME Exchanges, etc. Setting up of the SME Exchange would facilitate MSMEs to access equity capital through the capital market, thereby increasing their credit absorption capacity.

**MSMEs contribute around 40% of the country's exports. What further steps are needed to enhance the sector's global competitiveness and to facilitate Indian MSMEs progress in the global value chain?**

In the present competitive scenario, two most important elements for MSMEs to survive and expand their presence in the global market are better product quality and cost effectiveness. The initiatives taken under National Manufacturing Competitiveness Programme (NMCP) by the Ministry of MSME for technology and quality upgradation would help in achieving greater competitiveness in the global market. Further, as recommended by the Task Force, new schemes to assist existing MSMEs in acquisition, adaptation and innovation of modern clean technologies as well as creation of a Technology Bank/Product Specific Technology Cen-

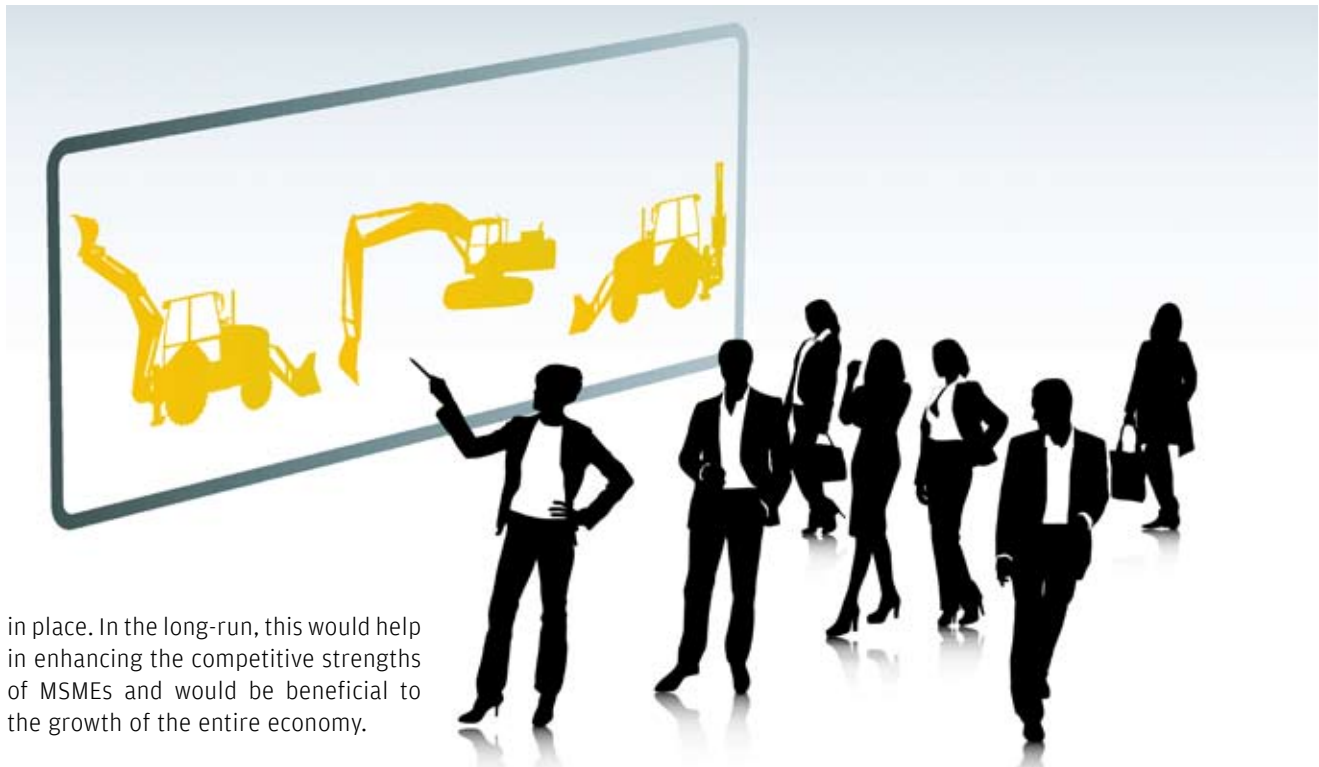
tres will facilitate the MSMEs to move up the global value chain.

**With an estimated 94% of the MSMEs operating as unregistered entities, what measures are needed to draw them into the organised sector?**

The enactment of the Limited Liability Partnership Act 2008 (LLP) and the provision for a one person company (OPC) under the Companies Bill 2009 provides for an enabling environment for the transition of MSMEs from unregistered entities to organised sector. To make this happen, MSMEs need to be encouraged/ incentivised to convert to these forms through: (a) increasing awareness by organising awareness campaigns across the country; (b) introducing a graded corporate tax structure with base rates lower than the income tax slab rates in terms of the new Direct Tax Code; and (c) keeping registration and transaction costs low for adopting the LLP or OPC mode.

**The Task Force has recommended a public procurement policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development Act, 2006. What is your perspective on this matter?**

Many of the countries, both developed and developing, across the world have put in place public procurement policies for MSEs for assisting them in marketing of their products. In India, however, the existing policy on public procurement has not been much effective in providing the requisite support. It is, therefore, important that a public procurement policy for MSEs that is effective for ensuring a fair and adequate share in the public procurement is put



in place. In the long-run, this would help in enhancing the competitive strengths of MSMEs and would be beneficial to the growth of the entire economy.

**The Task Force has also recommended that the government should accord priority to the MSME sector in the offset policy for defence and aviation procurement. What is your perspective on this matter?**

The MSME sector is an important sector of the Indian economy, contributing significantly to the manufacturing sector output and employment. The world-wide experience suggests that offset policies have played an important role in the promotion of development of local industries, particularly the MSMEs. Since both defence and aviation sectors have a significant proportion of their purchases from outside the country, it is important that high priority is accorded in their offset policies to the promotion and development of MSMEs.

**What steps are needed to bridge the technology gap that MSMEs face? Are the current policies geared to facilitate this?**

The Ministry of MSME has taken various initiatives under the National Manufacturing Competitiveness Programme (NMCP) which are aimed at upgrading the technology and product quality of MSMEs. Further, the MSME Tool Rooms, MSME Technology Development Centres, etc., under the Ministry of MSME

are providing technical/consultancy/training services for developing and upgrading technologies. However, there has to be continuous interaction with various agencies engaged in the development of new technologies for the MSMEs for dissemination of information on appropriate technology among the MSMEs. Moreover, the MSME clusters and the technical institutions need to be linked up for addressing the technical and design related problems of the MSMEs. The Task Force has made recommendations in this regard, which needs to be implemented on priority basis to bridge the technology gap.

**Is there a need to incentivise the transition of MSMEs from the unorganised to the organised sector as well as for their corporatisation as entities? How much of this can be achieved in the next 3-5 years?**

Specific incentives need to be introduced in the tax structure for providing an enabling environment for MSMEs to grow. As mentioned earlier, the enactment of the Limited Liability Partnership Act 2008 (LLP) and the provision for a one person company (OPC) under the Companies Bill 2009 provides for an enabling environment for such transition and would be surely utilised by the MSMEs.

