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## GIST OF YOJANA

NOVEMBER 2017

***Micro, Small and Medium Enterprises***



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# **I N D E X**

## **YOJANA - NOVEMBER - 2017**

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### 1. CHALLENGES AND OPPORTUNITIES FOR MSMES

#### **What is the issue?**

- Global economy changes rapidly, with the hegemonic role of disruptive technologies.
- So the MSME role in India needs a broader based and realistic understanding.

#### **What are MSMEs?**

- In accordance with the provision of Micro, Small and Medium Enterprises Development Act, 2006, MSMEs have been classified into two groups:
- **Manufacturing Enterprises** - The enterprises engaged in the manufacture or production of goods or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise is defined in terms of investment in Plant and Machinery.
- Micro - Up to Rs 25 lakhs, Small -Rs 25 lakhs- Rs 5 crore and Medium - Rs 5 crore- Rs 10 crore.
- **Service Enterprises** - The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.
- Micro - Up to Rs 10 lakhs, Small -Rs 10 lakhs- Rs 2 crore and Medium - Rs 2 crore- Rs 5 crore.

#### **What is the global scenario today?**

- The experience as we have in 2017 is the one where every business has a tendency of operation based on a hub, which produces the latest concept of 'Hubanomics'.
- Large knowledge companies like Google, Apple, Facebook and Amazon have created a

technology wave and competitive landscape, which forms the next evolution of the Industrial Revolution.

- India's industrialization perspective, since Independence, has been focused on a two-pronged approach –
  - 1) providing employment opportunities; and
  - 2) taking such opportunities, to the extent possible, to the villages, as a regional development tool.
- This kind of an approach has significantly contributed to the growth of a large number of semi- urban centers that provides a significant space for MSMEs in the country.

#### **What are the challenges and opportunities?**

- In India under Planning, it was necessary to set up centralized institutional structures and policy instruments, even in areas where decisions affecting the local economy were to be taken.
- It is this rationale that forms the co-existence of Departments that cater to modern small-scale industries, on the one hand, and others catering to village enterprises.
- There have been constant attempts to ensure a synergic co-existence of the two, but such attempts have often not yielded the desired results.
- This demands the need for a fresh look into the relevance of the various public Programs, relating to their impact on the local people and their livelihoods.
- There are both vertical and horizontal problems. On the one hand, the aspirations of the people at the local level is a mix of co-operation and conflict. While some of the aspirations such as local infrastructure, are less prone to conflicts, in the case of most of

the goods and services produced, there is a conflict of interests.

- Besides, there need to be a focus on environment, in such a way that the initiatives of local economic development are sustainable, and are acceptable to a future generation.
- There is need for an integrated development approach on MSMEs.

### **What is the solution?**

- New research and evidences should lead to a review and restatement of existing policies, with a thrust on the following:
- Political and Administrative Powers -**  
Under the 56th Amendment of the Constitution, village and small scale industries is a subject of the Local Governments. In India's bottom-heavy industrial structure, a large number of small and tiny enterprises, often located in small towns and villages, contribute to the small enterprise output of the country.
- However, paradoxical enough, the local governments are either ignorant, or are reluctant to exercise their powers; or that these powers are usurped by the higher tiers of the government.
- Capabilities -** It is also important to understand, whether these lower tiers of government, and their administrative machinery are objectively, capable of exercising such powers.
- The component that is often missing is advisory services at various stages of planning and execution of an entrepreneurial activity (which is today lacking both at the local and State level.).
- By the term 'capability', the priority should go to such services, rather than the array of administrative tiers from the district down to the panchayat level.

- However, beyond the so called "administration", the focus needs to be on specific functional areas as follows: a.) Identification of project ideas and business opportunities; b.) Provision of general information and guidance; c.) Onward support services; and d.) Documentation, networking and creating ground for synergies.
- Resources -** Under the existing formula of resource sharing between the State governments and the Local governments, the necessary resources for coordinating several of the base level promotion activities relating to enterprise development are available with the local governments.
- While some of the promotional activities being performed by the District Industries Centers today can be handed over to the Local governments, the corresponding funds also should flow along with that.

