



SME Promotion and Development in Germany

The Role of Business Membership Organizations



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Disclaimer:

The present document is an attempt to put together relevant information to stimulate thinking and raise basic knowledge of the stakeholders on role of Business Associations in promotion of MSMEs. Note that this document is neither exhaustive nor complete on the above topic. Articles written by named authors do not necessarily reflect the views of the GIZ . The information has been compiled from reliable documented and published references/resources, as cited in the publication. Mention of any company, association or product in this document is for informational purposes only and does not constitute a recommendation of any sort by either GIZ or SEQUA. This document is for complementary distribution only. Please feel free to make use of the document as you please, but kindly acknowledge their source if you do use them

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Abbreviations

AHK	Auslandshandelskammer – Foreign Chamber of Commerce
BDA	Bundesvereinigung der deutschen Arbeitgeberverbände – Confederation of German Employers' Associations
BDI	Bundesverband der deutschen Industrie – Federation of German Industry
BMO	Business Membership Organisation
BMWi	Bundesministerium für Wirtschaft und Technologie – German Federal Ministry for Economics and Technology
BVMW	Bundesverband Mittelständische Wirtschaft – The German Association for Small and Medium-sized Businesses
DIHK	Deutscher Industrie- und Handelskammertag – Association of German Chambers of Industry and Commerce
ERDF	European Regional Development Fund
EU	European Union
HWK	Handwerkskammer – Chamber of Skilled Crafts
IGCC	Indo-German Chamber of Commerce
IHK	Industrie- und Handelskammer – Chamber of Industry and Commerce
MSEs	Micro and Small enterprises
MSMEs	Micro, Small and Medium-sized Enterprises
MoMSME	Ministry of Micro, Small and Medium-sized Enterprises (India)
RKW	Rationalisierungs- und Innovationszentrum der deutschen Wirtschaft e.V. – Center for Rationalization and Innovation of the German Industry
SIDBI	Small Industries Development Bank of India
SMEs	Small and medium-sized enterprises
ZDH	Zentralverband des Deutschen Handwerks – Federation of German Chambers of Skilled Crafts
ZIM	Zentrales Innovationsprogramm Mittelstand – Central Innovation Programme for medium-sized Enterprises



Executive Summary

Executive Summary

The economic structure of the Federal Republic of Germany is determined by micro, small and medium-sized enterprises (MSMEs), accounting for almost 99% of all businesses, employing about 80% of regular workers.. They are a major contributor to the GDP. It is therefore not surprising that Germany, in its economic policies, has abundance of support programs and measures to promote MSMEs.

The Business Membership Organisations (BMOs) in Germany play a major role in the promotion of MSMEs. They represent the interests of MSMEs towards political authorities and other parties and advert to the needs for specific supportive public initiatives. BMOs are involved in designing, advertising and implementing programs in favour of MSMEs. Various BMOs offer individual consultancy services to MSMEs. The law mandates local and state authorities to involve the 'Chambers of Industry and Commerce' and the 'Chambers of Skilled Crafts' when discussing matters of economic policies and planning.

BMO's in Germany also offer promotional activities and services. The promotional activities and services offered by German BMOs broadly fall into two categories: firstly, representation of interest against third parties like state authorities, city parliaments etc.; and secondly, services to membership companies . The services can be broadly distinguished as: offers of information, offers of individual consultancy services and supervision of vocational training by chambers, on behalf of the Government.

In this context it has to be borne in mind, that in Germany, membership in a chamber is mandatory for all businesses and the chambers have a special duty to support their member businesses. Hence, the chambers are not only involved in discussing, drafting or implementing 'programs' for the government or the province but also are the most important provider of consultancy services to MSMEs.





In particular the German 'Handwerkskammern' – translated as 'Chambers of Skilled Crafts' and often complemented by the addendum "and Small Industries" – maintain an extensive network of consultants. For example, in 2009, the 53 Chambers of Skilled Crafts employed about 850 commercial and technical consultants, financially supported up to a special extent by the states. These consultants implemented about 400,000 consulting procedures, services of less than three hours including phone consultations. More than half of the companies using these services were micro and small businesses: approximately 61% of the businesses had up to nine employees, only 9% more than 20. This clearly reveals the demand for such consulting services.

Besides the chambers, most industrial associations in Germany offer individual consulting services or facilitate consultants outside their own organisation. Some organisations have even outsourced consulting agencies like the 'BDI - Federation of German Industry', or partnered with them as in the case of 'BVMW - Federal Association of Small and Medium-sized Businesses'. In general, we can state that in Germany a well-staffed network of promotional activities is in place to support MSMEs.

Even though BMOs are involved, the funding for such services as mentioned earlier in many cases comes directly or indirectly from public source. Structured as a federation of states, the German Central Government, the German States, the City Governments etc. are ready to assist in MSME promotion. As a member of the European Union (EU), Germany's smaller entrepreneurs can call upon support also from this source via BMOs. While individual programmes are presented in detail in the main text, a few examples to highlight their role are as follows:

- The German Central Government has a number of common as well as very specific programs for MSMEs - from financial support for business start-ups and already existing MSMEs to consultancy services, from financing R&D particularly in MSMEs to the promotion of foreign trade- and in all such programs BMOs are involved. Some of the programs have been described in the main part of the paper and here, we would like to mention about the 'bafa program' financed by the German 'Ministry of Economy and Technology' (BMWi). MSMEs which had made use of consultancy services can apply for a co-financing of the

respective costs. In this programme, e.g. a spin-off of the 'Federation of German Chambers of Industry and Commerce' (DIHK) is involved. The 'DIHK Service GmbH', an outsourced company is operating as a 'Guiding Agency' - checking applications, administering finances, dealing with the funding governmental organisation, etc.

- On the level of the individual German federal states, the situation is similar with programs supporting the use of advisory services, and programs which co-fund export consultancy services. In a programme of the state of Hesse for example, the BMOs are strongly involved-offering advisory services - the Chambers of Industry and Commerce, the Chambers of Skilled Crafts as well as other BMOs are operating as a first point of contact, and as agencies mobilizing appropriate consultants. The details of this programme are discussed in the main text.
- Apart from individual measures, the European Union (EU) has been running a structural framework programme aimed at minimizing the economic disparities between and within the countries of the EU, for over 30 years now. With this objective, the EU supports not just infrastructural measures through the 'European Regional Development Fund' (ERDF) but also entrepreneurship development programs or initiatives for upgrading existing companies.