**The Task Force has called for the creation of new clusters for MSEs to meet the requirements of planned development and growth. Would you say the cluster approach has worked to the benefit of the MSME sector as a whole?**

Cluster Development offers a holistic and integrated approach to the promotion and development of MSME sector. The Cluster Development Programme of the Ministry envisages measures for capacity building, skill development, technology upgradation of the enterprises, improved credit delivery, marketing support and setting up of common facility centres, based on diagnostic studies carried out in consultation with the stakeholders themselves. The Government is also implementing a Scheme of Fund for Regeneration of Traditional Industries (SFURTI) for development of clusters in khadi, village and coir sector with a view to make these industries more productive and competitive and increase the employment opportunities in rural and semi-urban areas. The cluster development approach and interventions by the Ministry of MSME in the clusters have proved beneficial for the overall development of MSMEs.

**What steps would you recommend for enhancing the domestic and**





**global market access for Indian MSMEs? Is there a way to improve the branding and marketing of Indian MSME products?**

Apart from vigorous efforts in the areas of improved product design/packaging and setting up of marketing hubs for the MSME products, there has to be more focus on Consortia Formation, Brand Building and E-marketing for enhancing the domestic and global market access by the MSMEs. Dissemination of information on opportunities in domestic/global markets as also regular participation in domestic/international fairs, exhibitions would also be helpful in expanding the markets for Indian MSMEs. Further, as mentioned earlier, an effective Public Procurement Policy for MSEs will not only help in ensuring a fair and adequate share in the Government procurement but also in enhancing their competitive strengths in the long run.

**Access to cost-effective, timely supply of raw materials is crucial to the sector. What steps are needed to ensure this?**

The National Small Industries Corporation together with State Corporations are playing an important role in the timely supply of raw material to the MSMEs at reasonable price. There is, however, a need for the NSIC to expand and strengthen the distribution mechanism in consultation with the MSME Associations and State agencies engaged in such activities.

**MSMEs are faced with a high degree of skill gap. Are the policies geared to promote skills development in this domain?**

Ministry of MSME has been implementing various schemes and programmes with focus on upgrading the relevant skills of existing and potential entrepreneurs. The MSME-Development Institutes (DIs) and autonomous bodies like Tool Rooms, MSME-Technology Development Centres, etc., under the Ministry are actively engaged in training activities, including training/skill development of manpower in specific industry/products. Further, the Ministry of MSME has three national level Entrepreneurship Development Institutes (EDIs), viz.,

National Institute for Entrepreneurship and Small Business Development (NIES-BUD), Noida, National Institute for Micro, Small & Medium Enterprises (NiMSME), Hyderabad and Indian Institute of Entrepreneurship (IIE), Guwahati.

In addition, the Ministry has also assisted in setting up of state level EDIs across the country. There is, however, a need to expand the coverage under various programmes of the Ministry by adopting innovative models like tie-ups with NGOs, educational and technical institutions and e-learning. Further, the private sector needs to be encouraged to set up entrepreneurship/skill development centres by evolving a system to part compensate the cost of training through financial assistance to trainers. At the same time, the National EDIs should focus more towards training of trainers to have a cascading effect by developing course modules for such programmes.

**Can there be a BIFR-like mechanism to support the revival of viable ailing MSMEs?**

Given the fact that MSMEs are spread across the length and breadth of the country, a BIFR-like mechanism to support the revival of viable sick MSMEs may not be very effective. Instead, an administrative mechanism at the district level for examining the viability and for implementing a rehabilitation

package will be more helpful in addressing the problem. The Task Force has also recommended a similar approach in its Report. But this would require the State Governments to play an active role by formulating appropriate schemes, which could be supported by the Central Government.

**Rigid labour laws have tended to restrict the growth of MSMEs. Can there be some level of flexibility in the labour laws, without compromising the interests of workers?**

Considering that the transaction cost for compliance of labour laws is high for the MSEs, specific measures are required for simplification of labour laws pertaining to the MSE sector, particularly with reference to reducing the number of inspections and registers to be maintained.

**The MSME sector has the highest labour to capital ratio. Yet, the bulk of workers in this domain fall beyond the purview of labour laws and a social safety net. Is the government considering any special measures to ensure better working conditions for MSME labour?**

The Government has enacted the Unorganised Workers Social Security Act, 2008 to provide for the social security and welfare of unorganised workers. ■





# Food For Thought

An increasing focus on food and agriculture sector will open up significant growth opportunities for MSMEs operating in the sector



**A**gricultural productivity in the country needs to be almost doubled to meet the growing demand for food. Also, the storage, transportation, processing, value addition and marketing of farm produce need to be improved to increase food security and take agriculture to the next level. To unlock the true potential of Indian agriculture sector, there is a need for building efficiencies across the supply chain right from farm gate to the consumer. In this, the role of MSMEs can hardly be overstated. Also, agricultural products serve as raw materials to secondary products produced by various MSMEs.

Improvement in the agro-products packaging and labeling as well as in the marketing of agri products also becomes a necessary part of the overall economic processes. These activities too come within the domain of MSMEs and so on them rest the responsi-

bility of product development and improvement, improved marketing strategies so that the products they produce become commodities with high demand.

Further, agro-based MSMEs need a sustainable source of raw materials, skilled workers who can add more value to the products and also a sustainable flow of people who demand the products and services.

### Key Opportunities

Food processing is one area where the MSMEs have key roles to play. As such, the food processing industry in India is fragmented and most of the players are small in size and primarily concentrated in the unorganised sector, which accounts for over 50% of the sector's output in value, and 70% in volume. The sector's would benefit from favourable policy initiatives in terms of reduced import and excise duties, lowered customs duties on raw

materials, plant machinery and equipment will further augment the growth prospects of the Indian food processing industry.

Organised food retailing is likely to play an important role in increasing the consumption of processed food items. The retail format reduces the number of intermediaries and transaction costs. It also aids better understanding of consumer preferences as it is a vital link between the processors and consumers.

At a broader level, the key opportunities for MSMEs in food and agriculture are seen as follows:

- Agri Business: Agri-machinery and farm implements, biofertilizer soil substitutes, biotechnology and pest control, organic farming.
- Food Processing: Agro processing equipment, dairy technology, edible oil processing, food & beverage technology, meat process-



ing technology, vegetable & fruit technology.

- **Animal Husbandry, Dairy, Poultry & Veterinary:** Animal husbandry and breeding services, dairy and livestock processing supplies, farms & hatcheries systems/supplies, feed supplements & additives, veterinary supplies & laboratory services, poultry equipment.
- **Post Harvest Technology:** Cold storage and cold room equipment, logistics of fresh produce, perishable cargo handling, quality control & certifications, ripening technique & preservation, sorting & grading technology.
- **Floriculture & Horticulture:** Floriculture supplies & technologies, fertilisers & agrochemicals, horticulture supplies & technologies, genetics & tissue culture techniques, geo-textiles & coir pith, landscaping, mowers & garden tools, seeds & seeding.
- **Packaging Technology:** Containers, labels & printing, packaging machinery, packaging materials.
- **Fisheries & Aquaculture:** Fish farming techniques, fish processing & technology, fishery products, and aquaculture.