### **What are the recent initiatives taken by the Government?**

- The Government of India, since 2014, has taken several steps to deal with the related aspects of skills, entrepreneurship development, and promotion of manufacturing.
- For transforming India into manufacturing hub, 'Make in India' was announced as a flagship Program.
- Skill India was announced in order to mitigate the critical problem of skill gap.
- In order to have a proper integration of the skilling agenda, with that of entrepreneurship promotion, a separate Program called 'Start-up India' was announced.
- In order to address the problem of social exclusion and its reflections on the investment front, a specialized Program called 'Stand-up India' was announced. This Program has a dual approach of reducing

exclusion, and to ensure the resources of the banking sector in an equitable manner.

- The introduction of MUDRA as a specialized window, meant for targeting micro enterprises, can be described as a major intervention for broad basing finance. MUDRA loans today can be considered as a significantly broad based financial structure, with a stronger "bottom of the pyramid".
- Promotion of ancilarisation is a major initiative, and also a remarkable achievement. This is clear in the case of defense equipment sector.

## **2. QUALITY CERTIFICATION - TRIGGER FORCE FOR COMPETITIVENESS**

### **What is the role of MSME?**

- MSMEs are the engine of growth for Indian economy as this sector has been spreading entrepreneurial culture in all parts of our country.
- The contribution of MSME sector is 8% of GDP, 45% of manufacturing output and 40% of exports of the country.
- Government of India's endeavor for inclusivity in this sector is admired as it has various schemes for entrepreneurs that include women, scheduled castes, scheduled tribes, marginalized communities, people with disabilities etc., for handholding and enabling them in creating enterprises.

### **What is the importance of Quality certification in MSMEs?**

- From the standpoint of policy makers, development of MSMEs can be vital in creating new jobs besides introducing new services, products, processes and business model innovations.
- Through quality management systems, networking and relationships with large

enterprises it can refine and mass produce business innovations.

- Quality certification is becoming extremely significant in competitive markets for gaining strong foothold in exports.
- Quality certifications are no longer restricted to large industries, MSMEs are increasingly coming forward to embrace need based quality certification. Competitive advantages for MSMEs reflect in higher productivity and profitability.
- Quality certification to an organization can lead to the benefits like Recognition and brand reputation, Continual improvement, Maintain focus, Confidence, Staff satisfaction and engagement.

### **What are the Government interventions in promoting the Quality standards?**

- Realizing the importance of MSMEs for economic development, Ministry of MSME has addressed the quality and technology aspects of manufacturing in MSMEs through various schemes and Programs for enhancing competitiveness of small businesses.
- National Manufacturing Competitiveness Program (NMCP) -** Under this Program ten schemes have been drawn up that includes promotion of ICT, mini tool room, design clinics and marketing support for SMEs.
- This Program enables the manufacturing sector to be competitive through Quality Management Standard & Quality Tech. Tools (QMS/QTT).
- Technology and Quality Upgradation Support to MSMEs** - This scheme advocates the use of energy efficient technologies in manufacturing units for reducing the cost of production and for adopting clean development mechanism.
- Financial Support to MSMEs in ZED (Zero Defect Zero Effect) Certification**

**Scheme** - This scheme envisages to develop an Ecosystem for Zero Defect Manufacturing in MSMEs by promoting adaptation of Quality tools and Energy Efficient manufacturing.

- This scheme also supports Make in India campaign. Under this scheme MSMEs will have to compete to bag gold, silver or bronze quality certification in order to get contracts.
- Financial assistance is provided to MSMEs for the activities to be carried out for ZED certification. This includes assessment / rating, gap analysis, handholding and consultancy for improving the rating of MSMEs by consultants.
- **Quality Certifications - ISO Certification Assistance**- **ISO 9001** is the world's most widely recognized Quality Management System (QMS).
- It helps organizations to meet the expectations and needs of their customers and stakeholders, amongst other benefits.
- An ISO 9001 quality management system helps to continually monitor and manage quality across all operations and outlines ways to achieve consistent performance and service.
- ISO international standards help MSMEs to work more efficiently as it has become the standard for most manufacturing companies.
- Implementing the ISO 9001 standards involves cooperation and feedback from internal and external stakeholders.
- Certain State Governments like Gujarat also runs many schemes for the promotion of quality standards in MSMEs.