In this EU program, the two components emphasized as very important for success are: a bottom-up approach where necessary measures are specified and decided in discussions between governmental and industrial stakeholders - BMOs as well as other groups on site. After confirmation, in a top-down approach - the German state governments, city governments and BMOs are responsible for implementation.

Over a period of time, the number of support programs for German businesses has grown enormously and the lack of transparency in some of the programs is criticised. A data base created by the German Ministry of Economy and Technology (BMWi) names more than 1,000 support facilities. However, the problem of sometimes confusing number of supportive programs for MSMEs, has been minimized by the excellent database which is accessible via the internet. The data base list all support initiatives for MSMEs in Germany. It includes programmes and initiatives by BMOs, the

German Central Government, German states and the European Union, among others. More than an information source, the data base has become a “one-stop shop”. Apart from a description of the individual programs and of their legal background, via some checklists entrepreneurs can evaluate which is the most appropriate programme for them, apply for the programme online, request further information or contact addresses concerning special programmes.

A cursory view of the programs initiated by the Government of India also reveals the existence of a plethora of support programs, similar to Germany. However, the key differentiating point is that in Germany policies and programmes are designed and implemented with active involvement of chambers and associations.



1

MSME Support and Services by Business Membership Organizations

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1.1 The German Economy: Some Key Figures

An analysis of important economic indicators reveals the Federal Republic of Germany as having the strongest economy in Europe. An international comparison – measured in terms of GDP – puts it in 4th place. In spite of the crisis on the financial markets Germany still shows acceptable growth rates: The GDP has grown more or less continuously for more than twenty years. On average the annual growth rate over the last 18 years has been more than 2 percent – despite the significant fall in 2009. The lowest rate of growth (0.7 percent) was recorded in 2003, the highest in 1994 and 2007 with 5 percent each. Parallel to the financial crisis the GDP fell abruptly in 2009 by 4.7 percent, but by 2010 had regained a plus of 4.3 percent¹.

The largest contribution to the GDP in 2010 was made by the economic section 'financing, leasing and service provision' with 30.4%, followed by 'manufacturing' with 23.8 percent and 'public and private services' with 23.6 percent. Compared with figures of 1991, about 20 years ago, the first-named area has increased by more than 7 percent, whereas the manufacturing sector in this time span has fallen by almost 7 percent.

Such positive economic tendencies were particularly caused by increasing export activities. In 1990 the FRG gained \$US 421,100 m from exports while in 2010 the amount rose to about \$US 1,268,844 m or € 959.5 billion. The gains from exports made up almost half of

¹ Percentage details in comparison with the previous year. Cf. Statistisches Bundesamt: Bruttoinlandsprodukt 2010 für Deutschland. Begleitmaterial zur Pressekonferenz am 12. Januar 2011 in Wiesbaden. Wiesbaden: Stat. Bundesamt 2011. Cf. also: www.spiegel.de/flash/flash-21368.html





the GDP. While exports in 1993 contributed 22 percent to the GDP, in 2008 they contributed almost 46 percent. Thus, the FRG counts as one of the leading export nations in the world. It has been one of the three leading exporters for about 50 years. From 1986 to 1988 as well as in the year 1990 and again from 2003 to 2008 it was the number one exporting country. The main exports are high-value technological goods. In the year 2008, in first place were vehicles and vehicle parts. With a value of € 174.1 billion it represents 17.5 percent of all exports, followed by machinery (14.8 percent) and chemical products (13.9 percent). With a value of almost € 40 billion and a share of around 4 percent of all exports, fourth place was occupied by medical-, measuring-, control- and regulation- products, optical products and watches – a direct example of the technological level of German exports².

In 2010 the labour force participation rate in the FRG was around 53 percent³. Around 44 percent of the workforce was employed, the self-employed amounting to 5.5 percent. In absolute figures the workforce was a record high, with 40.5 m employed. Although the population that is or could be economically active has grown in recent years, the unemployment figures fell. Whereas the unemployment quota in the period between 2003 and 2006 was over 10 percent, it fell in 2010 to 7.7 percent and in September 2011 was around 6.6 percent.

The trends in the labour market in Germany have increasingly reflected the export trend. In 2010, the labour force participation rate stood at 53 percent³. Around 44 percent of the workforce was employed, the self-employed amounting to 5.5 percent. In absolute figures the workforce was a record high, with 40.5 million gainfully employed. While the workforce has increased over the years, the unemployment has decreased. Whereas the unemployment quota in the period between 2003 and 2006 was over 10 percent, it fell to 7.7 percent in 2010 and further to 6.6 percent by September 2011. The labour market reflects that with increasing wages in the German economy the production of high-value goods and the supply of high-value services will be profitable as less qualified work is increasingly being outsourced to low wage countries. The concentration on high-value services and production has required an increasingly high qualified workforce and investments in modern production facilities. The investments have been made possible by various means including, wage renunciation; the need for highly skilled specialists has set in motion, for example, measures in the field of skill development and training. To ensure the advantage of production – and export – of technically high-value goods long-term the Federal Government has begun to support R&D, especially in small and medium-sized businesses.⁴

² Cf. Deutschland, Bundeszentrale für politische Bildung: Import und Export nach Waren. http://www.bpb.de/wissen/MVCEI4,0,0,Import_und_Export_nach_Waren.html

³ Cf. Federal Republic of Germany: Statistical Yearbook 2011. "Labor force participation rate", i.e.: employed as well as employable res. unemployed people.

⁴ Cf. definition of MSME on next page

1.2 Micro, Small and Medium-Sized Companies – Backbone of German Industry

When speaking of the economic power of Germany one aspect is often neglected outside Europe which is the economic structure of the Federal Republic characterized predominantly by small and medium-sized enterprises. Around 99 percent of all companies can be classified as micro small or medium-sized enterprises (MSMEs). This applies within the EU as a whole: the former EU Commissioner Verheugen stresses that “Micro, small and medium-sized enterprises are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment”⁵

In 2003 the definition of MSME was reformulated by the EU. The regulations came into force in 2005⁶ and are also binding for Germany. As in earlier versions the following three criteria have been used for the purposes of definition:

- i staff headcount
- ii annual turnover or
- iii balance sheet total⁷.