### Food Retailing



Building reach is an imperative for many of the MSMEs operating in the food and agriculture sector. A recent media report stated that to break out of the clutter, small food producers in the country are opening limited number of company-owned stores, giving a chance to the prospective buyer to touch and feel the product and even buy some. They reckon that the move is a marketing tool and not to create profit centres.

### Key challenges

MSMEs in the agriculture sector face common challenges. Quality control is based on owner's knowledge on product and prone to inconsistency of quality. Most MSMEs in agribusiness started as family-owned micro businesses, and are self-financing. The majority of SMEs do not have legal status. And the raw materials they use are often sensitive to climate and highly dependent on traditional methods of production.

Although there is a high demand of MSME agribusiness products, these enterprises often do not have access to the market due to limited linkages and access to market information.

Marketing strategy is often overlooked and promotion is mainly through word-of-mouth.

Lack of working capital is among major barriers to business expansion. A significant number of MSMEs are not accessing financing support from financial institutions. High interest rates, complicated procedures, irrelevant loan size and unavailability of collaterals are main barriers to access.

Business plans are seldom documented. Most MSMEs are weak in the areas of quality control, product development, marketing strategy, business planning and information management. Hence, financing to agriculture sector is highly recommended.

Financial support to MSMEs needs to be tailored to the need of business players. It is to consider the tenure that matches the production cycle, reasonable interest rates, simple procedures, relevant loan size and collaterals. Financing to SMEs in agriculture needs to focus not only on the efficiency of production but also on the improvement of quality of product.

The involvement of local MFIs as channeling agent for financing is recommended. MFIs are closest financial service providers to business players in agriculture sectors which are mainly in rural areas. MFIs commonly know their clients. This lessens the risk of loan services. MFIs also have the local knowledge. They know specific need and demand of their clients at their locality. MFIs usually have the retail capacity. They are likely to be able to meet the demand of their clients be sustainable.

Financing support for MSMEs in agriculture sectors needs to be matched with technical assistance. Key areas that need support are quality control, product development and diversification, business planning that include marketing strategy, information system management and in licensing process.

It may be stated that the Small Farmers Agri-Business Consortium (SFAC), set up in 1994, provides venture capital to promote investments in agri-business projects with the participation of banks. The SFAC also provides Project Development Facility to extend financial assistance to farmers, producer groups, agripreneurs, units in agri-export zones, organizations and agriculture graduates for the preparation of bankable Detailed Project Reports (DPRs).

With more financing options and credit support, a larger number of MSMEs could take firm roots in the food and agriculture domain. ■



# Bridging Financial Needs With Speed, Quantum & Rates

## Background

SMEs have played an important role to augment our country's economic progress by supporting the needs of industry, being the largest employment generator (urban and semi-urban jobs), having the largest exports output contribution and nurturing entrepreneurship thus forming a sound foundation for India's manufacturing and services prowess. It is their dexterity, flexibility and innovation that have helped the Indian SMEs stand the test of time to face economic cycles and emerge stronger, smarter, leaner and more resilient.

Our SMEs have also taken advantage of India's supremacy in IT and Systems to employ technological solutions to attain higher efficiencies and productivity, enabling them to survive and thrive in the liberalised era, competing with the best in the world. SMEs along with agriculture weave the socio-economic fabric of India and hence the deserved focus on this sector.

The Government has recognised the importance of the SMEs and has taken concrete steps to encourage its growth by covering certain sections under Priority Sector Lending with a keen eye on the needs of this critical support sector – The SMEs

## Needs of the Sector: Finance & Technology

The two most important ingredients to succeed as a sector are timely availability of finance and updated technology for competitiveness and

efficiency. Finance serves as the most important ingredient, acting as the lubricant to this machine, thus catalysing growth of the country's economy. We at Religare share and promote the view of SMEs as the 'backbone' of the economy which supports the entire industrial and economic 'body' in the country.

Religare as an integrated financial services provider assumes and fulfills the responsibility to this sector with a relationship approach encompassing all financial and advisory needs of SMEs, primarily pivoted on Finance. Our products include working capital and term loans, equipment finance, loans on commercial assets and construction equipment -- all catering directly to the needs of SMEs and promoting core manufacturing, services and infrastructure sectors. We reach our customers to deliver custom-made products and enhanced service delivery through our elaborate distribution network and state-of-the-art back-end systems and processes.

Financial needs can be addressed along three vectors – Speed, Quantum and Rates at which money is available to the SME. Traditionally, SMEs have had their set of challenges in arranging financial resources partly due to Lending Institutions' skepticism on the dependability of the entrepreneur and partly due to lesser organised financials to assess their credit worthiness. With time, there has been a paradigm shift in the thought process of SMEs. We are witnessing increasing confidence in Lending Institutions on

the ability of SMEs to sustain and innovate business models.

## Conclusion

SMEs have realised the virtues of professionalism, sound disclosures, tax conscientiousness, building credit worthiness to generate the required capital and investment in technology, people and good governance. All these changes auger well for the sector and we see huge potential for compounded growth for our customers and our ability to reach and meet their needs with enhanced products and services.

Through an all encompassing relationship model, we advise SMEs on financial requirements (loans, life and general insurance, wealth management, trade advisory, sectoral outlooks, etc., to name a few) which is all available within the Religare group. We also have strategic partnerships with leading PSU and private banks to enable our customers enjoy seamless Transaction Banking products.

Assuming responsibility of the relationship, we also encourage and facilitate SMEs to undergo enterprise 'Ratings' from rating agencies which lends immense credibility to them as an entity and as a borrower. Through this relationship approach we co-own each association as a responsible and dependable partner in fueling the growth of SMEs in the country. Our experience in the SME space has been very encouraging and we constantly strive to increase our scope, reach and contribution to this sector. ■



# Force Multiplier

Renewed focus on the Credit Linked Capital Subsidy Scheme (CLCSS) is expected to place the MSME sector on a higher growth trajectory

Access to timely credit and new technologies are the biggest challenges for the MSMEs. It is only with the facilitation of these two elements that the MSMEs would be better placed in their bid to move up the global manufacturing value chain. Government has periodically launched programmes to promote the technological upgradation of manufacturing MSMEs, and to help them gain access to timely and quality credit and financing options. The Credit Linked Capital Subsidy Scheme (CLCSS), run by the Ministry of Micro, Small and Medium Enterprises, merits special mention in this regard.

CLCSS aims at technology upgradation of by providing upfront subsidy for MSEs on institutional finance availed by them for the modernisation of their production equipment (plant and machinery) and techniques. The scheme, prior to its revision on September 29, 2005, had provided 12% capital subsidy on institutional finance availed by MSEs for induction of well-developed and improved technologies in select sub-sectors and products approved under the scheme as per the provisions of the scheme. The eligible amount of subsidy calculated under the scheme before September 29, 2005 was based on the actual loan amount not exceeding Rs 40 lakh.

