

## **Recommendation of Prime Minister's Task Force on MSME Sector Scheme for Creation of Technology Acquisition/ Dev. Fund for MSME Sector**

### **1.0 Background**

To Strengthen the MSMEs and remove bottlenecks in their development, the Hon'ble Prime Minister announced setting up of a Task Force under the Chairmanship of the Principal Secretary to the Prime Minister. The task force made several recommendations for MSMEs including one related to creation of a Technology Acquisition/ Development Fund to support MSMEs to undertake Technology Acquisition and Innovation to enable them to move up the value chain and effectively meet the challenges of a competitive environment. In the recommendation it is also stated that "The funds for this purpose, estimated at Rs. 1500 crore may be made available through budgetary sources. Out of this, a substantial part of the fund should go towards promotion of Clean Technology among MSMEs so as to meet our national commitment to reduce emission intensity by about 20% between 2005 and 2020" The Fund may be used for the following purposes:

- Assisting the MSMEs who are willing to enter into collaboration with companies/ institutions having latest technology for transfer of design, technology, training etc;
- To strengthen the existing capacity of MSMEs;
- To set up new product-specific technology development centers in different parts of country in collaboration with industry organizations for developing prototypes, etc.; and
- To fund institutions/ innovators to solve technology related problems of micro, small and medium enterprises in rural areas

### **2.0 Technology Acquisition and Development**

Technology is a non-linear tool which could cause fundamental changes in the level of competitiveness. Going up the technology ladder is the quickest way to become competitive and ensure sustained growth of the manufacturing sector. Most of the rise in material standards of living, since the industrial revolution, has been the consequences of innovation, In this context, the following need attention:

#### **(a) Foreign Technology Collaborations:**

Increasingly, purchase of state-of-the art technologies is becoming difficult. Currently foreign companies are allowed to set up their own 100 percent subsidiaries and tap the domestic market demand which is making transfer of technology to the country difficult and slow. The policy for Foreign Technology needed by them at a cost. However, state of the art technologies are not available even at a cost. Small scale companies do not have necessary capacity to acquire technologies and upgrade themselves and need support.

#### **(b) Technology Development and FDI Policy**

Broadly, the FDI Policy in respect of the manufacturing sector is very liberal and allows 100 percent foreign investment in almost all the sectors except a few like

Defence sector where a restriction of 26 percent has been placed. Technology transfer is considered to be one of the most important benefits of permitting FDI into a country. In India, however, in attracting the FDI the emphasis appears to be substantially on the amount of FDI flows.

Therefore, the *“Report of the Prime Minister’s Group on the measures for ensuring sustained Growth of the Manufacturing Sector”* had recommended following:

(i) Enunciate a clear policy to provide incentives for acquisition of advanced technologies which are required for strengthening country’s technological capabilities from the long-term point of view. The incentive could be among others, in the form of allowable deductions under Income Tax Act, Custom duties exemption and also specific subsidization;

(ii) Priority treatment be given in respect of five strategic manufacturing sectors, namely Aerospace, Shipping, IT and Electronic hardware, Capital Goods and Solar Energy as each of these sectors would need a dedicated fund for acquiring technology for their tier-2 suppliers;

(iii) On a priority basis, consider creation of a Technology Acquisition Fund for use by the Small and Medium Industries. This was also echoed by the Knowledge Commission; and

(iv) Re-examine the present policy of permitting 100 percent subsidiaries of foreign companies in the manufacturing sector

It was also recommended that a high level Technical Committee be set up;

☑ To review the current FDI policy from the point of view of transfer of technology as well as considerations of National Security;

☑ To identify technologies needed by the country from the point of view not only of general technological development but also from the strategic point of view; and

☑ To identify specific areas of technology in which the FDI should be attracted along with appropriate conditions, including that of transfer of technology as also to suggest policy changes in respect of FDI. Such policies must be designed to leverage among others the huge domestic market available for foreign companies

### **3.0 MSME sector and technology**

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. This sector contributes approximately 8% of the country’s GDP, 45 % of the manufactured output and 40% of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labour to capital ration in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

In the developed/ developing countries all over the world, small and medium enterprises are making investments through purchasing of new technology/ high tech machines to

sharpen their competitive edge in the global market. Today with an ever-increasing premium on competitiveness, a wise investment in adopting new technologies makes a precious difference to the MSMEs that spells success. MSMEs in India are facing challenges necessitating the need for technology acquisition/adaptation to enable them to move up the value chain and effectively meet the challenges of competitive environment. Customers are demanding high quality products to be delivered at short notice and at a competitive price.

Competition is getting a dimension in manufacturing sector through globalization. Ensuring that the MSME Sector grows at a healthy rate is crucial for the overall growth of Manufacturing Sector as also the national economy. For this to happen the small scale sector has to be competitive. The sector is heterogeneous, dispersed and substantially unorganized. Merger and Acquisitions to obtain economies of scale may be required. There are also other ways in which the competitiveness can be achieved by the MSMEs. The National Strategy for Manufacturing (NSM 2006) prepared by the NMCC recognized the unique role of the SMEs and made detailed recommendations to the Government. Most of these recommendations have been accepted and the implementation has begun. The SMEs in order to ensure long term growth would have to diversify and become the crucibles of technology development.

The NMCC report recommended to:

- (i) ensure that the MSME sector grows at a healthy rate as it is employment intensive;
- (ii) create on high priority basis, a Technology Acquisition Fund which would enable the SMEs to acquire technology sectors, and
- (iii) create an appropriate mechanism to link up the SMEs, the Technology providers and the users of the products.