According to these criteria the new regulations defined micro-small-and medium-sized enterprises as follows:

Table 1.1: Micro, Small and Medium Enterprises in Europe: Definition Criteria

	Headcount	Annual Turnover	OR	Annual balance sheet total
Micro Enterprise	< 10	≤ € 2 million		≤ € 2 million
Small Enterprise	< 50	≤ € 10 million		≤ € 10 million
Medium-Sized Enterpr.	< 250	≤ € 50 million		≤ € 43 million

According to these criteria the German Statistical Office in 2007 categorized around 99.3 percent of all companies as micro-small-and medium-sized enterprises. The Institut für Mittelstandsforschung (Institute for Medium-Sized Company Research) provides more recent data even if on the basis of slightly altered criteria⁸. In 2009, accordingly, around

⁵ Günter Verheugen, Member of the European Commission, Responsible for Enterprise and Industry. In: European Commission: The new SME definition. User guide and model declaration. Brussels 2006.

⁶ Cf. EU: Recommendation 2003/361/EC

⁷ For the definition of these criteria cf.: European Commission: The new SME definition. User guide and model declaration. Brussels 2006, pp.15

⁸ In this definition, for county-specific reasons the headcount of medium-sized companies can rise up to 499. All other criteria remain the same.

3.6 m companies in Germany belonged to the MSMEs, i.e. to 99.5 percent of all companies. No clear preference for particular branches of industry can be detected – in all branches the proportion of MSMEs is over 98 percent. The smallest proportion is in the energy supply sector (98.17 percent), the largest in the hotel and catering branch⁹ with 99.97 percent.

If one focuses on the official figures provided by the Federal Government for 2007, the economic potential of the small and medium-sized companies becomes clear. They contribute to a high extent, and not only in Germany, to employment and the creation of the value added. In 2007 the MSMEs in Germany employed around 58 percent of the entire labour force or more than 78 percent of all employees with social insurance, around 21 m people¹⁰. The value added share of MSMEs was almost 55 percent. This shows that MSMEs significantly contribute to the GDP. About 43 percent of all investments in tangible assets in Germany were carried out by MSMEs. However, compared with the number of businesses investments and turnover were definitely under-proportional.

Table 1.2: Shares of MSMEs acc. to selected criteria

Size	% of enterprises	% of staff	% of turnover	% of gross investments	% of gross value added (at factor costs)
Large-scale	0.7	41.7	66.4	57.2	54.8
MSME total	99.3	58.3	33.6	42.8	45.2
- of it: Micro	81.4	18.5	6.7	12.1	11.2
- of it: Small-scale	15.0	21.1	11.7	13.6	16.1
- of it: Medium-sized	2.8	18.7	15.3	17.2	17.9

Source: Germany, Federal Statistical Office

The advantages of MSMEs are obvious and are often described. They have

- a high employment rate and flexibility on the labour market,
- the ability to rapidly adjust to structural economic and cyclical oscillations and
- a low investment requirement at start-up.

The quantitative proportion of MSME in the total number of businesses in Germany and the contribution of MSMEs to the economic performance of the Federal Republic clearly reflects that it is in the national interest to support these businesses.

⁹ Cf. IfM-Institut fuer Mittelstandsforschung Bonn: KMU-Anteile 2009 in Deutschland nach Wirtschaftszweigen. Bonn: IfM Sept.2011. (www.ifm-bonn.org/index.php?utid=1019&id=101)

¹⁰ Cf. also the following table 1, related to 2007. Here as well as in the table the term "headcount" include various classes of employees: regular employed employees, persons in marginal employment, family workers, etc.. However, employees with a regular contract have to be insured with the German Social Insurance System. Of this staff 78 percent are with MSME. For this number cf. German Federal Ministry of Finance. "Glossar Mittelstand" [Glossary "Small and medium-sized companies"], www.bundesfinanzministerium.de/

1.3 Support for MSMEs by BMO

In reviewing the information presented in the previous chapter it quickly becomes clear that this kind of economic advancement has predominantly meant a promotion of micro-, small and medium-sized companies. Considering that the share of MSMEs is well over 99 percent in the Federal Republic of Germany, the sector assumes a focus naturally.

In Germany, promotional activities for micro-, small- and medium sized enterprises can be structured according to financing and implementing institutions. In this context there are three main strands:

- Promotional activities and programs implemented by the Chambers: Chambers of Industry and Commerce as well as the Chambers of Skilled Crafts.
- Promotional activities and programs by Industrial Associations – like for example the Bundesverband der Deutschen Industrie (Federation of German Industry) and
- Governmental programs as well as programs offered by the European Union

Chart 1: Promotional activities towards MSMEs

Chambers		M S M E
• Chambers of Industry and Commerce	--- promotional activities ›	
• Chambers of Skilled Crafts	--- promotional activities ›	
Industrial Associations	--- promotional activities ›	
Public Authorities		
• German Governments (Federal, States, Regions/Cities)	--- promotional activities ›	
• European Union	--- promotional activities ›	

In the next section, supportive activities of BMOs have been described in detail. However, in a lot of cases it is not always possible to distinguish clearly between BMO and governmental activities: consultancy services offered by the Chambers for example are financed largely by state governments, whereas Chambers are also involved in implementing politically-initiated support programmes for MSMEs.