### **3. ENCOURAGING ENVIRONMENT FOR SMALL ENTERPRISES**

#### **What is the impact of LPG on small Enterprises?**

- Before the advent of the new economic policy in 1991, 812 items were reserved for

production in the Small Scale sector. The New Economic Policy (NEP) storm mercilessly killed this policy of reservation.

- Similarly, Small Industries were given preference in government procurement as well, both in terms of price and purchase preference. Slowly these concessions to SSIs vanished in the name of promoting competition.
- It was argued that if we continue protecting domestic industry including Small Scale Industries, Foreign Investors would be discouraged and consumers' choices would be also hampered.
- Policy of open imports in the era of globalization did help us in getting number of goods and sometimes even technology, but at the cost of closure of millions of Small Enterprises, which couldn't face fierce competition from the rest of the world.
- Though, in some sectors like automobile, we do find some growth in ancillary small scale units; however, Small Scale sector in general faced extinction especially due to import flood from China.
- Huge import surge from China, not only caused huge burden of foreign exchange payment on the country due to heavy imports of toys, power equipment, mobile, computer and other electronics accessories, project goods, power plants etc., our industry and businesses were also destroyed, causing widespread unemployment.

#### **What is the solution?**

- **Need for Separate Labor Laws** - Small Enterprises, instead of hiring regular labor, have started shifting to contract labor.
- Contract labor is exploited by the intermediaries and organic relationship between entrepreneur and the labor goes missing, affecting welfare of both entrepreneurs and workers.

- Given this problem, the Second Labor Commission gave an important recommendation to enact separate laws for Small Enterprises. Workers organizations also favored such initiative.
- Sometime ago, a bill called 'Micro Small and Medium Enterprises Bill' was formulated. However, need to have separate labor laws for Small Enterprises remains.
- **Finance** - Banks and other Financial Institutions feel that it's risky and cumbersome to lend to small enterprises. There is hardly any truth in this thinking, given the NPA crisis being faced by banks due to big loans turning bad.
- Due to this preconceived notions of banks, they try to avoid lending to Small Enterprises, even circumventing their legal binding of priority lending to Small Enterprises.
- Further, Small Enterprises get loans at higher interest rates, whereas big borrowers get loan at much cheaper rates and on more easy terms, without hassles.
- After the current government took over the rein of power, it has tried to facilitate Small and Micro Enterprises through Micro Units Development and Refinance Agency (MUDRA), Startup schemes etc.
- **Restricting Flooding and Dumping of Imports** - Although foreign trade is a normal phenomenon in modern days, however, it has been a major cause for distress to Small Enterprise.
  - Reason is dumping by some foreign countries, especially China. Central government has now started imposing Anti-Dumping Duty in a big way.
  - We find that the imposition of anti-dumping duties on some items in the year 2016-17 yielded desirable results. Now since, on many other items of imports from China anti-dumping duty has been imposed, it is

expected that in the current year imports from China will further decline.

- **Preference in Government Procurement**

- In order to protect and promote small enterprises, there used to be a clear and comprehensive policy of preferential procurement from SSIs, which used to take the form of price preference or purchase preference. However, with the passage of time, these preferences were more or less weaned away.

- Recently, a new preferential procurement policy has been made by the government, implemented by making General Financial Rules (GFR). Rule 153 of GFR states:

- "In procurement of goods for Rs. 50 lakhs and less, and where the Nodal Ministry determines that there is sufficient local capacity and local competition, only local suppliers will be eligible.

- For procurements valued at more than Rs. 50 lakhs (or where there is insufficient local capacity/ competition) if the lowest bid is not from a non-local supplier, the lowest-cost local supplier who is within a margin of 20 per cent of the lowest bid, will be given the opportunity to match the lowest bid."

- It is expected that preferential procurement of domestic goods would go a long way in encouraging domestic industry in general and Small Scale Industry in particular.

- **Ending Inspector Raj** - There are more than 40 laws applicable on SSIs and more than 50 Inspectors visit their factories, and many of them have wide ranging powers to penalize SSIs.

- Living under these threats, SSIs find it difficult to concentrate on core areas like production, marketing and up gradation of technology.

- There are many such laws which have lost utility in modern times, and there are many others which come in way of healthy

functioning of the economy in general and industry in particular.

