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# Expert Group Meeting on the Promotion of SME Export Consortia

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## **COUNTRY PAPER INDIA**

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## A. INFORMATION ON THE COUNTRY'S EXPERIENCE

### ***A.1 Indian policy to promote exports***

#### **Export promotion strategy**

The business environment for exports in India has undergone a radical change since the first economic liberalisation reforms were introduced in 1991. Be it the policy framework, the procedural obligations or the marketing methods, the entire structure is becoming more and more transparent and flexible. Several steps have been taken by the Government to promote foreign direct investment, create growth centres, and stimulate exports.

The Foreign Trade Policy for 2005-2006, designed by the Ministry of Commerce and Industry<sup>1</sup>, highlights that coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development.

The Foreign Trade Policy is built around two major objectives:

- To double India's percentage share of global merchandise trade by 2009; and
- To act as an effective instrument of economic growth by giving a thrust to employment generation.

These objectives are proposed to be achieved by adopting, among others, the following strategies:

- Removing controls and creating an atmosphere of trust and transparency;
- Simplifying procedures and bringing down transaction costs;
- Neutralizing incidence of all levies and duties on inputs used in export products
- Identifying and nurturing different special focus areas (agriculture, handlooms, handicraft, gems & jewellery and leather, footwear).

#### **Available funding schemes**

The two main Exports Promotion Schemes of the Ministry of Industry and Commerce are:

- Market Access Initiative (MAI): this scheme uses a 'focus product – focus country' approach, developing specific strategies for specific markets and products through market studies/surveys.
- Market Development Assistance (MDA)<sup>2</sup>: this scheme supports export promotion activities abroad.

Support under these schemes is provided to exporters on a decreasing basis, normally via the Export Promotion Councils. Business plans are required only for certain activities. For both schemes, the level of assistance depends also on the export country and product (more details can be found in Section A.2).

The table below reviews the main export promotion schemes, including specific measures for units exporting all of their production. The most relevant schemes for export consortia are

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<sup>1</sup> For a full review, [www.commerce.nic.in](http://www.commerce.nic.in) and [www.eximkey.com](http://www.eximkey.com)

<sup>2</sup> <http://commerce.nic.in/guidelines-MDA.pdf>

described in further details in Section A.2 together with other schemes relating to export infrastructures in clusters. Procedural simplification measures are not discussed here.

*Table 1: Main export promotion schemes/measures*

<b>Type of Scheme</b>	<b>Characteristic</b>	<b>Sector</b>
Market Access Initiative	Co-financing of export promotion activities on a 'focus country – focus product' approach	All sectors
Market Development Assistance	Co-financing of export promotion activities	All sectors
Measures for Export Oriented Units <sup>3</sup>	1. Exemption from service tax in proportion to the exported goods and services.	All sectors
	2. Retain 100 percent of export earnings in EEFC (exchange earners foreign currency) accounts	All sectors
	3. Income tax benefits on plant and machinery	All sectors
	4. Import of capital goods on self-certification basis	All sectors
	5. Left-over materials and fabrics up to 2 percent of CIF value or quantity of import can be disposed of on payment of duty on transaction value only.	Textile and garments
	6. Minimum investment criteria shall not apply	Brass hardware, jewellery, handicrafts, agriculture, floriculture, aquaculture, animal husbandry, IT and services
Status Holders Credit	Status holders who achieved a strong growth in exports are entitled to a higher duty-free credit.	All sectors
Export Promotion Capital Goods (EPCG)	Additional flexibility has been introduced for fulfillment of export obligation under EPCG	Capital goods
Import of Second Hand Capital Goods	Import permitted without age restrictions. Minimum depreciated value of plant and machinery to be relocated to India has been reduced	Capital goods
Duty Entitlement Pass Book (DEPB) – under revision	Licence issued to exporters once they receive the foreign exchange for their exports. The value of the licence is based on a percentage chart that varies according to the products. The licence can be sold in the open market or used for paying import duties.	All sectors
Special Agricultural Produce Scheme	Export of these products shall qualify for duty free credit entitlement equivalent to 5% of FOB value of exports.	Agriculture including floriculture

### **Role of government and private sector associations and their coordination**

The Department of Commerce in the Ministry of Commerce and Industry, has the mandate to formulate policies in the sphere of foreign trade, especially the import and export policy of the country.

Several public or semi-public organisations and institutions are connected with the provision of export-related services, in particular:

- *India Trade Promotion Organisation (ITPO)*: a public sector undertaking, the premier trade promotion agency of India.

<sup>3</sup> Units that export their entire production of goods and services

- *Indian Institute of Foreign Trade*: engaged in training of personnel, market and marketing research, area surveys, commodity surveys, market surveys and dissemination of information.
- *Export Promotion Councils*: the 20 Export Promotion Councils are organized on a sector basis and perform both advisory and executive functions. They are also the registering authorities under the Export Import Policy. One of their main tasks is to organize missions abroad. However, the results of such visits often do not meet the expectations of members, who hesitate in joining the business delegations of EPC's. Their functions have been recently reviewed.
- *Federation of Indian Export Associations*: the FIEO is an apex body of various export promotion organisations and institutions. It acts as a central co-ordinating agency for export consultancy services.

