



NMCC
National Manufacturing Competitiveness Council
Government of India



“Through an ICT based intervention model, Project Vikas will empower the SME sector and give it a competitive edge in the global market. NMCC is delighted to partner with Microsoft in this endeavour to improve the overall competitiveness of Indian manufacturing through skill enhancement. Project Vikas aims to develop knowledge networks, through the creation of R&D linkages, capacity building with regional training institutes, sharing of best practices and enable linkage within the SME cluster eco-system. We at NMCC are convinced that with suitable inputs of Information Technology, the competitiveness of SMEs will certainly improve.”

- Dr. V. Krishnamurthy, Chairman, NMCC



Enabling
Indian SMEs
to reach out to
the global market through ICT

NMCC

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ABOUT NMCC

In line with the priorities laid down in Common Minimum Programme, the Government of India has set up the National Manufacturing Competitiveness Council [NMCC] to function as an inter-disciplinary and autonomous body to serve as a policy forum for credible and coherent policy initiatives in the manufacturing sector. The objective of NMCC is to energize and sustain the growth of manufacturing industries in the country and also help in the implementation of strategy. Dr. V. Krishnamurthy heads the Council as Chairman and Shri V. Govindarajan is the Member Secretary. The Government has nominated members in the Council from large, medium and small industries, academic and technical institutions, and senior representatives from the Government.

After detailed discussions with various stakeholders, the NMCC has prepared "The National Strategy for Manufacturing" which has been adopted by the Government of India. The strategy paper aims at achieving a long term GDP growth rate of 8 to 10 percent to substantially improve the living conditions of its people for which the manufacturing sector should target an average growth rate of 12 to 14 %. NMCC is also helping in the implementation of strategy.

In order to ensure speedy and effective implementation of the National Strategy for Manufacturing (NSM), and to resolve the policy issues that may arise in the implementation of the National Manufacturing Strategy, a High Level Committee on



Manufacturing (HLCM) under the Chairmanship of the Hon'ble Prime Minister has been constituted.

The Members of the Committee include: Finance Minister, C&I Minister, Deputy Chairman, Planning Commission, Chairman, Economic Advisory Council and Principal Secretary to the PM. While Chairman, NMCC is the Member/Convener, Member Secretary, NMCC would be the permanent invitee to the above Committee.

In the first meeting, held on 4th August, 2006, the HLCM decided to adopt the NSM and ensure its early implementation. It was further decided that the following sectors would be taken up on priority and brought before the HLCM: (i) Textiles and Garments; (ii) Food and Agro Processing; (iii) Leather and Footwear; (vi) IT Hardware and Electronics; and (v) Problems of small and medium industries including cluster development. In addition to the above mentioned sub-sectors, NMCC has initiated further discussions on various sectors having growth potential for global competitiveness and employment generation.

In order to facilitate processing of the National Strategy for Manufacturing (NSM) prepared by the National Manufacturing Competitiveness Council (NMCC) and to resolve issues that may arise in the implementation of the NSM, the Government has constituted an Empowered Sub-Committee of the High Level Committee on Manufacturing (HLCM) under the Chairmanship of Dr. V. Krishnamurthy, Chairman, NMCC.

The permanent members of the Empowered Sub-Committee of HLCM are: i) Shri Ashwani Kumar, Minister of State (Industry); ii) Shri Anwarul Hoda, Member (Industry), Planning Commission; iii) Shri V. Govindarajan, Member Secretary, NMCC; iv) Finance Secretary; v) Secretary, Department of Industrial Policy and Promotion; vi) Secretary, Department of Commerce; vii) Adviser to Finance Minister; and viii) Representative from PMO.

ENHANCING THE COMPETITIVENESS OF SMEs WITH ICT

As global competitiveness becomes intense, Small and Medium Enterprises (SMEs), specially in the manufacturing sector, face challenges from various big enterprises.

In the earlier protected economy scenario, even inefficient SMEs in the manufacturing sector managed to be profitable. But with global competition arriving, Indian SMEs need to continuously reinvent themselves to stay competitive, efficient and profitable.

In this new age of convergence, Information and Communication Technology (ICT) can play an important role in enhancing the productivity and efficiency of Indian SMEs. In fact, ICT can help SMEs enhance the effectiveness of their people, connect better with customers, vendors and other stakeholders, streamline processes and save costs.

Manufacturing has been recognized as the main engine for economic growth and creation of wealth. Accordingly, emphasis was placed on the growth of the manufacturing sector in most of our Five Year Plans. However, for over two decades, the share of manufacturing in the GDP has been stagnant - at a rather low 17%. Two major reasons for the low level of contribution by the manufacturing sector has been its inability to build and maintain competitiveness needed to meet global challenges, as well as develop a larger domestic market through low cost production.