Under the Scheme, 1,403 MSEs have been assisted and subsidy amounting to Rs 81.3 crore have been sanctioned during April-November 2009. A loan agreement for \$150 million was signed between the Government of India and the Asian Development Bank in December 2009 for implementing the comprehensive Khadi reform programme, under which the Khadi and Village Industry (KVI) Sector is proposed to be revitalised with enhanced sustainability income, employment and artisan welfare.

Further, the number of eligible products/sub-sectors under the scheme has been increased to 47. There is a Governing & Technology Approval Board (GTAB) constituted under the Chairmanship of Secretary MSME to lay down policy guidelines and monitoring the functioning of the scheme.

CLCSS was modified on September 29, 2005 wherein the upfront subsidy to MSEs was raised to 15% from 12% earlier. The admissible capital subsidy under the modified scheme is calculated with respect to the purchase price of plant and machinery. The maximum limit of eligible loan for calculation of capital subsidy under the modified scheme was raised from Rs 40 lakh to Rs 100 lakh.

The Scheme, when it was launched in October 2000, was meant for a pe-

riod of 5 years or till the time sanction of aggregate capital subsidy disbursed by the nodal agencies reached Rs 600 crore, whichever was earlier. With the approval of Cabinet Committee on Economic Affairs, it was made operational till end of 10th Plan and was continued into 11th Plan at a proposed outlay of Rs 730 crore.

The scheme has progressed considerably from the year 2001-02 when just 9 units were assisted with a total sanctioned subsidy of Rs 21.36 lakh, to the provisional assistance to 1,303 units in 2009-10 for a total sanctioned subsidy of Rs 7,541 lakh. It may be pointed out that the highest point in this was achieved in 2008-09 when 1,790 units were assisted with a total sanctioned subsidy of Rs 9,791.83 crore.

The key nodal agencies for the scheme are: SIDBI, NABDARD, SBI, PNB, Canara Bank, Andhra Bank, SBBJ, BOI, BOB, and TIIC.

In terms of reach, the state-wise progress as on October 2009 showed that Tamil Nadu attracted CLCSS for 2,309 units for a total subsidy of Rs 7,784 lakh, Karnataka came in next with a coverage of 1,127 units for a subsidy of Rs 4,492 lakh, followed by Maharashtra with 970 units with a subsidy of Rs 4,607, Andhra Pradesh with a coverage of 740 units for a subsidy of Rs 4,146 lakh.

Industry-wise, general engineering works attracted maximum coverage of 1,960 units for Rs 7,923 lakh, followed by food processing with 1,838 units for Rs 8,167 lakh, auto parts and components with 1,618 units for Rs 6,273 lakh, dimensional stone industry with 350 units for Rs 1,452 lakh and plastic moulded with 373 units for Rs 1,567 lakh.

In time to come, with greater awareness of the scheme, a larger number of MSEs will stand to benefit from its provisions and thereby board a higher growth trajectory. ■

## Year-wise Progress of CLCSS

Year	No. of units assisted	Subsidy Sanctioned
2001-02	9	21.36
2002-03	47	93.97
2003-04	150	364.74
2004-05	526	1,315.15
2005-06	699	1,771.81
2006-07	1,879	6,609.92
2007-08	1,407	6,397.59
2008-09	1,790	9,751.83
2009-10 (Provisional)	1,303	7,541.11
Total	7,810	33,867.47



# LLP: Window Of Opportunity

Experts claim there are myriad fiscal benefits in converting a partnership firm, or even a private limited company, into a limited liability partnership (LLP) firm

**A**cknowledging the role played by entrepreneurs for the growth of the economy, a need has been felt for a new corporate form that would provide an alternative to the traditional partnership. The limited liability partnership (LLP) is viewed as an alternative corporate business vehicle that provides the benefits of limited liability but allows its members the flexibility of organising their internal structure as a partnership based on a mutually arrived agreement. An LLP would enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP would also be a suitable vehicle for small enterprises and for investment by venture capital.

According to the Limited Liability Partnership Act, 2008, it shall be a body corporate and a legal entity separate from its partners. Any two or more persons, associated for carrying on a lawful business with a view to profit, may subscribe their names to an incorporation document and file the same with the Registrar to form a limited liability partnership. The LLP will have perpetual succession.

The Act says that the mutual rights and duties of partners of an LLP inter se and those of the LLP and its partners shall be governed by

an agreement between partners or between the LLP and the partners. The Act provides flexibility to devise the agreement as per their choice. In the absence of any such agreement, the mutual rights and duties shall be governed by the provisions of the LLP Act.

As per the Act, the LLP will be a separate legal entity, liable to the full extent of its assets, with the liability of the partners being limited to their agreed contribution in the LLP which may be of tangible or intangible nature. No partner would be liable on account of the independent or un-authorised actions of other partners or their misconduct.

Every LLP shall have at least two partners and shall also have at least two individuals as designated partners, of whom at least one shall be resident in India. The duties and obligations of designated partners shall be as provided in the law.

The LLP shall be under an obligation to maintain annual accounts and a statement of accounts and solvency shall be filed by every LLP with the Registrar every year. The accounts of LLPs shall also be audited.

The amalgamation of LLPs shall be in accordance with the provisions of the LLP Act. A firm, private company or an unlisted public company is allowed to be converted into LLP in accordance with the provisions of the Act. Upon such conversion, on and from the date of certificate of registration issued by the Reg-

istrar in this regard, the effects of the conversion shall be such as are specified in the LLP Act. However, the winding up of the LLP may be either voluntary or by the Tribunal to be established under the Companies Act, 1956. Till the Tribunal is established, the power in this regard has been given to the High Court. An LLP offers the following advantages:

- Low cost of formation
- Easy to establish, manage & run
- No requirement of any minimum capital contribution
- No restrictions as to maximum number of partners
- LLP & its partners are distinct from each other
- Partners are not liable for Act of partners
- Less compliance level
- No exposure to personal assets of the partners except in case of fraud
- Less requirement as to maintenance of statutory records
- Less Government intervention
- Easy to dissolve or wind-up
- Professionals can form Multi-disciplinary Professional LLP, which was not allowed earlier
- No requirement as to Minimum Alternate Tax
- Audit requirement only in case of contributions exceeding Rs. 25 lakh or turnover exceeding Rs. 40 lakh

The Task Force constituted under the chairmanship of the Principal Secretary to



(L-R): Mr Rohit Bansal, CEO, India Strategy Group; Ms Shweta Bharti, Partner, Hammurabi & Solomon; Mr Jitesh Khosla, Officer on Special Duty (OSD), Indian Institute of Corporate Affairs (IICA); Mr Salil Singhal, Chairman, CII National MSME Council; Mr Marut Sen Gupta, Senior Director, CII; Mr Subash Lakhotia, Director, R N Lakhotia & Associates & The Strategy Group, during a session on Limited Liability Partnership Act 2008, organised by the Confederation of Indian Industry (CII) in New Delhi on February 19.