Two advisory bodies, The Board of Trade and the Export Promotion Board, on which the various concerned ministries are represented, advise the Ministry of Commerce on policy measures.

The Government consults regularly with the private sector when drafting trade policies. The latest Foreign Trade Policy (2005-2006) calls for the revitalization of the Board of Trade and an enhanced role for the Indian embassies in the export strategy. The partnership with the private sector is to be enhanced.

### **Main export industries**

After witnessing an impressive growth in 2002-03, export growth continued to maintain momentum during the year 2004-05. According to provisional data for April-January 2004-05, exports stood at US \$ 60.754 million, a growth of 25.6%.

During April-October 2004, there was a significant increase in the exports of processed food, meat and meat products, ores and minerals, leather and manufactures, gems and jewellery, chemicals and allied products, engineering goods, electronic goods, project goods, textiles, carpets, raw cotton and petroleum products. Exports of commodities like floriculture products, sports goods, handicrafts and silk carpets declined during this period.

*Table 2: Main exports 4*

<b>Commodity</b>	<b>April-March 2003-2004 (US \$ Million)</b>	<b>April-March 2004- 2005 (US \$ Million)</b>	<b>Annual Growth (%)</b>	<b>Share (%)</b>
Engineering products	10516.45	14587.37	38.71	18.41
Gems and jewellery	10573.38	13705.44	29.62	17.29
Chemicals and related products	9960.12	12677.21	27.28	16.00
Textiles	12204.71	12017.46	-1.53	15.16

Exports by small scale industries (SSIs) have shown excellent growth rates during 1990-2000. While SSI production at constant prices went up by less than 8% between 2001-02 and

<sup>4</sup> [www.commerce.nic.in/india\\_trade](http://www.commerce.nic.in/india_trade)

2002-03, exports rose by 20.7%. In 2000-2001, direct exports from the SSI sector<sup>5</sup> accounted for 35% of the country's total direct exports. Besides direct exports, it is estimated that SSIs contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses, or in the form of export orders from large units or the production of parts and components for finished exportable goods. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.<sup>6</sup>

### **Main obstacles to export growth**

Even accounting for indirect exports through medium and large-scale industries, small industries export on average only 17 percent of their production. SMEs face some common obstacles in the export business such as the lack of export infrastructure, or a high vulnerability to the rising Rs/US\$ exchange rate. The lack of testing facilities and of enforcement of quality, social and environmental standards also affects the vast majority. However, in a country is so vast and so diverse, it is hard to generalize. The situation in specific clusters where UNIDO intervened in the export industries where SMEs dominate such as leather, machine tool, cotton and woollen knitwear, sports goods and food processing<sup>7</sup>, provides interesting insights in the diversity of problems:

#### *Leather cluster of Ambur*

At the time of UNIDO intervention, due to their small size and volume of business, the tiny shoe-making firms were not in a position to enhance market penetration. Further, their marketing system was primitive. There was also a problem of mentality for those firms in a position to export: the dominance of large enterprises in exports had created the impression that 'to export one must be big'.

#### *Machine tool cluster of Bangalore*

Here the main obstacles to exports from SMEs were a poor focus on marketing and a weak institutional framework as well as the isolation of small firms from medium and large ones that could count on networks abroad.

#### *Cotton knitwear cluster of Tirupur*

In the case of Tirupur, a major exporting cluster, limitations were due to focus on low value products, poorly trained staff, lack of understanding of product quality, a low level of social and environmental standards and a weak institutional framework.

#### *Knitwear cluster of Ludhiana*

This cluster faced human resources problems, weak international market linkages, a stagnating domestic market, a low level of competitiveness and a weak institutional framework.

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<sup>5</sup> An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms, on lease or on hire purchase does not exceed Rs 10 million.(US\$ 220.000) (details <http://www.smallindustryindia.com/ssiindia/definition.htm>)

<sup>6</sup> More info at: [www.smallindustryindia.com/ssindia/performance.htm](http://www.smallindustryindia.com/ssindia/performance.htm)

<sup>7</sup> For a full account of UNIDO intervention in those clusters: [www.smeclusters.org](http://www.smeclusters.org)

### *Sports goods cluster of Jalhandar*

Even if the demand for sports goods was increasing in the global and in the domestic market, the cluster was facing growing competition from new entrants like China. Besides updating its technology, the cluster also started to produce innovative products and reaching out to new markets but on these issues information was scarce and business development services were inadequate. The industry also needed to improve social accountability standards since buyers were increasingly requiring compliance to social norms, apart from abolition of child labour.

### *Processed food cluster of Pune*

The cluster was suffering from an inadequate technical knowledge base, weak information channels, limited facilities for testing and research and lack of an apex developmental organisation in the cluster. The very small size of several firms and the lack of respect for quality and safety standards was a major obstacle to exports.