- There is a need to facilitate new entrepreneurs by single window clearances of all types. Some states have initiated this process.
- As more and more state governments are going online, this process will further accelerate. Under new initiatives for Startups, online clearances are already being given.
- **Building Infrastructure** - Almost impossible to start and run Small Enterprises in a remote area. They are neither connected with rail or road; nor do they have assured source of power.
- Even in big and developed places, assured power supply is a big issue. At many places, generators are under rampant usage. This not only raises cost, but is a source of pollution and units equipped with generators are subject to exploitation by concerned departments' inspectors.
- There is need to develop infrastructure of various kinds including rail, road, power, skill development, markets (including e-portals) etc.
- Universal electrification of villages, boost being given to solar energy, fast tract building of roads by the present government is expected to help promotion to small scale and tiny industries, especially in rural areas. E-procurements have also started by the government.

#### **4. ENABLING EASE OF ACCESS TO MSME PRODUCTS**

##### **What is the issue?**

- Micro, Small and Medium Enterprises (MSMEs) have very limited resources.
- This makes it difficult task for them to take their produce to the market.

##### **What is MSME's contribution to the economy?**

- As per the data available with Central Statistics Office (CSO), the contribution of Micro, Small and Medium Enterprises (MSME) in the Gross Value Added (GVA) of the country for the year 2015-16 at current prices is 31.60 per cent and the contribution in Gross Domestic Product (GDP) of the country for the year 2015-16 at current price is 28.77 per cent.
- As per Fourth All India Census of MSME, (with base reference year 2006-07, wherein the data was collected till 2009 and results published in 2011-12), as well as data extracted from Economic Census 2005 conducted by Central Statistical Organization the total employment in the MSME sector is 8.05 crore.

##### **What are the schemes unveiled by Government to enable the market?**

- **Marketing Assistance Scheme (MAS)** - It aims to help MSMEs, to participate in domestic and international exhibitions/trade fairs, buyers-sellers meets, campaigns/seminars and consortia formation.
- It is implemented through National Small Industries Corporation (NSIC), a Public Sector Enterprise of the MSME Ministry.
- Activities under this scheme include organizing International Technology Exhibitions in Foreign Countries by NSIC and participation in International Exhibitions/Trade Fairs.
- This helps MSMEs to get exposure besides facilitating them in exploring new business opportunities in emerging and developing markets.
- Revised Marketing Assistance and Technology Up-gradation (MATU) Scheme -
- **Domestic Market** - MSME Development Institute (MSME-DI) is responsible to implement the scheme. A committee selects

domestic trade fairs/exhibition where MSEs can take part.

- The committee is headed by Director, MSME-DI Chairman while senior officials of the institute and office bearers of industry associations are the members.
- Once this committee prepares the list of domestic fares/ exhibitions, it is sent to the Office of Development Commissioner or (DC-MSME) for final approval.
- An MSME-DI can recommend maximum of 10 (ten) Micro/Small entrepreneurs to participate in an approved fair/exhibition. The offer for participation will be available on first come first served basis.
- **International Market:** The scheme also aims to encourage manufacturing Micro and Small Enterprises (MS Es) in their efforts of tapping and developing overseas markets.
- MSME-Development Institutes has to implement the scheme. International Trade Fairs/Exhibitions is finalized by Office of DC (MSME). An MSE may apply online/ in prescribed application format (or system in place) well in advance, at least two months for participation.
- The offer for participation is available on first come first served basis. For participation in international trade fairs/exhibitions, quality of products has considerable importance.
- Keeping this in mind, it is preferable that participating units should have ISO 9000/14000 certification. A panel first shortlists the names and then it is approved by Office of DC (MSME).
- **Marketing Development Assistance (MDA) -**
- The scheme aims to encourage Small and Micro exporters in their efforts at tapping and developing overseas markets.

- It also intends to increase participation of representatives of small/ micro manufacturing enterprises under MSME India stall at International Trade Fairs/Exhibitions besides enhancing export from the small/ micro manufacturing enterprises.
- The scheme also facilitates effort to popularize the adoption of Bar Coding on a large scale.
- Providing Market through Preferential Procurement:
- Under this Policy, every Central Government Ministry, Department and Public Sector Undertaking shall procure a minimum of 20 per cent of their total annual value of goods or services from Micro and Small Enterprises (MSEs).
- Out of this 20 per cent, it is mandatory to earmark 4 per cent for MSEs owned by SC/ ST entrepreneurs.