#### **4.0 Scheme Objective**

Keeping in view the necessity highlighted in para 3.0 above and as recommended by the Task Force on MSME sector the proposed scheme is the need of hour and justified.

The objective of the proposed scheme is to establish an appropriate fund to fund to provide financial assistance to MSMEs who intend to upgrade or transform their technology in their business processes. The financial assistance will generally be considered:-

- (a) To procure new machinery and plant of latest technology in lieu of obsolete machinery and equipment.
- (b) To acquire latest technology in transforming their manufacturing processes for better productivity, quality etc
- (c) To procure latest designs/ ideas/ know-how so as to enable MSME units to convert their product range into better/ advanced products as per the market demand.
- (d) To promote and convert existing manufacturing processes of MSME units into

green/ clean technology/ processes.

(e) To assist technical bodies/ research institutes/ industries' associations for setting up new product specific technology development centres and / or to upgrade the existing ones.

(f) Any other assistance required by MSME units leading to technology development.

### **5.0 Scheme Proposal & Funding assistance:**

The scheme will be centrally sponsored and will be administered by the office of Development Commissioner (MSME) under the Ministry of Micro, Small and Medium Enterprises (MSME) with the involvement of various competent technical bodies and Banks/ financial Institutions.

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he following entities will be eligible to take benefits from the Scheme.

#### **(a) Individual MSME Units**

The MSME Units can avail financial assistance from the proposed scheme for the following purpose:-

(i) Purchase of new machinery and plant of latest technology upto a limit of Rs. 5 crore.

(ii) To acquire latest design/ processes from other organizations/ recognized bodies/ large companies' upto a limit of Rs. 1 crore inclusive of all expenditure.

(iii) For seeking collaboration with mother industries in setting up new product line, the financial assistance upto Rs. 2 crore can be considered.

(iv) To upgrade/ acquire clean technology upto to Rs. 5.0 crore.

The assistance as above will be available based on the total project cost for which the Government of India contribution upto 70 % can be sanctioned. The GoI contribution can be released in suitable installments as per the funding pattern. It will be necessary for the MSME units to return the entire amount of GoI contribution within 5 years from the date of release of last installment (including a moratorium of initial two years).

The above funding assistance/ pattern is indicative only and the details will be spelt out in the DPR to be prepared for the scheme. It may be possible that different sectors/ product groups may have different cost ceiling.

#### **(b) Technical institute, R&D Centres, Industry Associations**

These institutes/ bodies can avail benefits from the proposed schemes in the following areas:-

(i) To set up new product specific technology development centres and / or to

upgrade existing facilities in relation to technology upgradation, Research & Development, Testing Facilities, Training and Capacity building, etc. The proposed activities should have MSME focus and must lead to technology development.

(ii) Technical / R&D Centres working the filed of clean technologies/ nonconventional energy with specific advantage to MSME sector.

The total project cost can be upto Rs. 40 crore per institute. The GoI contribution will be upto 90% of the cost of machinery and plant or 70% of the project cost, whichever is less. Generally, the cost of land and building will not be part of the project cost. The GoI contribution can be released in suitable installments as per the project funding pattern.

The above funding assistance/ pattern is indicative only and the details will be spelt out in the DPR to be prepared for the scheme. It may be possible that different sectors/ product groups may have different cost ceiling.

### **6.0 Budgetary Requirement**

The required funds from the budgetary resources will be upto Rs. 100 crore for the current Five year plan, which will be arranged from the savings available under the NMCP scheme. The target will be reach a revolving fund of Rs. 1500 crore during the next five year plan period.

### **7.0 Implementation Methodology**

The scheme will be applicable for all technology verticals involved in the MSME sectors. The scheme will establish the Technology Development Fund with necessary budgetary resources from Government of India. The scheme funding will be released through designated banks including SIDBI, NABARD, etc.

A Coordinating Body to function as technology bank has been constituted under the Chairmanship of Secretary (MSME), so as to provide direction and overall supervision for the implementation of above scheme. This body has representatives from Department of Science and Technology, Department of Biotechnology, DSIR/ CSIR and other domain experts.

For the selection of proposals, a Screening Committee will be constituted at appropriate level which will decide on the admissibility of the projects based on its merit. The proposals will be scrutinized at field level, prior to deliberation before the screening committee.

### **8.0 Scheme approval**

The scheme proposal and EFC note for above scheme will be framed through a Detailed Project Report to be prepared by a competent technical agency. The expenses for this purpose can be arranged from the line entry available for Rs. 1 crore in the current year budget outlay. The DPR will have requisite information as per the Guidelines issued by the Deptt. of Expenditure.

The draft Terms of Reference for preparation of DPR will be:-

(i) To prepare Detailed Project Report (DPR) for the formulation of Technology Acquisition/ Development Fund (TAF) scheme, for MSME sector.

(ii) To suggest operational modalities and implementation of various scheme activities.

(iii) Pattern of cost sharing between GoI and other stakeholders/ beneficiaries.

(iv) Methodology of transfer of subsidy/ grant from Government of unit/ agencies

(v) To device legal format for various agreement need to be entered into various stages as required by the structure of the scheme.

(vi) Various possible means of Technology Transfer/ Acquisition.

(vii) To formulate criteria for selection of the proposals for various structural mechanism like, selection of technology, machine/ equipment, Type of agencies eligible for transfer of technology etc.

(viii) Details on such initiative of other departments of center/ state level and its relevance with proposal/ possible ways for synergy.

(ix) To prepare draft guidelines for operation of various components under the scheme.

#### **9.0 Recommendations:**

The proposal is submitted to Planning Commission for seeking “in-principle approval” for the scheme for “Creation of Technology Acquisition/ Development Fund for MSME sector”.