## **A.2 Legal and incentive framework**

### *Legal forms available for consortia*

Until 3-4 years ago, consortia as a tool for business development were unknown to SMEs. Now, thanks to the efforts of UNIDO, the State Bank of India, the Textiles Committee, the Coir Board, the Government of Kerala, the Department of Commerce and Entrepreneurship Development Institute, there are roughly 300-400<sup>8</sup> consortia. Most of them are engaged in several simultaneous activities, relating both to backward and forward linkages such as common purchase of raw material, promotional activities, and setting up of common facilities. Many of them are only 2-3 years old. For most, exports are among the (foreseen) activities, but they are rarely the only activity.

No specific legal form exists in India for consortia. Firms can choose between the following forms:

- A registered society (not for profit)
- Partnership firm
- Private limited company
- A trust (not for profit)
- Association of persons

Consortia normally choose as a legal form either a registered society, a partnership or a private limited company. The creation of a firm under the Partnership Act is suitable for consortia having a strong business motive, and the procedure is comparatively simple. Since 2003 there is a clear trend for consortia to form a private limited company. The registration is costly and cumbersome, returns must be submitted and there is a penal provision for non-compliance; but the advantage is that access to credit is easier than for societies or partnerships. Moreover, the liability of shareholders is limited. The chosen legal form can also depend on the access to credit and

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<sup>8</sup> 100 in the Alleppy coir cluster alone, doing common raw material purchases; another 40 consortia in other industries of Kerala; 30 of them have been promoted by the Textiles Committee; 20 by UNIDO CDP; 20-30 consortia by the Department of Commerce (SSI); around 10 consortia by the State Bank of India.

public funding for certain kinds of consortia. Depending on the chosen legal form, the internal statute and the number of firms, decision making models vary across consortia.

*Table 3: Legal forms for consortia*

Legal form	Number of members	Capital requirement	Liability	Notes
Society	Min. 7 individuals or firms	No	No	Not for profit.
Partnership (firm)	Max. 11 individuals	Min. 10.000 Rs (US\$ 220)	Unlimited	For profit. Suitable for consortia with a strong business motive
Private limited company	2 to 50 individuals	As per the authorised requested capital	Limited	For profit. Requires large initial investment but opens access to banks.

### Financial and fiscal incentives for exporting firms

There are no special incentives for export consortia. If a consortium exports directly, it can apply for any scheme, like any other company.

The main fiscal incentives, promotional schemes, schemes specifically devised for SMEs and schemes for consortia creation and support are described in the tables below.

*Table 4: Main fiscal incentives for exports*

Incentive	Description	Notes
Duty Drawback Scheme	A certain percentage of the Free On Board value of exports is refunded by cheque by the Ministry of Finance	-
Advance Licence Scheme	Raw material for exported products can be imported duty free provided goods are exported within 18 months of raw material import.	-
Duty Entitlement Passbook Scheme <sup>9</sup>	Licence issued to exporters once they receive the foreign exchange for their exports. The value of the licence is based on a percentage chart that varies according to the products. The licence can be sold in the open market or used for paying import duties.	Under revision. The new scheme will be drawn up in consultation with exporters.

The main promotional incentives are MAI and MDA – see above. They are provided to exporters on a decreasing scale over time, normally via the Export Promotion Councils. Business Plans are required only for certain activities.

*Table 5 : Main promotional incentives*

Promotional incentive	Financed activities	Economic Conditions	Business plan
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<sup>9</sup> www.eximkey.com

			<b>required</b>
Market Access Initiative	1. Opening of showrooms abroad	75% rent refund for year 1, 50% for year 2, 25% for year 3	No
	2. Opening of warehouses abroad -	75% rent refund for year 1, 50% for year 2, 25% for year 3	No
	3. Display in international department stores	75% rent refund for year 1, 50% for year 2, 25% for year 3-	No
	4. Reverse visits of the prominent foreign buyers	60% of the total cost of invited buyers .	No
	5. Participation in trade fairs, etc., abroad	90% of air ticket refund.	No
	6. Research and product development for exports	Ceiling of Rs.50 lakhs/US\$ 110.000	Yes
	7. Publicity campaign and brand promotion abroad	Ceiling of Rs.50 lakhs/US\$ 110.000 <sup>10</sup>	Yes
Market Development Assistance	1. Sales-cum-study tours abroad	90% of airfare refunded.	No
	2. Direct participation in trade fairs/exhibitions abroad	90% of airfare refunded.	No
	3. Production of publicity material for exports	100% refund subject to a ceiling of Rs. 20,000/US\$ 450	No
	4. Market survey/studies abroad	Ceiling of Rs.10 lakhs/US\$ 20.000	Yes
	5. Infrastructure creation for exports	Ceiling of Rs.50 crores/US\$ 11 million	Yes

Note: Lakh = Rs 100,000; Crore = Rs 10 million

Until April 2005, these incentives were given to exporters only through EPCs, normally on the basis of a yearly decreasing rate, as described above. While the guidelines of MAI specifically mention support for marketing abroad to associations in industrial clusters recognised by the Minister of Commerce through the EPC concerned, no such association appears to have benefited from this scheme so far. A business plan is required under MAI and MDA only for certain activities such as market survey/studies abroad and infrastructure creation for exports.