1.3.1 Landscape of BMOs in Germany

Basically, BMOs in Germany can be grouped into two categories – the Chambers and the Industrial Associations or other industrial bodies. The most distinguishing features are of a legal nature and of the membership status:

- Compared to other countries the **Chambers in Germany** have quite a strong position. The institutions in question are the Chambers of Industry and Commerce and the Chambers of Skilled Crafts, further on the Chambers of Agriculture and several other chambers for the liberal professions like doctors, lawyers and architects. While they play an important role within the setting for economic promotion, their strong position is based on two circumstances. Firstly, one of the statutory functions of the chambers is the support of their members through the provision of services. This allows them to become genuine implementers for related support activities. Secondly, their strength is derived from **obligatory membership**: All companies and members of the liberal professions with few exceptions have to be members of the chambers in a defined region. This assures a high efficiency factor for the activities they offer.
- Compared to other countries, Chambers in Germany are corporations under public law. They take on public tasks commissioned by the State. Thus, they are responsible for vocational training, certain procedures of registration etc. In this regard they are often asked to implement supporting services for MSMEs on behalf of the Federal Government or state governments.
- By contrast, the **Industrial Associations in Germany** are organizations with a **voluntary membership** – without the related responsibilities of public administration and without the obligatory membership that characterizes the chambers. But they as well support their members through a variety of services in accordance with their statutes, especially services of the specific industrial or crafts sector whose interests they represent.

German chambers : Most important among them are the '**Industrieund Handelskammern**' (IHKn) - **Chambers of Industry and Commerce** and the '**Handwerkskammern**' (HWKn) - **Chambers of Skilled Crafts**. It is defined by law to which type of chamber an enterprise has to belong. Roughly speaking, all companies have to be members of a 'Chamber of Industry & Commerce' – with the exception of those in which specific qualifications are required to produce specific goods or to offer specific services: qualifications which have to be

checked in an examination by the 'Chambers of Skilled Crafts'. The successful passing of such a 'Meister Prüfung'¹¹ is mandatory for 41 craft trades in order to start-up a business. According to law, companies belonging to one of 41 trades have to be members of a Chamber of Skilled Crafts¹². All businesses have to be members of that IHK or HWK that is responsible for the area in which they are located. Each of the two types of Chambers - IHKs as well as HWKs - has established an umbrella organisation. Actually, in Germany there are 80 regional IHKs and 53 regional HWKs.

IHKn-Industrie- und Handelskammern Chambers of Commerce and Industry	
Organization/ Structure:	Organized according to regions – Regional Chambers
Legal Status of Chambers:	Corporations under Public Law
No. of Chambers:	80
No of membership companies:	3.6 Million
Duties/ Services:	<ul style="list-style-type: none"> - Representation of interests of membership companies/ industry in general towards political authorities in the region as well as towards third parties - Advice to local/ state authorities regarding economic policies - Vocational training and further education - Information and consultancy services for membership companies, for potential entrepreneurs - Fair and Export Promotion etc.
Specifics concerning services	Nearly all chambers have outsourced services into own companies operating under private law - e.g. outsourcing of Vocational Training Facilities into private companies owned by individual chambers, outsourcing of consultancy services etc.; reason: more flexible handling and income generating for chambers possible
Umbrella Organisation:	'DIHK - Deutscher Industrie- und Handel-skammertag' – Association of German Chambers of Industry and Commerce
Legal status	Association under private law

¹¹ Meister-Prüfung: the term has to be translated as 'Master Examination'. However, a 'master' awarded by a German 'Handwerkskammer' has not to be mixed up with an academic Master degree.

¹² Cf. Statutory basis for the Chambers – (a) Chambers of Industry and Commerce: "Gesetz zur vorläufigen Regelung des Rechts der Industrie- und Handelskammern vom 18. Dezember 1956" (see: BGBl. I p. 920), shifted by art. 2 of the law regarding changes in business regulations of June 11, 2011 (see: BGBl. I, p. 1341); (b) Chambers of Skilled Crafts: "Handwerksordnung in der Fassung der Bekanntmachung vom 24. September 1998" (see: BGBl. I p. 3074; 2006 I p. 2095), shifted at last by art. 33 of the law dated December 20, 2011 (see: BGBl. I S. 2854)

Duties/ Services:	<ul style="list-style-type: none"> - Representation of interests of the industry in general towards Central Government/Federal States/Regions/ European Union as well as towards third (national/ international) parties of major relevance - Advice to state authorities regarding economic policies - Information services – by priority targeted to the member chambers (IHKn).
Specifics concerning services	<p>According to its profile the services offered by DIHK by priority are targeted to the IHKn. Like them DIHK has organised some of its services in outsourced companies. Very important for MSMEs:</p> <ul style="list-style-type: none"> - The 'DIHK Service GmbH' is administering a consultancy programme for SMEs financed by the German Government (checking and assessing applications, placement of advisory services)

All 80 IHKs - **Chambers of Industry & Commerce** have around 3.6 million member businesses. The small and medium-sized businesses dominate in the IHKs: More than 90% of the businesses represented have fewer than 50 employees.

All the IHKs are supporting their membership companies – generally speaking by three major bundles of activities: (i) by advocating the interests of local industry towards local and regional authorities, (ii) by advisory services and (iii) on behalf of state government, by realising their responsibilities for vocational training. However, compared to the Chambers of Skilled Crafts the offers of 'individual' consultancy services are somewhat limited.

Usually IHKs offer lectures and seminars targeting specific subjects, concerning specific information regarding actual developments etc. For individual consultancy services the Chambers normally take over a mediating role only: they refer clients to selected consultants – in this way also protecting the interests of consultants/consultancy companies which have to be members of the chambers, too. Nevertheless, there is also a tendency, that Chambers (as bodies under public law) establish private companies and delegate services to these companies. The reason for this may be a more flexible handling of duties than possible under the sometimes rigid structures of a chamber.

With regards to SMEs, it should be noted that there are voluntary groups within the individual chambers aimed at promoting by priority small and medium enterprises. The "Netzwerk Mittelstand" – SME Network is represented in 48 IHKn. By representing SMEs with

local and regional authorities 'Netzwerk Mittelstand' is fighting for favourable conditions for SMEs. Also, the network informs the member companies of the IHKn about favourable programs and initiatives offered by various organisations and – it supports networking between these companies: exchange of information, opportunities for cooperations etc. A co-ordinating unit of this SME Network has been set up in the DIHK¹³.

DIHK – Deutscher Industrie- und Handelskammertag' (Association of German Chambers of Industry and Commerce) is the umbrella organisation of all Chambers of Industry & Commerce. Members are the IHKn – not individual companies. Against this background it becomes clear that services offered by DIHK by priority are related to advocacy in favour of the German industry in general and benefitting the member companies of the IHKn. Nevertheless, DIHK also offers services – for its member chambers but also for the member companies.