In fact, the growth of the manufacturing sector is crucial if India wants to increase its share of the global trade, which is currently less than 1%. Manufactured goods form three-fourths of all



exports from India. Five manufacturing industries viz., gems and jewelry, textiles and garments, engineering goods, chemicals, leather and leather products account for over 75% of India's manufacturing exports. The need of the hour is to not only maintain and improve our competitiveness in these sectors but also develop other sectors.

Currently the manufacturing sector employs a sizeable 12% of the workforce. With the total proportion of workforce involved



in agriculture likely to decline from 56% to about 40% in the coming twenty years, it will only add to the backlog of unemployment, which was estimated to be more than 34 million in 2005. This would call for creating substantial non-agricultural employment opportunities. Thus, a substantial and robust growth of manufacturing sector is necessary for creating overall growth and employment possibilities in the economy.

In order to bring the benefits of ICT to the SME sector, the Government of India established the National Manufacturing Competitiveness Council (NMCC) in October, 2004. The council has prepared the National Manufacturing Program. One of the objectives of NMCC is to enhance competitiveness of the manufacturing sector through increased usage of ICT. The council in association with Microsoft India is trying to provide the SME sector with necessary resources-both financial and technical, which will ensure that Indian SMEs retain their edge and competitiveness in the face of global competition.

AIMS AND OBJECTIVES OF PROJECT VIKAS

The programme will support the long-term growth and competitiveness of the SMEs in selected clusters in India:

- To increase growth and competitiveness of existing companies by creating internal efficiencies
- To establish new Information and Communication Technology (ICT), Business Development Service (BDS) providers, including spin-outs from academic or Industrial Research and Development (IRD)
- To include the development of local market for ICT goods and services in India through growth of a local software ecosystem and increasing IT penetration
- Improve SMEs access to market by optimizing the use of ICT

Project Vikas has a long-term objective of increasing competitiveness of the Indian manufacturing sector, through a combination of multi-dimensional strategies which will include:

Using ICT as a medium to revamp access to market:

Enhanced access will empower SMEs to undertake direct, faster and better transactions.

Apt and focused training for refining skills and creating human capital: SMEs face constraints of geographical clusterings which is a major obstacle to attracting quality talent. Upgradation of existing local manpower and reduced dependency on external agencies will enable SMEs to tap local talent. Local ITIs and polytechnics provide a promising potential source of recruits.

Evolving internal efficiencies: By way of intense ICT intake and automating procedures to reduce costs and enhance capacities for accessing, processing and disseminating information and collaboration.

Commencement of 'Knowledge Networks': To share the latest market know-how and best IT practices. Networking with low-cost and relevant R&D linkages to stimulate innovation and ensure continuous product improvement.

High level IT penetration and practice in the manufacturing sector: Weak penetration of IT has been identified by NASSCOM as one of the key reasons for the low competitive ability of the SMEs.

Advancing enlargement of a local software ecosystem: To fortify IT absorption and put forward relevant customized solutions, currently the missing link in the chain.

Project Vikas will incubate and nurture an ecosystem of Independent Software Vendors (ISV) to ensure continued, high quality and relevant ICT support to the clusters.

Project Vikas Implementation Methodology

SMEs usually face a comparatively uncertain environment and entrepreneurs often have a short-term time horizon. This means, the decision to implement ICT depends on the intuition of the entrepreneur - which is subject to his training and experience, his perceptions with respect to policy changes and the economic conditions in the future. Therefore, the adoption decision is determined not only by organization characteristics but also depends on the personality of the entrepreneur and the environment in which the enterprise operates. Cluster Development Approach (CDA) provides critical hand holding on the above mentioned issues.

The three phases of implementation of Project Vikas

Phase I: Understanding cluster needs and preparing a cluster action plan, improving local participation in cluster level activities.

Phase II: Improving skill sets of the cluster based on the action plan with an aim to increase the level of ICT in the business processes.

Phase III: The rewards phase. This phase will see actual increase in productivity due to ICT usage in different firms and organizations in the cluster.

Impact of the program

Innovative changes in management, technology and access to statistical information to facilitate faster decision making.

- Make use of ICT tools to upgrade the efficiency levels to sustain future growth
- Develop breakthrough methodologies to create higher efficiency that will empower the manufacturing SMEs even in the new global environment
- Initiate action to bridge the gap between future challenges and existing constraints
- Enhance internal efficiency leading to better growth and competitiveness.