*Table 6: Specific schemes for SMEs/SSIs*

<b>Scheme</b>	<b>Financed activities</b>	<b>Conditions</b>	<b>Business plan required</b>
SSI-MDA for individual SSIs and associations	Participation by SSI entrepreneurs in overseas fairs/trade delegations.	Funding up to 90% of air fare	No
	Producing publicity material	Up to 25% of cost	No
	Contesting antidumping cases	50%, up to Rs 1 lakh	No
	Sector specific studies	Up to Rs. 2 lakhs	Yes
Participation in selected international fairs for individual SSIs and associations	Full subsidy on space rent and shipment of exhibits of SSI units	Full subsidy	No
Training programmes on	Training organised all over the		NA

<sup>10</sup> Exchange rate July 2005: 1 US\$ = 45 Rs

export packaging Existing and potential entrepreneurs	country		
Government Stores Purchase Programme (all SSI units)	Technical upgrading, development of new products, testing facilities. The aim is to help SSIs produce in conformity with standards. Units must be registered by the NSIC as competent to execute Government orders.	All requisite financial support depending on requirements (purchase of raw material.),	No
National Small Industries Corporation (NSIC) participation in trade fairs and exhibitions ( all registered SSIs)	Showcasing Indian SSIs at national and international exhibitions through concessions in rentals ...	30% of participants' expenses	No
NSIC buyer-seller meets	Organised by NSIC all over India for bulk and departmental buyers.	30% of participants' expenses	No
Exports of products and projects by NSIC	As a recognised export house, NSIC facilitates export of SSI products and projects with a complete package of export assistance, help in sampling, negotiations with buyer and participating in UN tenders	Fee for services between 1-3% of FOB value for products and 10% of FOB value of projects after realisation of exports.	No
International cooperation scheme for central/state government organisations, industry associations and societies associated with SSI	Participation in fairs, buyers-sellers meetings. Exchange of business delegations. Surveys and studies to promote business-business interaction.	Varying financial assistance	No

The Government of Kerala has adopted an incentive policy for consortia called 'Common Corporate Entities' under its cluster development approach. It provides loans and grants for a range of activities. The Ministry of Small Scale Industry has initiated a scheme to facilitate consortia formation in 2004. So far, 15 SSI consortia have been established in different parts of the country through this scheme<sup>11</sup>.

*Table 7: Specific schemes for consortia*

Type	Financed Activities	Economic conditions
STATE OF KERALA		
Margin Money Loan to consortia	Sourcing of raw material, mutual credit guarantee for loans, common brand creation, marketing, creation of common service facilities, quality testing facilities	Loan for 20% of the cost of the project and up to a maximum of Rs. 500,000 or US\$ 11,000 (so-called 'margin money loan')

<sup>11</sup> For more [www.keralaindustry.org](http://www.keralaindustry.org) and [www.smallindustryindia.com](http://www.smallindustryindia.com)

Margin Money Loan to <i>individual</i> SSIs that are members of a cluster group/common corporate entity/consortium/company organised under the Industrial Cluster Development programme	Serves to contribute to SSI equity share required by the bank or for establishing common facility centres, quality testing facilities or other industry-related activities including marketing facilities.	Margin money loan. Maximum Rs 2.5 lakhs – US\$ 5,500 maximum. Loan is limited to 50% of the equity/share contribution at an interest rate of 6%.
Grant	Training of cluster members, stakeholder awareness building, participation in national and international trade fairs and exhibitions, study tours, field visits etc.	Limited to 50% of the actual expenditure subject to a maximum of Rs. 50,000 (USD 1,100) per cluster per year per activity. Maximum total grant is 2 lakhs (USD 4,400) per cluster.
<b>MINISTRY OF SSI</b>		
Consortia Marketing and Brand Building	Services to the consortia members include common brands, advertising and publicity support, testing and common facility support.	NSIC facilitates consortia members in bidding for tenders and subsequent procurement of orders. NSIC charges only 1% of the order value executed by members

### ***A.3 Role of support institutions***

Consortia – of any kind – cannot be 'created' but can only evolve: a propensity and willingness to work together among entrepreneurs must exist before the intervention of the promoter.

In the present context, 'handholding' assistance in the initial stages is required for consortia to succeed. Support needs to be customized to the local conditions. Normally, a larger amount of time and resources is needed to promote the consortia model among micro and small firms. Medium firms are on average more familiar with export markets.

No dedicated institution for the promotion of export consortia exists today in India. However, certain organizations involved in cluster development programmes as an SME development strategy are also promoting the creation of export consortia. Overall, around 30 institutions are supporting cluster development.

#### **Federation of export consortia**

There are two federations at present:

- The Association of Bangalore Machine Tool Consortia ( ABMTC ), with 8 consortia;
- the Kerala Federation Of Industrial Clusters (Kochi), which groups 6 consortia from different industries (plastic, rice mills, ready made, tread rubber).

#### **Major institutions and organizations promoting export consortia**

These include:

- UNIDO
- The Ministry of SSI
- State Bank Of India ( Project Uptech )
- The Textiles Committee
- The Kerala Government
- The Coir Board

The number of private providers of services in this field is very limited.

### **Export counsellors**

The role of the network broker is particularly crucial in the in the initial phase of promoting the consortium idea, identifying and contacting potential members providing guidance, shortlisting like-minded entrepreneurs...