AHKn – Auslandshandelskammern – (the German Chambers of Commerce Abroad) offer very important service abroad. In India, the 'Indo-German Chamber of Commerce' (IGCC) is in Mumbai with branches in Delhi, Kolkatta, Chennai, Bangalore, Pune and Düsseldorf/Germany. The tasks and functions of the AHKn are threefold: (i) Together with Germany's missions abroad (i.e. embassies and consulates) the AHKn officially represent the interests of Germany's industry and commerce in their host countries, (ii) they are membership organisations where both German and local membership companies put a lot of effort in intensifying and improving the whole spectrum of foreign business relations, and (iii) they are service providers to companies: for German companies active in the host country, for companies of the host countries willing to enter the German markets. In this regard AHKn offer to initiate contacts, give legal advice, are helpful in checking market opportunities etc¹⁴.

AHKn – Deutsche Auslandshandelskammern ,German Chambers of Commerce Abroad'	
Organization/ Structure:	Organised according to countries – with headquarters and branch offices in the respective countries (and some-times branch offices in Germany)
Legal status	Varying – according to the laws in the host countries
No. of chambers	120 offices in 80 countries
Membership	German companies and companies of the host countries

¹³ Cf. <http://www.dihk.de/themenfelder/standortpolitik/netzwerk-mittelstand>

¹⁴ Cf. <http://ahk.de/en/ahk-services/deinternational/>

Duties/Services	<ul style="list-style-type: none"> - Official representation of German industry and commerce (and other economic sectors) in the host countries - Service provision for companies: for German companies in the host country, for local companies which want to do business with Germany
Specifics concerning services	<ul style="list-style-type: none"> - Initiating contacts between businesses from Germany and host countries - Market information/analysis - Legal advice for companies - Consultancy services regarding taxation, customs and duties - Advisory services regarding business start-up in the respective countries - Support for trade fair participation

'HWKn – Handwerkskammern' – Chambers of Skilled Crafts : Like the Chambers of Industry and Commerce the HWKn are organised regionally. There are 53 Chambers of Skilled Crafts with around 595,000 businesses and approximately 4.8 million employees¹⁵. (so the average size of a crafts enterprise is 8 employees).

In general, duties and responsibilities of the Chambers of Skilled Crafts are similar to those of other BMOs: representation of interests and services for membership companies and – as a German Chamber – for vocational training. However, compared to the Chambers of Industry & Commerce, Industrial Associations and other BMOs, the Chambers of Skilled Crafts (HWKs) traditionally are very active in providing membership companies with individual consultancy services. Some more figures you will find in chapter 1.3.2. A register with all the IHKn and HWKn can be found in annex 2.

ZDH – Zentralverband des Deutschen Handwerks – Federation of German Skilled Crafts: Apart from the Chambers of Skilled Crafts there are also 36 associations of various crafts sectors on national level with voluntary membership of crafts enterprises. ZDH is the national umbrella organisation of both chambers of skilled crafts and crafts associations.

¹⁵ Figures of the year 2010; only enterprises acc. to annex A and B1 of the regulation 'Handwerksordnung' (see footnote above)



HWKn-Handwerkskammern – Chambers of Skilled Crafts	
Organization/ Structure:	Organized according to regions – Regional Chambers
Legal Status:	Corporations under Public Law
No. of Chambers:	53
No of membership comp.:	595,000
No of employees in membership companies:	4.8 Million
Duties/ Services:	<ul style="list-style-type: none"> - Representation of interests of membership companies/ industry in general towards political authorities in the region as well as towards third parties - Advice to local/ state authorities regarding economic policies - Permission to set up a business – in trades under the responsibilities of the HWKs – based on a passed 'Meister- prüfung' (Master Exam); registration of business - Vocational training and further education - Consultancy Services for membership companies and for potential entrepreneurs - Fair and export promotion etc.
Specifics concerning services	Most of the regional Chambers have out-sourced services to private companies owned by themselves (vocational training, trade fair organization etc.). Nevertheless, traditionally the Chambers of Skilled Crafts have a lot of employed consultants at their disposal to individually serve membership companies. Up to 12 consultants and more – half for advice in technical, half in commercial fields – are not an exception. In most cases the employment of this staff is financed by the state governments.
Umbrella Organization	'ZDH – Zentralverband des Deutschen Handwerks' Federation of German Skilled Crafts
Legal Status	Association under private law
Services	<ul style="list-style-type: none"> - Lobbying for the Skilled Crafts Sector - Coordination between Chambers of Skilled Crafts and Skilled Crafts Associations

BDI- Bundesverband der Deutschen Industrie'-Federation of German Industry Besides the chambers and crafts associations there are a lot of **industrial associations** in Germany. Among them the most important umbrella organisation on national level is highlighted here because of its comprehensive function: BDI is an organisation representing 38 associations of various industrial sectors having industrial companies as voluntary members. Member

organisations of BDI are such world-wide known associations, like the 'VDMA - Verband Deutscher Maschinen- und Anlagenbau' (German Engineering Federation) and 'VDA - Verband der Automobilindustrie' (Association of German Automotive Industry). Altogether the BDI represents around 100,000 businesses, with a total of about 8 million employees. A list with the membership organisations of BDI can be found in annex 2.

**Associations: BDI – Bundesverband der Deutschen Industrie
Federation of German Industry**

Organization/ Structure:	Headquarter in Berlin
Legal Status:	Association under private law
No. of associated organizations:	38, many with subordinated branches
No of membership companies:	- 100,000
No of employees in membership companies:	- 8 million
Duties/ Services:	<ul style="list-style-type: none"> - Representation of interests of membership organisations in Germany and abroad - Economic policy advice - Support to associated organisations as well as to their membership companies by providing information/ advocacy of common/ specific importance – from communal policies towards SMEs to issues regarding economic globalization

BVMW – Bundesverband mittelständische Wirtschaft – Unternehmerverband Deutschland¹⁶ – **German Association for Small & Medium Sized Businesses** BVMW is the largest and most influential association in Germany exclusively representing 55,000 medium-sized businesses from all sectors, including about 150,000 companies of allied associations. In 2010, BVMW member businesses had about 4.3 million employees. The BVMW is organized according to the German states. The BVMW supports its membership companies in three ways : (i) Advocacy – lobbying towards the central government, the state governments as well as towards regional and local authorities; (ii) Information, instruction, schooling of membership companies in common events, seminars etc., and (iii) offer of individual advisory services by a large network of consultants organised in a non-profit institute.