Prime Minister to address the issues of the MSME sector has also recommended that wide publicity should be given to limited liability partnerships, which provide MSMEs with an interim solution in the move from the informal to the formal economy.

In the Budget 2010-11, Government has exempted small companies taking the Limited Liability Partnership (LLP) route from paying capital gains tax, in a step to boost this new business structure. It is to facilitate the conversion of small companies to LLPs, Finance Minister Mr Pranab Mukherjee said in his budget speech in Parliament.

The proposal, effective from the current fiscal, provides relief and opportunity to many small entrepreneurs willing to convert their businesses to LLP firms. Our effort to promote LLPs during this year got a shot in the arm, Corporate Affairs Minister, Mr Salman Khurshid, has been quoted saying after the Budget presentation.

Mr Salil Singhal, Chairman, CII National MSME Council, has stated that wide publicity is required for its benefits to be known to a wide cross-section of existing and potential entrepreneurs. The provisions under the LLP Act would stand to benefit a large number of MSMEs run by entrepreneurs who are exposed to a high-level of

personal liability, Mr Singhal said.

At a session organised by CII on the subject of LLP, Mr Jitesh Khosla, Officer on Special Duty (OSD), Indian Institute of Corporate Affairs (IICA), said the Act would encourage qualified professionals to leverage each other's strengths within the framework of a LLP firm to provide services to the world markets. As a knowledge hub of the world, India could see a large number of LLPs serving the global markets including a very large number of Fortune 500 companies who are looking to outsource their business and knowledge processes to India, Mr Khosla said adding that these LLPs could establish their global operations.

Even if 10 per cent of the 26 million MSMEs get themselves registered as LLPs, that would be a sizeable number. However, only a fraction of the 26 million MSMEs in the country have taken the initiative to convert their organisations into LLPs.

Mr Subash Lakhota, Director, R N Lakhota & Associates & The Strategy Group, said, You can do your business as you like, and decide on the share capital as you like. He said that an LLP does not attract Dividend Distribution Tax (DDT) and Minimum Alternative Tax (MAT). An LLP also lends itself to easy conversion into a private limited company, and vice versa.

Mr Lakhota pointed out that there is no limit to the number of people who can come together to form an LLP. It could even involve a 1,000 people, he said, while adding that there is maximum flexibility possible in the restructuring of shareholding in an LLP. He pointed out that the capital gains tax pertaining to conversion of a private limited company into an LLP should have been done away with.

An LLP can participate in stock market trading as well. The Act also opens up immense possibilities of venture capital funding in LLPs, he said, and added that Government could consider allowing the setting up of non-banking limited liability partnership (NBLLP) firms.

Even the 700-800 firms that have converted themselves into LLPs will have the onerous task of convincing the banks that their newfound status should enable them easier access to credit. Mr Rohit Bansal, CEO, India Strategy Group, said the current situation demands that the advocacy for LLP should also cover the banking institutions.

However, given the advantages that LLP Act provides, the current year is likely to see a high rate of conversion of business entities into LLPs, provided the provisions of the Act are adequately publicised. ■

## 'Mitra' shows path of Innovation

Companies small or big are in hot pursuit of innovations to boost their market standing. While inhouse research is one way of developing clutter-breaking innovations, the various technical colleges around the country could also provide some of these solutions. Students from the Delhi Technical University (DTU) recently demonstrated such breakthrough solutions came about. Subhav Sinha, a DTU student has developed a personalised vehicle called Mitra that is capable of carrying a single person while standing



on a motorised board. The model was displayed at the 10th Auto Expo 2010 held in New Delhi.

The personalised vehicle would find ready use inside airport corridors, institutional campuses and speciality buildings such as hospital and warehouses. Besides, the vehicle has the potential to be developed as a personalised transport for the Commonwealth Games to be held in October, especially within the large stadium complexes.

The DTU students have also developed a Formula Student Car, described as the next-generation automobile solution. The DTU Formula Student Car stands out for its low weight of 205 kg, which has been achieved using carbon fiber body and other chassis innovations. The vehicle is powered by a Honda CVR 600 RR MPFI engine and has a power output of 70 BHP with its electronic fuel injection. The steering system of the vehicle is self-designed and has a quick disconnect mechanism. It is also equipped with G-force indicator and has Data Loggers installed for its monitoring on the track.

Innovations like these underline the opportunities that MSMEs could tap into with minimal resources, but with focused R&D. Perhaps, the MSME sector could take a leap into the development of new generation electric and hybrid vehicles in the interest of environment protection and efficient use of energy. ■



Confederation of Indian Industry



## Small and Medium Businesses

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<b>15 June 2010</b>
Submission of Application Document
<b>Sept - Oct 2010</b>
Site Visits
<b>10-12 Nov 2010</b>
Results Announcement





# No Small Matter

The stage's set for India and African countries to step up cooperation in MSME development



**W**hen British economist EF Schumacher wrote the phrase small is beautiful in his collection of essays, he would have envisioned that MSMEs would become torchbearers of development and become backbone of the economies in the 21st century.

In most developed economies, smaller enterprises are much greater in number. In the EU, MSMEs comprise nearly 99% of all firms and employ between them about 65 million people. In Japan, MSMEs contribute 80% of industrial employment and 72% of industrial output. Similar trends are seen in South Korea and the US. Globally, MSMEs account for 99% of business numbers and 40-50% of GDP. In many sectors, MSMEs are also responsible for driving innovation and competition.

Likewise, in emerging economies like India and many African countries, the

MSME sector plays a pivotal role with its contribution to employment, output, exports and entrepreneurship. In India, MSMEs comprise 95% of total industrial units and manufacture more than 8,000 different products. It is estimated that in terms of value, the sector accounts for about 45% of the manufacturing output and around 40% of the total exports of the country.

### India-Africa MSME Cooperation

Looking at the existing situation and background of MSMEs in India and Africa, there are immense opportunities of cooperation and strategic alliances in the MSME sector, which could be in the form of joint ventures, technology collaborations or marketing tie-ups.

India, having the right policy environment for investment, is the second largest emerging market after China and the fourth largest in terms of purchasing power. As for market growth, India

ranks amongst the ten fastest growing economies, fuelled by a sustained annual growth rate of over 9 per cent. The Indian Government has taken several measures to simplify the investment procedures and its FDI policy is very liberal. Foreign companies in India enjoy national treatment and there is no restriction on repatriation of original investment and profits.

It has been observed that cooperation in micro, small and medium scale industries and agriculture could foster a large number of India-Africa partnerships. Besides, India has been tipped as a reliable source of expertise for building the SMEs in many African economies, as the country has committed itself to partner African countries in setting up structures, facilitate transfer of technologies and skills that would support the development of African SMEs. For instance, India has helped in setting up vocational training centres in Africa.