Still, a very limited number of network brokers or export consultants is available. In the past, such kind of services to SME were being provided only through the public sector and therefore the private market has not developed. Most high-end consultants are not affordable for SMEs. UNIDO and other institutions have taken the initiative to develop a cadre of consultants who would specifically focus on SME clusters (see under A.5).

### **Role of ministries**

Three ministries of the Central Government and five State Governments have been sensitized by UNIDO on cluster development and have in turn adopted it as a policy tool. The creation of networks and consortia is an integral part of the cluster approach. The Textiles Committee and the Kerala Government stand out as being particularly active in promoting the creation of consortia, including export consortia.

The Central Government ministries are:

#### *Ministry Of Small Scale Industry*

One of the agencies of Ministry of SSI, the National Small Industries Corporation, has established 15 SSI consortia in different parts of the country.

#### *Ministry Of Textiles*

The cluster policy of the Ministry of Textiles is executed by the Textiles Committee. The Development Commissioner of Handloom and Handicraft has also taken up cluster policies.

#### *Ministry Of Science & Technology*

Its cluster and consortia policy is executed by Department of Science and Technology.

The five State Governments are those of Madhya Pradesh, Andhra Pradesh, Gujarat, Kerala (see scheme above) and Orissa.

### **A.4 Typology of operational export consortia**

Name	Industry	Type	Number of members	Location	Main export markets
<b>Promoted by UNIDO</b>					
ALTECO	Leather	Promotion	5	Ambur, TN	China, S. Africa
BMTMN	Machine tools	Promotion	9	Bangalore, Karnataka	China, EU, USA
COTEX	Handblock printed textiles	Promotion	16	Jaipur, Rajasthan	EU, USA, Australia
<b>Promoted by Textiles Committee</b>					
Classic Terry Towels (India)	Terry towels and bedspreads	Promotion	9	Solapur	EU, Middle East
Surat Textiles Manufacturers	Powerloom weaving and textile process.	Promotion	4 traders, 3 manuf.	Surat	
Days Woven	Powerloom weaving	Sales	11	Ichalkaranji	Sri Lanka
Tiripur Exporters Source	Cotton knitwear		4	Tiripur	EU, USA
Knit City	Cotton knitwear		5	Tirupur	EU, USA
First Clusters Apparels	Cotton knitwear	Marketing and raw material purchases	48	Tiripur	Sri Lanka
<b>State of Kerala</b>					
International Carpet	Carpets made of natural fibres	Promotion	5	Allapuzha	EU, Middle East, etc.
South India Carpet	Carpets made of natural fibres		5	Allapuzha	EU, USA
Natural Rubber and Fibre Manufacturers	Home furnishings	Promotion	50	Kottayam	
<b>Others</b>					
SEAP	Pharmaceuticals	Sales	5	Calcutta	SE Asia
Medilab	Scientific and lab equipment	Sales	3	Ambala, Haryana	S/SE Asia, USA, South America, Middle East
Sever Star Fan	Fans	Promotion	7	Hyderabad	Middle East
Rice Millers	Agroproducts	Promotion	8	Rudrapur	South Africa
Apex Match Box	Consumer goods	Promotion	6	Sivakasi	Brazil

In addition to these, another seven consortia, mainly in the engineering industries, are about to start exports, as well as three textile consortia in Kerala.

#### **A.5 Main obstacles to the creation of export consortia and proposals for improvement**

### **SME attitude towards interfirm cooperation**

The main obstacle hampering the creation of export consortia is the resistance of Indian SMEs to interfirm cooperation, which was reinforced by the cut-throat competition among small entrepreneurs that followed the liberalisation of the economy. There are also few if any example of such consortia to draw inspiration from.

A possible way out is to prove through concrete examples that SMEs, by joining forces, can have their share of the 'big cake' of the global market even though competing on the domestic front. Links developed on the export front can expand to domestic activities.

### **Choice of products**

The right choice of products is essential for the consortium to succeed. If the members are small or very small firms, it makes sense for them to export the same product so as to provide the buyers with a sufficient volume. The focus in this case is on reducing business risk per unit by sharing investments and avoiding middlemen. For more firmly established firms it might be better to export similar (but not identical) products or complementary products, so as to reap some of the benefits of cooperation (for example, common shipment), but avoiding direct competition.

### **Product quality**

Proper standardization and quality controls are often lacking, but without them consortia cannot be successful in export markets. Appropriate facilities, information and a constant attention to these issues on the side of the entrepreneurs are essential.

### **Difficulties in consortia management**

As consortia are generally unable to engage high profile professionals to manage their functions, members must share duties and responsibilities. Since members have their own business to manage and may not have the skills required to manage a consortium, work relating to consortia is often given less priority, which has an impact on their performance. Even when the consortium manages to find a suitable manager, it is often difficult to retain him due to more appealing job offers in the private sector.

The salary of the manager could be partially subsidised until the consortium becomes sustainable. A system to share best practices for consortia coordinators should be set up (training modules, templates for monitoring etc.).

### **Export difficulties**

Complicated procedures and high transaction costs have traditionally deterred small firms from venturing into export business. Giving small firms the confidence that they can be successful in export markets through joint efforts has therefore been and continues to be difficult.