MANUFACTURING A BETTER FUTURE FOR SMEs

Project Vikas signals NMCC's and Microsoft India's commitment to deliver competitive Indian SMEs. This project will focus on each cluster intensively for three years and aims to cover 25 clusters in five years. This scalable program will focus not just on driving IT penetration, but also skill and capacity building, knowledge creation and dissemination and enabling of linkages in the cluster ecosystem. By helping the Indian SMEs to address its soft challenges, Project Vikas will enable this crucial sector of the economy to realize its true potential.



Project Vikas, steered by NMCC, is supported by Microsoft to achieve the above mentioned objectives. Besides providing guidance to the SME sector on a regular basis, NMCC will also drive the policy level interventions needed to facilitate ICT adoption in manufacturing clusters. NMCC will play the role of a guide and will ensure that Project Vikas achieves synergies with other cluster development initiatives.

Microsoft India will provide technology based solutions to its SME customers and will also invest in skills transfer via its 4,000 partners.

Microsoft is empowering its 650,000 developers in India with appropriate tools, training and the technology to amplify high-end skills and be competitive in the global market. Moreover, through a series of innovations, Microsoft India is creating products specially customized for Indian requirements.



THE SIGNIFICANCE OF CLUSTERS FOR INDIA

Approximately 400 modern SMEs and 2000 rural and artisan-based clusters exist in India. These clusters contribute up to 60% of India's manufactured exports and significantly high share in employment generation. Amongst these, a few clusters account for almost 90% of India's total production in selected products. Prime examples include the knitwear cluster located in and around Tirupur, the entire gems and jewelry export cluster which is centered in Surat and Mumbai, and the leather and leather products cluster found pre-dominantly in Chennai, Agra and Kolkata.



The process of rapid liberalization and globalization of the Indian economy has eroded the traditional market niches of many SMEs and artisan clusters, making them vulnerable in the coming times.

Fresh strategies need to be formulated to drive higher economies of scale, and implementation of ICT based tools and techniques offers these clusters a way to survive and prosper even in the face of globalization.

The impact of clusters on the local economy

- Cluster development methodology gives rise to external economies (e.g. specialized suppliers of raw materials, components and machinery; sector specific skills etc.)
- It extends market reach to international players

- It favours the emergence of specialized technical, administrative and financial services
- It creates a fertile environment for the development of inter-firm co-operation and specialization as well as cooperation among public and private local institutions to promote local production, innovation and collective learning

UNIDO's Cluster Development Program in India

Among various institutions, targeting the Cluster Development Approach, UNIDO's Cluster Development Programme has been the most talked about. UNIDO has successfully implemented this approach in a number of artisanal and industrial clusters; Ludhiana Pune, Tirupur, Ahmedabad, Ambur, Bangalore, Jalandhar being the major industrial clusters and Chanderi, Kota and Bagru being artisanal clusters.



DRIVING GROWTH THROUGH ICT

Many studies conducted worldwide on the SME sector have revealed a direct co-relation between competitiveness and ICT penetration. The more an SME harnesses the power of ICT, the more it has been found to be competitive.

In India, while large manufacturing units have taken to ICT in a big way, SMEs are yet to reap the benefits of ICT on a large scale. This has led to a 'competitiveness gap' and SMEs now need to



concentrate on adopting ICT to bridge the distance between them and the world. This is imperative, if India is to grow as a vibrant economy.

In order to help SMEs realize the potential of IT, Microsoft is working closely with the Government, industry, academia and local IT developer communities to spread the benefits of ICT at the grassroots and take India forward.

ICT and SME productivity

- ICT capital contributes positively and significantly to output and productivity of SMEs
- Contact or exchange of information between producers, exporters and consumers helps to improve trade performance by creating mutual awareness of products, quality and market conditions
- Flexibility is considered to be a major source of competitiveness for SMEs compared to larger enterprises.

The use of ICT increases the competitiveness of SMEs as they enable the creation of more flexible links with trading partners because of faster and more reliable communication channels

- External transaction costs are associated with the initiation, negotiation and enforcement of contracts. The Internet helps enterprises get relevant information faster and cheaper, and reach out to sellers and customers that were previously out of reach
- Economies of scale in exports help SMEs to expand regionally and globally

ICT and SME globalization

Project Vikas is a five year project that aims to impact SMEs in 25 industrial clusters across India. The project's main aim is to move ICT from a 'supply-driven' activity to a force multiplier that will build capacity and create competency. So while, the SME manufacturing sector has played a key role in sustaining growth and generating employment, with the infusion of ICT, SMEs will continue to power India's growth even in the face of global competition. Microsoft along with NMCC and other partners, through Project Vikas, are dedicated to power the SME success story even in the new phase of the economy.

The scalable and multi-divisional program will harness skills, build capacity, encourage knowledge creation and dissemination, and enable linkages in the cluster ecosystem.

Project Vikas is a symbol of Microsoft India's enduring commitment to turn the "Made in India" label into a global brand.