The National Small Industries Corporation (NSIC) set up by the Government of India has played a catalytic role in building markets and facilitating technology transfer for SMEs.

Take the case of South Africa. SMEs account for about 40% of economic activity, yet provide 60% of employment creation. In the southern African nation, the sector has grown significantly. In 1996, around 19% of those employed were in the informal sector of the economy. By 1999 this had risen to 26%. Data on SMEs suggests that these enterprises contribute about half of total employment, more than 30% of total gross domestic product (GDP). Also, one out of five units exported is produced in the small and medium sector in the country.

The main areas of cooperation between India and South Africa mulled over were skills acquisition and placement by expanding existing opportunities for young South African trainees, unemployed graduates to gain experience in their specified fields of interest, expansion of training programmes between India and South Africa, specifically in the field of vocational training, cooperative projects for small industry development, particularly for the benefit of rural women and MSMEs development projects, specifically in the fields of ceramics, jewellery manufacturing and textiles.

In a country like Uganda, it is report-

ed that MSMEs account for 90% of the private sector and contribute to 20% of national GDP. Around 20% of these private enterprises belong to women and in 2003, around 1.4 million women were in this business. The initiatives of the government in this sector which included the BUDS (Business Uganda Development Scheme) for technical support and Microfinance Outreach Plan are improving the situation small business in Africa. However, the industry has vouched for establishing SME authorities with government help, enhance SME support systems and build entrepreneurial capacity and business education with the support of India counterparts.

In terms of SME cooperation with India, Nigeria have also sought major assistance, especially since the country's oil reserves are depleting. The Nigerian government is refocusing on agriculture and MSMEs.

Also, Ethiopia has made a big stride in technical and vocational training and has established many technical institutes to support private sector development. However, India can help it to create an amicable environment for SMEs, strengthen the micro-finance institutions and assist in other practices. Besides, Ethiopia has opted for labour-intensive industries with emphasis on SMEs. 1.5 million jobs have been generated through SMEs in Ethiopia since

1991. To sustain this, Ethiopia looks towards India for training of entrepreneurs, supervisors, etc.

In Democratic Republic of Congo, 75% of the population were engaged in SMEs and micro enterprises. And the Congolese government had allocated \$16 billion for the SME sector, which is 10% of the country's fiscal revenue. However, it has been viewed by Democratic Republic of Congo policy makers that it need to learn from India to promote SMEs and understand and implement how India has been effective in the area of microfinance.

Cote d'Ivoire is another African country that has given top priority to the enterprises sector which includes 34,000 SMEs. The sector has created innumerable job opportunities for the people of Cote d'Ivoire. However, industry leaders believe that it's important to promote SMEs with India's help in terms of transfer of technology, equipment, and technical know-how to increase production.

### CII Role

CII has played a prominent and proactive role in bringing India and Africa businesses closer by organising conferences, seminars, bilateral meetings and facilitating visits of delegates representing MSME sector from both the sides. Focusing on the development of MSMEs, bilateral project partnerships have led to beneficial results.

Besides, a portal ([www.imsme.org](http://www.imsme.org)) for the promotion of micro, small and medium enterprises had been launched by CII and NSIC. The portal acts as an information portal, facilitate business networking, provide a platform for B2B marketplace and promote problem solving and handholding. The portal aids the users to reach out to more than 50,000 Indian MSMEs, share knowledge and information with them, offer products and services and facilitate B2B interaction.

CII has maintained a high level of engagement with the African governments and industry bodies. It has brought companies from both regions on a common platform to strike long-term partnerships. CII has put special efforts to promote the interests of the MSME sector which holds the key to future employment, innovation and growth, which is not a small matter. ■





# Lending IT Muscle To SMEs

**S**MBs are the lifeblood of the Indian economy, driving nearly every economy on the planet. The entrepreneurial innovation of small and medium business (SMBs) contributes to recovery and future growth, and Dell plays an important part in this development.

Dell's SMB goal is very simple to be the No. 1 technology provider to small and medium businesses globally. We believe this innovative, global campaign will help us achieve our goal, as it allows us to truly know our customers intimately and address their needs directly. We also have the products, services, capabilities, expertise and history to meet the technology needs of SMBs around the world.

We aim to be a total IT solution provider to Indian SMBs as opposed to being just an IT vendor.

The world economy makes this a challenging time for any business, but we believe an intense focus on our customers, combined with bringing them tremendous value in innovative IT products positions us well for the future. We think that this potential is most exciting and has the most potential with our SMB customers.

## Dell's entrepreneurial roots and mission

We've realised that most of our SMB customers are IT enthusiasts, not IT experts. They needed to know the transformative power IT can have for their businesses and seek IT expertise in those terms, not speeds and feeds data. Our ability to speak to customers in a language they understand, provide products and services at a price they can afford and deliver customised solutions demonstrates the value we bring to the table as a true partner. We're closer than ever before to our customers, and can efficiently deliver products, solutions and services tailored to their unique needs.

Innovative entrepreneurs need to think about building their businesses, not about running IT. What we can best do to help is become a true partner to our customers a partner is much more than a vendor; a partner supports a customer's success with the right resources.

## 1st Dell Small Business Excellence Awards in India

Dell recognises such entrepreneurs with the Dell Small Business Excellence Awards and offers them a platform to showcase how effective utilisation of technology has enabled them to succeed in their respective businesses.

The Dell Small Business Excellence Award was a window through which we, at Dell, were able to view the innovative usage of technology by SMBs in the country. Each finalist has something different to offer but they all exhibited the same passion and excellence. Ekgaon- Gurgaon, through its innovative work in the field of rural microfinancing enabling rural development, is the first Indian SME winner of this prestigious award.

To enable Indian SMEs learn of best practices and connect with the greater SMB global community, we created unique platforms like the Small and Medium Business Solutions Center, Live Chat and social site networks IdeaStorm, Small Business Blog, Facebook, Flickr, Twitter and YouTube.

## Campaigns

### Take Your Own Path Brand Campaign:

With our focus growing on Indian SMBs, In October 2008, we launched this campaign in India. Our sincere efforts to use real-life business heroes who are now business celebrities in India have really hit the chord with all Indian SMEs.

The key here is we demonstrated to SMB customers both current and potential that we understand the extraordinary achievement of starting and running a business through celebration of our customers in a celebrity-like way. We believe this innovative campaign will help us achieve our goal as it allows us to truly know our customers intimately and address their needs directly.

### Take Your Own Path Goes Global:

Based on the huge success of the pilots in India, we have now extended it around the world. We've now launched in the US, Germany, China and Japan.

### Dell & its custom-made IT products for SMBs

Our Vostro line was the first in the industry created exclusively for growing small busi-

nesses. Systems are built from the ground up based on customer needs and there is no pre-installed bloatware. So it's no surprise that 98% of customers worldwide recommend Vostro Desktops, and 90% recommend Vostro Notebooks.

Vostro laptops offer the industry's only free, non-subscription and pre-installed videoconferencing solution. IDC predicts that more than 30% of SMBs will be using videoconferencing to cut costs and grow business in 2009. Just by selecting a webcam, Dell Vostro customers get all the software they need to get video chat up and running at no additional cost.