The initial investments required for developing export business can be very high, which is hard to square with the general need of small businesses for quick returns. This problem can be overcome by enabling the consortia to obtain financial assistance, particularly at the initial stage.

### **Inadequate institutional support infrastructure**

Institutions involved in cluster providing specialized strategic services face several challenges in dealing with small firms and consortia. These difficulties emerge from the lack of familiarity of SMEs with such kind of such services, little respect for copyright issues, problems with enforcement of contracts, etc. On the other hand, support institutions are not sufficiently attentive to industry needs and need to enhance the participation of the private sector in the planning and implementation stage.

At the cluster level support has been very much linked to the leadership capacities of one individual, the local Cluster Development Agent. Cluster development agents should not only be carefully selected and given sufficient financial and administrative authority. The organizational structure he or she helps to build should also be strong enough to ensure continuity of activities. Otherwise, the future of the cluster/consortium is in danger when a cluster leader goes. The exit strategy and plans for sustainability should also be carefully thought out.

Very few consultants deal with export consortia creation. The UNIDO cluster development programme, the Indian Institute of Foreign Trade (IIFT), the Federation of Indian SMEs (FISME) and the Central Bank of India are therefore implementing a programme, funded mainly by the office of the Development Commissioner-SSI, for promoting export support services in SME clusters. The programme has three components: a training programme for development and reorientation of business development service providers, creation of linkages in the clusters and partial subsidies to cover the initial provision of the services.

### **Lack of guidelines**

Export consortia being a recent phenomenon in India, there are no guidelines for consortium creation. These should be formulated using the lessons of successes and failures while recognizing that they need to be customized to the special requirements of each consortium.

### **Lack of an appropriate legal and financial incentive framework**

As mentioned already, there is no specific legal framework for consortia and every available legal form has its drawbacks. With regards to incentives: it is proposed that the support scheme for consortia by Ministry of SSI becomes more broad based after the initial experimental phase. Elements from the one implemented by the Government of Kerala could be also integrated.

SSIs have expressed concern over the access of larger SMEs to schemes such support to the introduction of ISO 9000, MDA, price and purchase preference etc. Experience suggests that the support mainly goes to the larger firms. In the interest of SSI development rules of access to the schemes may therefore have to be changed. Also the Ministry of SSI is to undertake amendments of administrative guidelines on a dynamic basis during implementation in order to ensure greater flexibility within the given overall budget.

### **Gaps in technical support**

SMEs often do not have access to dedicated technical support to improve their export performance. The Ministry of Industry and Commerce has established a specific scheme, Industrial Infrastructure Upgradation Scheme, to fill the gap. Initially, it will cover 20-25 functional clusters/industrial locations. Implementation of the scheme will be through cluster/industry

association. Besides physical infrastructure and common activities, eligible activities under the scheme include:

- Quality certification and benchmarking or common facilities centers;
- Infrastructure for information dissemination and international marketing;
- Information and communication technology infrastructure;
- R&D infrastructure;

The Ministry of Industry and Commerce manages the programme 'Assistance to States for developing Export Infrastructure and Allied Activities (ASIDE).<sup>12</sup> A similar scheme by the Textiles Committee is in the pipeline.

### **Lack of specific credit instruments**

Credit is a crucial issue for consortia. Even though the attitude of bankers towards SMEs is improving, in the vast majority of cases banks still require very high collaterals from small firms and make no concessions in the case of a consortium.

Consortia members can leverage their common position and negotiate better conditions and lower interest rates with the banks. Also banks should start using new financial instruments such as the Mutual Credit Guarantee Fund Scheme (MCDFS). Finally, provision of non-traditional services such as information provision, linkages with insurance products, international trade documentation and provision of customized packages for small firms could be extended to consortia.

### **Little awareness of existing support schemes**

The shortcomings of the support system aside, SMEs have limited awareness of the available support. A user-friendly website integrating all the relevant schemes of assistance should be designed and training in accessing the schemes could be provided to industry associations

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<sup>12</sup> It has been successfully used in the seafood cluster of Kochi (Kerala), and the rubber clusters of Kottayam and Changanacher .