¹⁶ BVMW: German Association for Small and Medium-sized Businesses; cf.: <http://www.bvmw.de/service/sprachen/gb.html>



Associations: BVMW – Bundesverband Mittelständische Wirtschaft German Association for Small & Medium-sized Businesses	
Organization/ Structure:	14 regional offices parallel to the German states (exception: Bremen state, Berlin and Brandenburg one common office); further offices in 26 countries, also in India (Delhi)
Legal Status:	Association under private law
No of membership comp.:	- 150,000
No of employees in membership companies:	- 4.3 million
Duties/ Services:	<ul style="list-style-type: none"> - Representation of interests of membership organisations in Germany and abroad - Delivery of information, seminars etc. for groups - Consultancy services for individual companies

Summarizing the presentations up to now we can state the following:

- Independent of the individual goals of chambers and associations in Germany, their tasks can be described broadly as follows:
 - representing the interests of the member companies vis-à-vis third parties, such as state offices and other organizations at home and abroad;
 - supporting member businesses through various services.
- Due to high share of 99 percent of MSMEs in the German business services for MSMEs and representation of interests in favour of MSME are an integral part of work in all chambers and associations.
- Many chambers and associations have established special departments or (outsourced) private companies to take care of concerns of MSMEs.
- The individual measures and tasks mentioned above serve as a whole to further the economic prosperity of the member businesses, whether of chambers or associations. Broadly speaking, chambers and associations offer the following support – especially to MSMEs:
 - lobbying on behalf of member businesses;
 - vocational training and further education for workforce, staff and management;
 - provision of business information;
 - consultancy services for businesses regarding
 - commercial issues
 - technological, including environmental issues
 - financial issues, e.g. investment planning, financing, securities etc.
 - legal issues.
 - Business start-up
 - business handover, business succession.

In the following paragraphs, some offers of support are examined in more detail.

1.3.2 Description of Services Provided

Giving a short overview of services and promotion measures for MSMEs in Germany is not an easy task. One reason for this is the large number of individual activities and programs. Also, it is difficult to develop criteria which permit plausible classifications and subdivisions of this plethora of services. We have however structured the following account according to the most important categories of SME promotion:

- Representation of Interests
- Vocational Training and Further Education
- Offers of Information
- Offers of Consultation

1.3.2.1 Representation of Interests

All German BMOs try to represent the interests of their members externally and create the best conditions for the business activities. They do this in various ways and at various levels:

- The individual chambers, both Chambers of Commerce & Industry and Chambers of Skilled Crafts, are legally obliged to undertake this sort of representation of their members' interests. Paragraph 1, section 1 of the IHK Law¹⁷ stresses quite specifically that it is the task of the chambers to represent the interests of their member companies and to take an active part in supporting their business. In this regard they are obliged in particular, by means of proposals, expert opinions and reports, to support and advise the authorities.¹⁸ The Law for the HWK is similar, and here paragraph 90, section 1, and paragraph 91, sections 1 and 2 emphasize the obligation of the HWK to act in favour of their members. In both types of chamber the relevant law clearly mentions measures 'how' to represent such interests of membership companies, e.g. via participation in hearings or access to authorities.
- Following the chamber laws as mentioned, in various legal regulations at state level or municipal level areas are defined, in which a co-determination right for chambers is decidedly conceded: In the construction or planning regulations of most municipalities, for example, it is established that the local chambers have to be heard in planning of industrial zones etc.

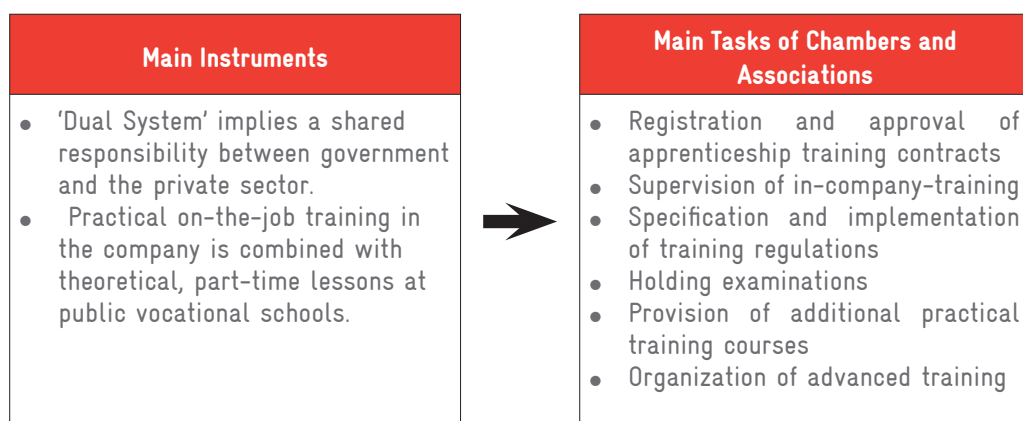
¹⁷ Cf. Footnote 42.

¹⁸ In German language: Es ist Aufgabe der Kammern (IHKs), „für die Förderung der gewerblichen Wirtschaft zu wirken.... Dabei obliegt es ihnen insbesondere, durch Vorschläge, Gutachten und Berichte die Behörden zu unterstützen und zu beraten.“

- Unlike the regional chambers the chamber umbrella organizations are not institutions regulated by public law. If their task is decidedly and expressly to bundle and represent the interests of all chambers, their power to act is based not least on the number of businesses they represent.
- Industrial associations, especially their central umbrella organizations, name the promotion of member businesses by lobbying as one of their central umbrella tasks. The BDI says of itself: "The BDI communicates the interests of German industry to those in positions of political responsibility in Germany, Europe and all over the world." Vice versa: "At the same time it makes current political decisions for its member associations transparent."¹⁹ Similarly the BVMW: 'not only emphasizes representation of interests in Federal politics, but explicitly also in state politics'.
- With 99 percent of MSMEs in the structure of the German Industry, representation of interests almost always includes those of MSMEs. Also the BDI – usually known as representative of large scale industries – emphasizes expressly SMEs and Family Businesses as an area of responsibility.