Products such as the recently launched Vostro All-in-One take the very real challenges of space and real estate costs that most SMB's face, especially in the larger as well as growing tier 2 cities in India.

Dell helps protect assets from the unexpected Dell has recently launched the mobility services that help SMBs protect their assets as well as data. Services like Dell Laptop Tracking & Recovery as well as Dell ProSupport Remote Data Delete are significant and differentiating services that add significant value to business managers IT investments.

Dell's 11th generation of PowerEdge servers with embedded systems management can give overworked, undermanned IT departments better tools to simplify IT management while lowering your energy bill.

Our new Dell Management Console embraces an open-standards approach and lets you look at and manage your entire IT environment from a single browser window, which is in direct opposition to HP's proprietary framework approach.

Dell's 14 new enterprise products include some of the greenest servers, blades and workstations we've ever rolled out.

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# Building Global Partnerships

## The CII Roundtable Discussion on 'Fostering India-Canada Trade: Role of SMEs' & the CII MSME delegation to Czech Republic underscored the opportunity for bilateral cooperation in MSME development across continents

### INDIA-CANADA SME COOPERATION:

With India and Canada having agreed to sign a Comprehensive Economic Cooperation Agreement (CEPA) within six months of a joint study group that was constituted in November 2009, SMEs in the two countries are presented with a raft of opportunities for mutual economic and technical cooperation. Stating this at a Roundtable Discussion on Fostering India-Canada Trade: Role of SMEs organised by CII in New Delhi in January, Mr Dinesh Rai, Secretary, Ministry of Micro, Small & Medium Enterprises (MSME), said the close cooperation will yield greater transfer of technologies between the SMEs in both countries and facilitate a higher volume of outsourcing of business and manufacturing processes to India.

Mr Rai said the CEPA will set the ground for Indian and Canadian SMEs to enter into joint ventures, franchising arrangements and sub-contracting. He said the National Small Industries Corporation (NSIC) which has a database of 250,000 MSMEs could include data pertaining to Canadian SMEs and



Members of the CII delegation with Mr D P Srivastava, ambassador of India in Czech Republic (fourth from left), Mr Dinesh Rai, Secretary, Ministry of MSME (fifth from left), Milan Hovorka, deputy minister of Industry and Trade (sixth from left) and Ms Alexandra Rudysarova, CEO, Czech Invest (seventh from left) at a meeting in Prague.

thereby facilitate SME e-trading between the two countries.

### INDIAN MSME DELEGATION TO CZECH REPUBLIC:

To improve the bilateral trade between Czech Republic and India, a CII delegation of heads of MSMEs, led by Mr Dinesh Rai, Secretary, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, visited Czech Republic during January 12-14. The CII-SME delegation interacted with Milan Hovorka, Deputy Minister for Industry & Trade, Czech Republic, and with the members of Czech Economic Chamber, Czech Invest, Czech Technical University and Association of Small and Medium Sized

Enterprises and Crafts of Czech Republic.

During the business-to-business meetings, besides the possibilities of marketing their products, the CII-SME delegation also explored the opportunities for joint ventures, collaborations and technology transfers with their counterparts from Czech Republic.

To bring together industrial users and R&D organisations, as well as to provide new opportunities for engagement between the SMEs in the two countries, a global R&D conclave has been proposed to be organised by Confederation of Indian Industry (CII), with an active engagement of Czech Invest, Czech Technical University, a group of Czech companies, Ministry of MSME and the Embassy of India, in Czech Republic. ■



## 'SMEs in both countries need fresh infusion of skill-sets'

Dr Ruby Dhalla is Member of Parliament, Brampton Springdale, Canada

### Indian and Canadian SMEs are addressing different kinds of markets and face different sets of challenges. What is level of SME cooperation is possible between the two countries?

SMEs in both countries need fresh infusion of skill-sets to boost their global competitiveness. I see a great opportunity for the SMEs to share their knowledge and skills drawn from their individual experiences. As such, the Indian community in Canada has already demonstrated how their knowledge could be relevant in a different cultural context. The 1.26 million people of Indian origin have made a significant dent in several business sectors in Canada. So, there is a lot that can be achieved through SME cooperation. I will like to add that greater people-to-people contact will drive this cooperation to a higher plane.

### What is the recommended approach toward this cooperation?

To begin with, there are many success stories to be told, that will

be inspirational to a host of SMEs that are waiting in the wings to extend their global operations. Knowledge sharing will be at the core of this cooperation. I would like to add that the two economies have demonstrated great resilience in the face of the recent global economic downturn, and the current situation present itself well for deep-rooted SME partnerships.

### Which are the promising areas of SME cooperation?

At the outset, I would like to mention IT, telemedicine and distance learning. But, there are many more sectors where these partnerships could develop into formidable engagements.

### What steps would suggest for SME promotion?

Governments should look to introduce mentorship programmes for SMEs, steered by a business advisory council and encourage more women to take up entrepreneurship. ■



# For A Common Cause

Robust cluster development will provide the impetus for MSMEs to move up the value chain

Over the years, clusters of micro, small and medium enterprises (MSMEs) have proved to be among the most dynamic ways to promote endogenous growth. The shift in the paradigm from isolation to that of interdependence has enabled cluster actors to develop sustainable, autonomous governance frameworks that have worked to the advantage of all stakeholders involved.

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GoI), has been following the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of MSEs and their collectives in the country. Clustering of units has enabled providers of various services to them, including banks and credit agencies, to extend their services more economically, thus reducing costs and improving the availability of services for these enterprises.

The Economic Survey 2009-10 states that the cluster approach has been adopted as a key strategy for enhancing the productivity, competitiveness and capacity building of MSEs and their collectives. Under the MSE Cluster Development Programme, 27 new clusters were taken up for diagnostic study, 27 for soft interventions and 8 were approved for setting up of common facility centres (CFCs) during 2009-10. Cumulatively, 441 clusters in 28 states and 7 UTs have so far been taken up for diagnostic study, soft interventions and setting up of CFCs under the programme.

CII has played a leading role in driving the MSME cluster movement in the country. CII has developed 131 clusters in 3 specific areas of cost management, energy management and quality systems. About 60 clusters are still ongoing and the others are progressing towards the second phase including information, communication and technology. Under this, counselors and subject experts provide inputs and handholding on quality and productivity management.

Cluster members are given common inputs through common training inputs and hand-holding support/counseling. Inputs are based on TQM, TPM and Lean. Energy conservation has been a part of some clusters. Companies meet every month to share and learn from the implementation practices.

On building up robust MSME clusters across the country, Mukesh Gulati, Executive Director, Foundation for MSME Clusters, New Delhi, said the objective for each cluster will be guided by the over-riding goal of whether it seeks to be a passive cluster or an active cluster. In the case of passive clusters, they are sheer agglomerations for alleviation of common problems like labour supply,



Whereas, in active clusters, the focus would be on competitive collaboration. Mr Gulati took the example of active SME clusters in Italy that collectively influence consortiums of banks to lend to the SME clusters.