<b>Main obstacles</b>	<b>Solutions</b>
Attitude towards interfirm cooperation	Creation of trust among potential member firms through: <ul style="list-style-type: none"> <li>- Showcasing of success stories;</li> <li>- Initial activities with a low level of competition and immediate returns (ie raw material purchase).</li> </ul>
High export transaction costs and complex procedures	Specific schemes for SMEs, simplification of procedures, assistance in procedural matters.
Choice of the right product mix	<ul style="list-style-type: none"> <li>- Sell similar/complementary, not identical products;</li> <li>- Small firms: cooperate to sell sufficient volume.</li> </ul>
Consistent product quality	Standards and quality to be promoted through expansion of schemes such as Department of Commerce reimbursement of expenses for ISO 9000 to SSIs.
Consortia management	<ul style="list-style-type: none"> <li>-Subsidies for hiring of a professional to coordinate activities;</li> <li>- Training, development of work methods.</li> </ul>
Inadequate institutional support	<ul style="list-style-type: none"> <li>- At the institutional level: sharing of best practices among institutions; adaptations to meet industry needs; enhance participation of the private sector in planning and implementation.</li> <li>- At the consortium level: careful selection of cluster development agent, develop a structure ensuring a lasting financial and decision-making autonomy</li> <li>- Training of consultants and network brokers in export related matters (proposed UNIDO training).</li> </ul>
Lack of guidelines	- Creation of guidelines including international best practice.
Inadequate legal and incentive framework	<ul style="list-style-type: none"> <li>- Creation of a specific legal form?</li> <li>- Adoption of the Kerala (or similar) support schemes at the national level.</li> <li>- Ministry of SSI to undertake amendments of administrative guidelines to ensure greater flexibility for a range of activities within the given overall budget.</li> </ul>
Inadequate financial instruments	<ul style="list-style-type: none"> <li>- Consortia must learn how to leverage their bargaining power- New financial tools (e.g. MCGFS) and services (e.g. trade documentation) to be extended to export consortia.</li> </ul>
Export-related technical support	- Scheme from Ministry of Industry and Commerce to finance such support in selected clusters and the upcoming Textiles Committee scheme.
Lack of awareness of support	<ul style="list-style-type: none"> <li>- Creation of a user-friendly website with all relevant schemes</li> <li>- Specialised training to industry association on access to schemes.</li> </ul>

## **B. CASE STUDIES**

The two consortia selected – BMTMN and Terrytowels – have been selected to give a grasp of the diversity of export consortia in India. They were promoted by different bodies (UNIDO and the Textiles Committee), belong to different sectors (machine tools and textiles), have chosen a different legal form (society and private limited company. Finally, whereas BMTMN became operational in 2001, Terrytowels is still at a very early stage, with just one year of activity.

	<b>Classic Terry Towel Consortium Pvt. Ltd.</b>	<b>BMTMN</b>
Location	Solapur (Maharashtra) <a href="http://WWW.TERRYTOWELSINDIA.COM">WWW.TERRYTOWELSINDIA.COM</a>	Bangalore (Karnataka) <a href="http://WWW.BMTMN.COM">WWW.BMTMN.COM</a>
Year of beginning of activities	2004	2001
Sector	Textiles – a particular kind of towel, known for softness, the “terry towel”	Machine tools
Type	Sales	Sales
Legal form and capital	Private Limited Co. Initial capital: Rs 225,000/US\$ 5,000	Society. Initial capital: Rs180,000/US\$ 4,000
Number and size of firms	9 Firms with turnover from US\$ 1 to 18 million	8 Firms with turnover from US\$ 2 to 20 million
Organizational structure	<ul style="list-style-type: none"> <li>- 1 Managing Director (1 entrepreneur)</li> <li>- 8 Directors (rest of entrepreneurs)</li> <li>- 1 Full time network development agent (NDA) as a coordinator</li> <li>- Separate office</li> </ul>	<ul style="list-style-type: none"> <li>- President ( 1 entrepreneur )</li> <li>- Secretary ( 1 entrepreneur )</li> <li>- 7 Members ( other 7 entrepreneurs )</li> <li>- 1 full time NDA as a co-ordinator</li> <li>- Separate office</li> </ul>
Main types of services provided	<ul style="list-style-type: none"> <li>- Joint purchase of raw material</li> <li>- Common information system</li> <li>- Links with national and international institutions</li> <li>- Joint advertising</li> <li>- Promotion, organization and coordination of collective participation in exhibitions and fairs</li> <li>- Participation in economic missions and study tours in India and abroad</li> </ul>	<ul style="list-style-type: none"> <li>- Common agent for North India</li> <li>- Hiring of a marketing consultant</li> <li>- Links with national and international institutions</li> <li>- Joint advertising</li> <li>- Promotion, organization and coordination of collective participation in exhibitions and fairs</li> <li>- Participation in economic missions and study tours in India and abroad</li> </ul>
Main markets addressed	EU, Middle East, Australia and Singapore	<ul style="list-style-type: none"> <li>- Expansion in domestic markets,</li> <li>- Exports to China, EU and USA</li> </ul>
Yearly operational and promotional costs	<ul style="list-style-type: none"> <li>- Salary of NDA – Rs. 72,000/ US\$ 1,600</li> <li>- Office expenses – Rs. 48000/ US\$ 1,100</li> <li>- Promotional costs, depending on yearly activities.</li> </ul>	<ul style="list-style-type: none"> <li>- Salary of NDA – Rs. 84,000/US\$1,850</li> <li>- Fees of technical consultant: Rs. 36,000/US\$ 800/month, for 3 months</li> <li>- Office expenses – Rs. 36,000/ US\$ 800</li> <li>- Promotional costs depend on yearly activities.</li> </ul>
Funding of the consortium	Rs. 25,000/US\$ 550 per year by each firm, total Rs. 225,000 / US\$ 5,000 The rest depends on the actual activities. On a case to case basis funds are pooled to support common activities. Haven't applied for government schemes so far, but received Small Industries Development Bank of India and UNIDO support.	Contribution of Rs. 20,000/US\$ 450 per year by each firm, total Rs 180,000/US\$ 4,100 The rest depends on activities. On a case to case basis funds are pooled to support common activities a Have received Small Industries Development Bank of India and UNIDO support.
Costs of incorporation	Rs. 35,000/US\$ 780 (High fees for incorporation under Companies Act)	Rs. 5,000/ US\$ 110 under Societies Act.