## 5. ACCESSING FINANCE: CHALLENGE TO THE MSMES

### **Why in news?**

The IFC/Mckinsey has estimated the credit gap for formal and informal MSMEs worldwide at around \$ 3.9 trillion, of which \$2.1 to 2.6 trillion is in emerging markets.

### **What are the constraints faced by MSME sector in accessing finance?**

- **Supply Side Constraints -**
- Tight control of Government on PSU Banks- the most powerful players in banking system, results in subdued competition and sub-optimal outcomes both for the owners and the customers of the banks.
- The banks (both domestic commercial banks and foreign banks having more than 20 branches) are required to lend 40 per cent of their total advances to 'Priority Sector'. The Priority sector constitutes of Agriculture- having a sub-target of 18 per cent and the rest

of sectors such as MSMEs, Education, Housing, Export Credit and others.

- Industrial financing envisages two specific requirements from financial institutions- ability to lend for longer period- as project gestations are longer, and technical knowledge of sectors to understand business cycles and technology.
- But post liberalization, the development financing institutions gave way to commercial banks- either they merged or morphed into commercial banks and most State Financial Corporations (SFCs) folded.
- Banks lack the technical expertise necessary to appreciate sectoral complexities. Therefore, instinctively bankers perceive industrial projects risky unless promoters are established and decisions of approving projects are taken in a manner that individual bank officials would not be hounded for failure such as through Committee route or through Consortium lending.
- Further, India's adoption of BaselII norms- an international banking standard, made lending to MSMEs even more difficult. Following BaselII, RBI requires financial institutions to maintain 'enough' cash reserves to cover risks incurred by operations.
- As lending to large corporate sectors is not asset based, it has resulted in adding further premium on asset based lending to MSMEs.
- In case of failure of a financed business entity, bankers find it extremely difficult to take possession of stressed assets (unlike a car or a house) in spite of a number of legislative remedies available on paper. The legal process would be long, arduous and expensive making bankers even more risk averse.
- **Demand Side Constraints -**
- The Micro enterprises are largely 'informal' and 'unorganized'. Almost all of them are proprietorship/ partnership firms and not

companies exposing them to unlimited liabilities.

- Vast majority of them work from unauthorized/ unapproved place of work as either approved commercial spaces are just not available or are unaffordable to most.
- This segment faces financial inclusion challenges owing to its informal nature, lack of information needed by banks and documents.
- The Small segment is relatively better organized and operates largely in B2B segments. Their major problems are difficulties in raising risk capital to start new business, lack of sufficient collateral and high working capital needs as their payments are routinely delayed by their large buyers.
- Besides lack of quality of bank assistance, a few key constraints faced by the segments are: banks' requirement of additional collateral securities, access to equity/ mezzanine capital, foreign currency loans including external commercial borrowing (ECBs) and to competitively priced non-fund based bank facilities (like Bank guarantees, performance guarantees).

#### **What is the policy response by the Government?**

- In the last couple of years there has been a massive financial inclusion Program with policies like Pradhan Mantri Jan-Dhan Yojana (PMJDY). The top down push has nudged the banking sector and banks reached out to the informal sector and the unbanked like never before.
- To provide additional comfort to bankers, Credit Guarantee Trust for MSEs (CGTMSE) has been created to enable MSEs to access loans without collateral securities. The Fund provides insurance against default of loans up to 75 per cent of loan amount to Banks.

- To help MSMEs monetize the movable assets, the Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) has created a movable asset registry which allows the movable assets to be pledged to obtain bank financing.
- To enable MSMEs to have access to equity for green field or scaling up existing ones, both BSE and NSE have been allowed to create dedicated SME exchanges.
- Further, in order to solve the problem of delayed payment to MSMEs, RBI has licensed three entities for operating the Trade Receivables Discounting System (TReDS). These platforms act like Electronic Bill Factoring Exchanges where invoices/ bills of MSMEs could be traded electronically.
- Finally, one of the most critical institutional reforms is enactment of Indian Bankruptcy and Insolvency Code, 2016. Under the Code, Board has already started functioning.
- The rules and regulations for the Corporate entities (governed by Companies Act) have been notified and the rules for individuals having business (notably MSMEs) are being finalized.
- The IBIC is set to revolutionize the resolution of sickness. The stressed assets could be quickly re-possessed and re-deployed by financiers thus creating financial discipline and trust in the financial system. It should have saluting effect in resolution of NPAs.