To make the MSME clusters truly robust, Mr Gulati said that they should be following benchmark practices in terms of operations and financial management, etc. In the absence of such standard practices, the vast multitude of local industrial agglomerations will prove to be ineffective.

Mr Gulati took the example of the hand tools industry to cite the efficacy of a cluster approach. This segment has come together to espouse its common causes, address common concerns and share knowledge and skills.

To build the competitiveness of the MSME clusters, Mr Gulati called for a ranking system for clusters, based on certain key parameters

that range from operational management to environmental safeguards. He said that an MSME benchmark index would serve the sector in boosting competitiveness.

The Foundation for MSME Clusters has identified the following steps to promote effective cluster development. They are:

- Selection of Clusters: A judicious selection framework based on a cluster's importance, potential to be promoted, viability and sustainability helps to ensure an effective and wide reaching impact in the overall cluster development program.

- Diagnostic Study: Gathering dispersed knowledge through a participatory study is essential to learn not only about the potentials and constraints faced by a cluster but also about the strength of linkages and support mechanisms. The participatory process helps build trust with the local actors and secure their positive involvement in the cluster development program.

- Trust Building: Establishing an atmosphere of trust within a cluster is essential for building a realistic action plan that will have support from firms, service providers and support agencies.

- Action Plan: An action plan for the cluster is more than the sum total of the demands voiced by different cluster actors.

- Implementation: The implementation of the action plan is not simply the realisation of the targets set in the action plan. More ambitiously, it provides the opportunity for a radical change in the way the cluster stakeholders interact.

- Monitoring and Evaluation: Quantifying the outputs of the activities implemented helps disseminating best practices and strengthening trust. Such task is made even more difficult than in "traditional" SSI programs by the need to identify subtle and slowly emerging changes in the relationships among cluster stakeholders.

Looking ahead, the clusters would need to develop autonomous management capabilities and focus upon on co-creation of value and competitive collaborations. ■



## upcoming events

# SME Focused Projects, Events, Meetings, Interactions & Training Programmes

(March – June 2010)

### CII Northern Region

Title/Theme	Date	Venue	Contact Person	Contact Email
Session on Empowerment of MSMEs in J&K	March 17	Jammu	Col R S Parmar	r.s.parmar@cii.in
National Conference on Carbon Credits Climate Change Carbon Market Trends & The Way Ahead	Last week of March	Hotel Taj Residency, Lucknow	Ashish Vikram	Ashish.vikram@cii.in
Workshop on Communication and Presentation Skills	April	Haridwar	Gaurav Lamba	gaurav.lamba@cii.in
Awareness Training Programme on Environment, Health & Safety (EHS) Best Practices	April	Srinagar	Col R S Parmar	r.s.parmar@cii.in
Quality Mission	April / May 2010	Jaipur	Vidur M Patel	vidur.patel@cii.in
CII BEE Workshop on Enhancing Competitiveness Through Energy Efficiency For The Steel Industry	April	Mandi Gobindgarh	Saransh Sharma	Saransh.sharma@cii.in
Enhancing Competitiveness Through Energy Efficiency	Last week of May 2010	Varanasi	Ashish Vikram	Ashish.vikram@cii.in
Session on Financing Options for SMEs	May	CII (NR) Headquarters, Chandigarh	Tarun Goswami	tarun.goswami@cii.in
Manufacturing Mission	May	Delhi NCR	Gaurav Lamba	gaurav.lamba@cii.in
Seminar on Financing options for MSME	May	Jammu	Col R S Parmar	r.s.parmar@cii.in

### CII Southern Region, Tamil Nadu State, Karur Zone

Title/Theme	Date	Venue	Contact Person	Contact Email
Seminar on Role of Technology in Enhancing Competitiveness of MSMEs	12 March	Hotel Residency, Karur	M K Thulasidasan	m.k.thulasidasan@cii.in

### CII Eastern Region

Title/Theme	Date	Venue	Contact Person	Contact Email
AWARENESS PROGRAMME ON Awareness Programme on 5S AND 3M FOR Leather Sector ATA	April 2010	Kolkata	Ms. Gargi Mitra	gargi.mitra@cii.in
SME East	May 2010	Kolkata	Ms. Gargi Mitra	gargi.mitra@cii.in
Interactive Session with Dr Anup Chanda Principal Secretary, Department of MSME Government of West Bengal	April 2010	Kolkata	Ms. Gargi Mitra	gargi.mitra@cii.in
Awareness Program on 5S, 3M for Light Engineering Sector	March 2010	Raipur	Mr. Prateek Pandey	prateek.pandey@cii.in
Workshop on MSME	May	Raipur	Mr. Prateek Pandey	prateek.pandey@cii.in
Interaction Meeting on MSMED Act 2006	April 2010	Bhubaneswar	Suparna Nanda	suparna.nanda@cii.in
Buyer Seller Meet	May 2010	Balasore	Suparna Nanda	suparna.nanda@cii.in



## CII-LM Thapar Centre for Competitiveness for SMEs

Title/Theme	Date	Venue
Cluster for Competitiveness		Jalandhar, Ludhiana, Nashik, Vadodara, Gurgaon/Faridabad, Bangalore, Kohlapur, Erode, Puducherry, Trichy, Orissa, Agra
Individual Assignment -- Vedanta Aluminium		Ghaziabad, Ludhiana, Rajpura, Nalagarh, Yamuna Nagar, Gagret, Baddi, Alwar, Erode, Parwanoo, Greater Noida, Coimbatore
BEE Cluster		Alwar, Jalandhar, Batala & Ludhiana
Training Programme on Customer Relationship Management	17 March	New Delhi
Training Prog. on SMED & Poka Yoke - Key to Quick Changeover & Error Free Production	18 March	Gurgaon
Seminar on Rapid Prototyping/ CAD CAM	17-18 March	Rajkot
Training Programme on Energy Management- A Road to Energy Efficiency	19 March	Jalandhar
Training Programme on Competency Mapping	19 March	New Delhi
Workshop on Corrosion Failures in Indian Process Industry	5 April	Chennai
Manufacturing Mission- A Mission on How Best Companies Work	16-17 April	Pune
Training Programme on Autonomous Maintenance- How to Achieve Zero Breakdown	16 April	Ludhiana
Corrosion Awareness Seminar for Oil & Gas Industry	20 April	Mumbai
Training Programme on Financial Management	21 April	New Delhi
Workshop on Leadership & Teamwork	23 April	Gurgaon
Thermoteq 2010	30 April	New Delhi
Workshop on Training & Development	14-May-10	Parwanoo
Certificate Course on Automotive & Powder Coating	17-19 May	Pune
Achieving Competitive Advantage Through TCM	19 May	Gurgaon
Training Programme on Quality Circle- How to Leverage & Perform	21 May	New Delhi
Energy Management- A Road to Energy Efficiency	28 May	Faridabad

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