

Text of Speech delivered by

**Dr. Sangam Kurade, President FISME**

(11<sup>th</sup> June 2015 in New Delhi )

Hon'ble Raksha Mantri Shri Manohar Parrikar

Hon'ble Member NITI Aayog Dr. V.K. Saraswat

Shri Jayant Barwanwal

Distinguished guests, ladies and gentlemen!

-----

It is a huge honour for me to welcome you this morning on behalf of not only FISME but also the entire MSME community of India!

For, in our institutional memory, it is the first time that India's Raksha Mantri has honoured his date with MSMEs. Many people may be surprised what a Defence Minister is doing in MSMEs' programme.

But coming from Goa and watching Shri Parrikar work from close quarters as Chief Minister of the state, it comes not a surprise for me. In today's policy very very few people in public life can match his simple living and intellectual prowess- after all he is India's first IITan CM. His focus and determination with a remarkably candid approach earned him a well deserving epithet of a 'doer'. Few people from outside Goa know of what kind of transformation he has brought about in the state both political, administrative and economical. Wherever he has worked he has set newer and higher standards of proficiency and probity which would be difficult to match by his successors.

Today, I am extremely proud to welcome a fellow Goan having such impeccable credentials in Delhi and equally grateful for his responding to the call of MSMEs to be our Chief Guest.

It is an honour indeed to welcome to Dr. V.K. Saraswat also and I am greatly thankful to him for being Guest of Honour. In Defence circles and large number of people in Delhi who are in the know of strategic issues, Dr. Saraswat is nothing short of a hero.

I intend to take a few minutes to say a few words about FISME- the organizer of the programme, the aspirations MSMEs have with regards to Defence sector and would like to share with you our views related to MSMEs and Defence sector.

-----

Federation of Indian Micro and Small & Medium Enterprises (FISME) was born as National Alliance of Young Entrepreneurs (NAYE) in 1967. With India's second tryst with its destiny in 1991 and its accession to WTO in 1995, NAYE was re-organized and rechristened as

FISME. Today, it is a network of over 700 MSME associations spread in districts, clusters and states across all major industrial sectors.

It set its vision to work towards taking 'India among top 10 entrepreneur friendly nations in the world'- and let me mention very humbly here that it was years before the pledge of the govt of the day to take India from the current 142th position to be among 50 top nations in World Bank's Ease of Doing Business index.

FISME's mission is to work for the 'Survival and Growth of MSMEs'. We work in three thematic areas. Firstly, Market access for MSMEs in domestic and international markets. Second, research based advocacy for reforms to improve business environment. Third, planning and executing MSMEs development projects in partnerships with Government of India and bilateral and multilateral agencies namely World Bank, UNCTAD, UNIDO, ILO, DFID, GIZ, Commonwealth among others.

-----

Our initiative of exploring opportunities for MSMEs in Defence Sector is part of a larger Market Access theme. Since ages MSMEs have been supplying to armed forces a large number of goods and services against revenue procurements from food to clothing to parts and spares.

FISME took specific steps to push MSMEs' participation in capital procurement done by Defence establishments comprising of weapons and weapon systems. We conceived and organized in 2011 Def+Contract- a defence expo to foster linkages between OEMs and Tier-I and Tier-II suppliers in Hyderabad with active support of Ministries of Defence and MSMEs. (It was inaugurated by then MoS for Defence Dr. M.M. Pallam Raju). However, as most of the people present here are aware, the defence establishment under the previous government went into a limbo after 2011 and nothing moved thereafter.

-----

There is little doubt that under Prime Minister Modi's vision and your leadership, there is a renewed focus in the central government on 'Make in India' and building indigenous capabilities in defence production through a slew of policy interventions being planned including offsets. It is heartening that MSMEs are being accorded due recognition in new scheme of things.

Therefore, FISME also renewed its efforts and took up challenge of facilitating MSMEs' access to defence procurement. Last month on 6<sup>th</sup> May, we organized a brainstorming session with a few top OEMs and defence experts from including Boeing, BAE Systems, Israel Aerospace, IDSA etc in New Delhi. Based on deliberations of the session, FISME along with a team of talented young professionals in Koan Advisory, our knowledge partners, has attempted a Consultation paper 'Challenges of Indian MSME participation on the Defence Sector' for discussion. The consultation paper has been circulated in today's seminar.