## **6. ENHANCING COMPETITIVENESS THROUGH TECHNOLOGY UPGRADATION**

### **What is Technology transfer and its importance?**

- In the narrowest definition, technology includes patentable blueprints, plans, mechanisms, formulae, and the like and transfer can be limited to the new use of such

technology either within a particular firm or by a host country firm after contractual exchange with a foreign firm or organization.

- Technology can perhaps be better defined as the knowledge whereby economic efficiency can be improved. Hence, it includes not only the "hard," possibly patentable, aspects of production, like the specifications of goods and the mechanistic details of their manufacture, but also the "soft" aspects of business processes, such as organization, marketing, and other types of managerial knowledge and skills
- Technology Transfer is an alternative to internal technology development. Therefore, the decision to develop technology and innovative capabilities internally or acquire them via external means is a central component of any technology strategy.
- It applies to corporate ventures as much as to MSMEs. It is also emphasized on the finding that most enterprises in developing countries preferred external sourcing since most of the technologies they use are outside their resource capabilities.
- Limited resources, expertise and time are the factors that push many firms to acquire technology from a source external to the firm rather than developing it inhouse.
- The process of acquiring technology from external sources can be achieved through what is commonly known as "Technology Transfer".
- In its most general meaning, "Technology Transfer" is seen as every process that aims at transferring technological know-how from a donor such as a university, a research Centre or R&D department of firms to a recipient - firms which may either directly use or co-develop the technology.
- Technology Transfer is fundamentally the application of knowledge associated with a

new physical hardware used by an MSME as machinery equipment in the production process for generating product/service which is quantitatively as well as qualitatively superior to what it was producing earlier.

### **What are the sources and channels of Technology transfer?**

- Technology information and Technology assistance are provided by means of a Technology Bank maintained by the Development Commission for Micro, Small and Medium Enterprises in the Ministry of MSMEs, Government of India.
- A university or an engineering institution (such as IITs/NITs/IISc or other engineering colleges), can provide lab developed technologies to MSMEs through contract research or which emerged out of their basic research. TIFAC-MSME Program facilitates such interactions.
- An R&D establishment promoted by the government such as a Technology Research Centre (TRC), which can enable a MSME to source and acquire a technology either locally or from abroad.
- National Research Development Corporation (NRDC) which commercializes technologies, developed in Council for Scientific & Industrial Research (CSIR) labs located across the country, primarily helps MSMEs in Technology Transfer.
- Cluster Development Program of National Manufacturing Competitiveness Program (NMCP).
- A professional technical consultant (registered with Department of Scientific and Industrial Research (DSIR), Government of India) might help to identify and access to acquire an appropriate technology from within the country or abroad.
- Sponsor technical education and training of personnel in higher education and research institutes within the country for developing in-house technology expertise and thereby assess and access appropriate external technologies.
- Participation in technology exhibitions, technology conferences and reading of technical journals and internet access for knowing sources and channels of available external technologies.
- **Technology licensing** - It is a contractual arrangement in which the licensor's patents, trademarks, service marks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee for compensation that is negotiated in advance between the parties. This compensation, or royalties, may be a lump sum royalty, a running royalty (royalty that is based on volume of production), or a combination of both. All of the above from (i) to (vii) might facilitate obtaining technology licensing.
- Outright purchase of an existing technology from a vendor/supplier or any commercial channel. APCTT (a New Delhi based UN organization) periodically facilitates Technology Transfer among MSMEs in the Asia-Pacific region, through periodic events, support mechanisms and capacity building Programs.
- India SME Technology Services Limited provides a platform where Micro, Small and Medium Enterprises (MSMEs) can tap opportunities at the global level for new and emerging technology or establish business collaboration.