1.3.2.2 Vocational Training and Further Education

The German chambers are obliged by law to assume responsibility for regular vocational training. They set exams for skilled workers after their first period of training.



¹⁹ Cf. webpage of BDI – German as well as English version. http://www.bdi.eu/BDI_english/the-bdi.htm

The quality of its workforce guarantees a major advantage worldwide for the German economy. It is therefore not surprising that not only chambers, but also almost all BMOs offer further training measures to a considerable extent. According to the structure of their membership businesses, the various BMOs focus more or less on commercial or on technological training. While Chambers of Industry and Commerce predominantly offer further training in commercial fields, the HWKs and technologically equipped Industrial Associations provide a lot more of technical training. Various Chambers and various other BMOs have organized such further training measures in the meantime in their own businesses. The IHK Heilbronn-Franken, for example, has built its own business in the form of a GmbH (Ltd.). IHK and HWK Kassel have together similarly built up a firm that offers a wide range from further training measures to management training.

What applies for the chambers also applies for the industrial associations. Research regarding the member associations of the BDI shows an extensive provision of technological as well as commercial training opportunities. Individual associations have built up their own institutions or academies to offer further specialist training : The Construction Industry Association for example has a competence centre for professional training and personnel development; the Central Association of Electrotechnology offers, in addition to its own further training firm, continuous seminars, e.g. about technical regulations, environment legislation etc. In Essen the industrial associations and businesses of North-Rhine Westphalia have set up their own University of Applied Sciences in Economy and Management (FOM)²⁰. The course of study is organized in such a way that it can be done while working.

1.3.2.3 Offers of Information

Essentially all BMOs offer their member businesses a comprehensive information service. Both the chambers and the industrial associations concentrate on the needs of their members: Whereas the chambers, in accordance with the heterogeneity of their member businesses keep to a thematically broad offer, the industrial associations concentrate on sector priorities of their members. The BDI offers a good insight into the relationship between umbrella organization and individual organization. Its print publications address subjects of overarching importance – new accounting law, trade in emissions etc., whereas the publications of the member associations concentrate on sector-specific themes.

Thus, the information service the BMOs provide to their members is moving increasingly from 'direct' information or information events to computer-based information sources. VDMA, for example, has on its website more than 10 databases, which provide members

²⁰ <http://www.en.fom.de/index.php?id=3862>

with information on certain subjects. And the BDI offers, also online, a helpdesk, through which individual consultations are possible.

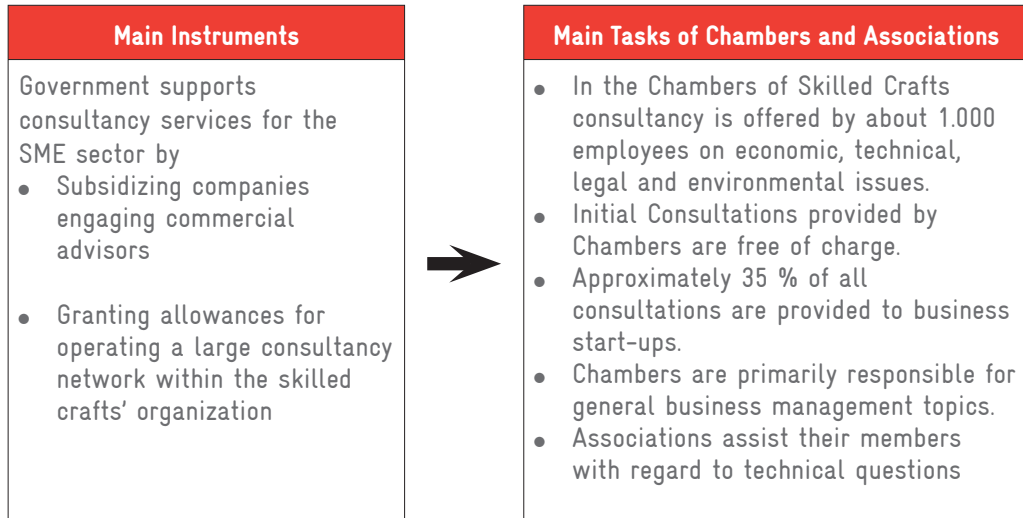
1.3.2.4. Offers of consultation

All BMOs offer opportunities for consultation to their members, although at different levels and in different organizational frameworks. Whereas the HWKs offer consultation with their own advisory staff members, IHKs and other BMOs often limit their advisory services to 'mediating'. Officially this is to avoid the possibility that entrepreneurial 'self-initiative' might be 'suspended'.

- In the case of IHKn advice-seeking businesses are not rejected. In the case of questions that fall into the immediate area of responsibility of the chambers or can easily be answered from the pool of information of the chambers, help is forthcoming without delay – on questions of registration procedure of businesses, for example, making known the latest environmental regulations etc.
- In addition, the IHKn often organize events concerned with specific themes that may seem like group consultation sessions.
- In the case of questions of foreign trade the IHKn refer to their foreign business Chambers. These are available for consultations, if necessary after application has been made for membership.
- In the case of a more comprehensive or specific consultation service, the IHKs generally refer their clients to external consultants, who can be provided via the appropriate IHK but are operating under own name.
- The IHKn are linked via a service company of their umbrella organization to a consulting programme financed by the German Federal Government. The costs for external consultations can be taken over by this programme²¹.
- Unlike the IHKn, the Chamber of Skilled Crafts (HWKn) offer a comprehensive, individual consulting service. The 53 chambers and some of the sector crafts associations employ almost 850 consultants, financed principally via the Federal and state governments. The consultation via the chambers is understood as initial consultation and should not exceed a certain number of hours. Afterwards reference is made to non-Chamber consultation services. The 'first consultations'

²¹ Cf. table 2.3 above (BAFA)

offered by the HWKn are usually free of charge. We will examine their services in more detail below.