The key findings of today's deliberations will be used to upgrade the Consultation paper which we intend to publish later as FISME's Policy paper.

-----

Sir, there are number of issues that demand your attention. For the paucity of time, please allow me to flag three issues.

Firstly, you are acutely aware of reasons why the critical guidelines of Defence Procurement Policy on 'Buy (Indian)', 'Buy and Make (Indian)' and 'Make (Indian)' or Buy and Make (with Transfer of Technology') have not yielded desired results. You are already working in streamlining these issues.

From MSME perspective, what has emerged from our studies and deliberations, is that one single biggest impediment for MSMEs has been absence of an empowered interface to deal with host of administrative, technical and policy issues whether with the Ministry or DRDO or any other relevant Defence department.

Therefore, our specific request to you is to kindly consider establishing an MSME interface in defence establishment on the lines of 'US Department of Defence Office Small Business' which provides a host of support services such as Procurement forecast, Procurement Technical Assistance with subcontracting Plans, liaison between private-sector small businesses and provides a mechanism for backward integration. Another model to look at is Singapore's Defence Science and technology Agency (DSTA).

Without having an institutional mechanism, it would be extremely difficult to execute the 'Make in India' vision on the ground and build indigenous capabilities in Defence with Indian Industry integrating backwards with MSMEs in long tail.

-----

Secondly, let me address the sceptics of MSME capabilities. Whenever there is a discussion on defence production and procurement, an argument is posited that there are not enough capable MSME defence suppliers. This is an erroneous assertion. The MSME sector is a huge heterogeneous sector comprising of over 30 million enterprises. Of course majority of them are micro and tiny enterprises. As a matter of fact, a vast majority of them do not manufacture anything at all but are into trade and services. But, let's face some facts. Although less than 0.5% of them are into exports, they account for almost of India's exports. They have developed excellent capabilities in sectors such as Auto and auto components, Engineering and Electrical equipment, Machine tools and IT and ITES and even in sectors such as chemicals, plastics, rubber etc.

Many of these companies are led by seasoned technopreneurs, have achieved a viable scale, are financially strong and stand firmly in their respective markets and supply chains. Our estimate is that the number of such companies could be around 25000. Such companies are the ones that could invest long term both time and resources and work on defence themes alone or with OEM partners provided there is credible policy environment and institutional framework to support it. Smaller MSMEs can further feed into them forming a long chain of suppliers.

Finally, I would like to make a distinction as to why FISME is so keen to facilitate MSMEs' access to Defence sector. It is not just about facilitating MSMEs for Market access or having a share in the defence pie alone. Although in its own right it is reason enough. But, it is equally about access to high-end technology and technological spinoffs which are born of Defence funding. World over, defence research has been the single biggest source of path breaking innovations and technological spinoffs. From the mundane Valcro to pressure sensitive gum used in Stic-ons or from Nuclear energy to Internet, defence research has thrown amazing technologies on which the host countries have built business of trillions of dollars.

We also spend billions of dollars in Defence R&D but much of our output- sometimes excellent technologies, remains locked in silos of defence establishments. Efforts to get access to them or commercializing these technologies have been nothing less than frustrating for MSMEs. In many countries like US and Israel, MSMEs are given the first stake on Defence R&D led technological spinoffs for the obvious socio-economic externalities arising out of such policies.

Why can't we have that focus and determination in India?

To conclude, let me reiterate that while Defence Procurement Policy including Offset policy is being reworked an emphasis in equal measure is needed on institutional framework, especially for MSMEs, to implement it.

I once again thank the Hon'ble Raksha Mantri Shri Parrikar for sparing time from his busy schedule to be here among MSME of the country and Dr. Saraswat for his august presence.

I hope that today's deliberations and the findings of the resultant FISME's Policy paper will be duly considered by the Policy makers.

I am sanguine that the presence of the Hon'ble Defence Minister today marks the beginning of a new era towards integrating the Indian Industry in India's Defence production and procurement.

Thank you !