	<b>Classic Terry Towel Consortium Pvt. Ltd.</b>	<b>BMTMN</b>
History of the consortium	With 25000 looms & 1200 factories, Solapur is the capital of terry towel production in India. This consortium groups 9 factories with a total of 700 looms. The consortium was started by a business development service provider under the Textile Committee cluster programme. Support institutions like SIDBI assisted in initial activities such as visits to China, and joint participation in domestic exhibitions. UNIDO supported the common brochure printing.	Initiated under UNIDO cluster programme in the machine tool cluster of Bangalore, where producers were mainly selling in South India. Institutions like SIDBI supported initial activities like visit to Chinas, joint participation in domestic exhibitions; UNIDO- supported common brochure printing.
Performance	<p><i>Activities</i></p> <ul style="list-style-type: none"> <li>- Two common brands were created</li> <li>- Networking with Senior Experten Services, Germany, Indo German Chamber of Commerce, Mumbai, and Italian trade office.</li> <li>- Linkages were developed with Textile Federation Of Germany</li> <li>- Common agent in the Netherlands and Spain.</li> <li>- Linkages developed with the Centre for the Promotion of Imports from Developing Countries (CBI) in the Netherlands</li> <li>- Networking with an American credit rating agency</li> <li>- Joint training on export marketing</li> <li>- Study tour on common yarn purchase by other consortia in South India</li> <li>- Common purchase of raw material</li> <li>- Occasional capacity sharing</li> <li>- Collective shipment</li> <li>- Common website/brochure /catalogue /CD.</li> <li>- All 9 members visited Heimtextil fair, Germany, and ITME (textile machinery fair) in Mumbai.</li> <li>- Two consortium members visited Heimtextil fair in January 2005.</li> <li>- Visit to Dubai in April 2005 for fair participation</li> <li>- Creation of a marketing database of several countries</li> <li>-Joint stall at TEX STYLES, ITPO New Delhi</li> </ul> <p><i>Results</i></p> <ul style="list-style-type: none"> <li>- Increased turnover and savings, upgraded products for all members</li> <li>- Increases in exports of Rs 65 lakhs (US\$ 145,000, ongoing negotiations for another Rs 5 crores (US\$ 1.1 million)</li> <li>- Improved attitude of traders towards members</li> <li>- Trust among members</li> <li>- Sharing of good practice (visits to each others factories, etc)</li> </ul> <p><i>Markets conquered</i></p>	<p><i>Activities</i></p> <ul style="list-style-type: none"> <li>- Common marketing agents</li> <li>- Joint participation in exhibitions (domestic and international)</li> <li>- Business delegation - exploring new export markets</li> <li>- Technology study visit to China</li> <li>- Sharing of good practices.</li> <li>- Capacity sharing (in case of excess capacity available)</li> <li>- Sharing of customer database</li> <li>- Sharing of rejected enquiries</li> <li>- Common procurement</li> <li>- Implementation of world class manufacturing practices</li> <li>- Training and skill development</li> <li>- Management development programme</li> <li>- Technical training</li> <li>- Joint interaction with customers</li> <li>- Joint interaction with suppliers</li> <li>- Networking with other consortia</li> <li>- Linkages with various support institutions</li> <li>- Brain storming sessions every 6 months to plan activities for the next year.</li> </ul> <p><i>Results</i></p> <ul style="list-style-type: none"> <li>- Increasing of turnover and savings, upgrading of products for all members</li> <li>- More than Rs 3 crores (US\$ 600,000) worth of exports in 2003-2004, forecast to triple by 2006-2007</li> <li>- Better staff skills</li> <li>- Attitudes of trust</li> <li>- Improved firm practices through mutual visits</li> </ul> <p><i>Markets conquered</i></p>

	EU, Middle East , Australia, Singapore.	North, West and South India, exports to China , USA , EU.
Main challenges ahead	<ul style="list-style-type: none"> <li>- Implementation of ISO certification in all member firms.</li> <li>- Building a common process house and a common work shed with better technology.</li> <li>- Creating a common design centre and install a common electronic punching and lacing Machine.</li> <li>- Participation in a minimum of 3 international trade fairs abroad and 2 trade fairs in India every year .</li> </ul>	<ul style="list-style-type: none"> <li>- Constantly expanding the number and quality of activities.</li> <li>- Development of language and intercultural negotiation skills</li> <li>- Optimization of resource use for HRD development</li> <li>- Lowering costs of production and procurement</li> <li>- Brand development</li> <li>- Lowering warehousing costs</li> <li>- Setting up machine tool park</li> </ul>
Changes in membership	The consortium is very recent and there haven't been changes in membership so far.	So far no changes
Changes in type of services	Initially, mostly a promotional consortium; joint sales and joint purchases since 2005.	Started as a marketing/promotional consortium. In 2003, joint sales and joint purchases were started.