The industrial associations provide altogether a more or less comprehensive and sector-specific information service. It is usually a matter not of individual business consultations, but rather regular 'working groups', in which there is a reciprocal exchange of information and experience on certain subjects.

- By contrast the BVMW-Bundesverband mittelständische Wirtschaft (Federal Association of Medium-Sized Businesses) offers its members a comprehensive consultants network-organized via a partner association. It provides:
 - Business consultants
 - Internet and communication consultants
 - PR and advertising consultants
 - Foreign trade consultants
 - Environment and energy consultants
 - Tax experts
 - Lawyers etc.

The Association emphasizes that the consultants are specialists in the problems of medium-sized companies. The consultation costs have to be met by the companies.

To get an overview of the consulting needs of micro and small enterprises in particular, we present some information about the consulting activities of the HWKs. As mentioned earlier, around 850 consultants were employed by the chambers in 2009.- 473 management consultants and 377 technical specialist consultants. A ZDH table lists the following fields of activity:



Table 1.3: Consultants in Chambers of Skilled Crafts – Scope of Activities

Nos Consultants	Scope of Activities
382	Consultants, main focus on business administration (in general)
42	Consultants, main focus on foreign trade relations
9	Consultants, main focus on marketing
40	Consultants, other fields
473	Total – Consultants specialized on commercial issues
209	Technical consultants (in general)
61	Consultants specialized on environmental issues
99	Consultants specialized on technology transfer/ innovation etc.
8	Other technical consultants
377	Total – Consultants specialized in technical fields
850	Grand Total

Source: ZDH: Die Betriebsberatung im Handwerk. Berlin Aug.2011

If we compare the number of consultants with the member businesses of all HWKs, we find a ratio of 1 consultant to 1,147 businesses. Nevertheless, according to the Federation of Chambers of Skilled Crafts (ZDH), the need for consulting could not be completely covered.

In 2009, the HWKs registered a total of 48,400 consulting procedures. They included not only individual sessions, but also completed consulting procedures. Accordingly, the consultations lasted between 3 hours and 4 days. On average a completed procedure lasted 6.7 hours. Only those consultations were registered that took at least 3 hours. Shorter consultations or telephone consultations or telephone sessions were not registered. And – only the sessions of those consultants were recorded who are financed by the Federal Government. If consultations of relatively short duration are added – telephone consultations and those not financed by the Federal Government – the figure would be over 400,000 consultations, according to the umbrella organization.

Well over half of those seeking consulting services can be described as micro and small businesses: approximately 61 percent of the businesses had up to 9 employees, only 9 percent had more than 20 employees.

Apart from consulting services for start-up companies – which make up around 35% of the consultations – according to the ZDH the most common subjects were ‘management’, ‘financing’ and ‘questions of accounting and cost accounting’. More precise figures can be found, for example, in an earlier study of 2006 of the ‘HWK Munich and Upper Bavaria’:

Table 1.4: Chamber of Skilled Crafts Munich and Upper Bavaria: Survey on Consultancy Services 2006

Subject of Consultancy Services	%	
Business start-ups	27.1	
Legal advice	17.5	
Successor establishment	14.4	
Operational analysis	10.4	
Investment planning	9.4	
Financial Assistance / Funding support	9.0	
Budgeting/ Controlling	4.1	
Market for enterprises	2.8	
Marketing	2.7	
Crisis Management	2.7	
Total	100.0	= 1.260

Source: Handwerkskammer f. München u. Oberbayern: Kundenbefragung der betriebswirtschaftlichen Beratung . I. bis IV. Quartal 2006

Both in this survey and in the extracts of the ‘Total Statistics’ 2009 as mentioned above, well over 80 percent of the businesses which had used the consultancy services judged them to be ‘very good’ or ‘good’.



2 Public Support Programs in Germany: Role of Business Membership Organizations

Public Support Programs in Germany : Role of Business Membership Organizations

To foster an appropriate economic development and to generate economic prosperity German politics has always been keen to generate optimal framework conditions. Since the middle of the last century, all German federal and state governments have tried hard to generate a sound basis for sustained economic growth, with close co-operation with industry, chambers, industrial associations and the trade unions. Even in the early days of the European Union – for instance under its predecessor the 'European Economic Community' (EEC, 1957) – efforts aiming at positive economic development in various European countries were supported from this side as well.

As the share of MSMEs is well over 99 percent in the Federal Republic of Germany, the focus on support and promotion of MSMEs for economic development appears to be very obvious. This chapter focuses on some programs initiated by the German federal government, by the German states, by regional and city government as well as by the European Union.

2.1 MSME Promotion by the German Central Government

After some very early initiatives, beginning from 1970s, all Federal Governments have made an effort to support MSMEs through various initiatives. In 1970, for the first time the German Parliament issued 'Principles of a structural policy for small and medium-sized enterprises'²². This document outlined the criteria along which the direction of all successive programs- "Aktionsprogramme"/ action programs – could be and had to be aligned. With this bipartite concept,





in principle the whole catalogue of German MSME promotion can be described: (i) 'Mittelstandspolitik' which means SME policies or policy framework and (ii) 'Mittelstandsförderung', i.e.: SME development programs²³.

In the following years and decades, along the lines described by the 'Principles' **together with chambers, industrial associations, other industry related organizations etc. various action programs were implemented and continuously attuned.** In the forthcoming paragraphs, some of the actual programs and initiatives have been described in brief. More detailed information regarding individual programs can be found in the data base of the Federal Ministry of Economy and Technology²⁴.

2.1.1 Entrepreneurship Development

The Federal Republic of Germany provides a number of programs which support the development of enterprises, with financial support and advisory services. **The respective programs are implemented by an array of supporting organizations, especially by BMOs.**

In January 2010, the Bundesministerium für Wirtschaft und Technologie (BMWi - Federal Ministry of Economics and Technology) started the initiative 'Germany - country of business start-ups' (Gründerland Deutschland). In this initiative the Ministry cooperates closely with the umbrella organizations of the German chambers- Deutscher Industrie- und Handelskammertag (DIHK - Federation of German Chambers of Industry and Commerce), Zentralverband des Deutschen Handwerks (ZDH-Federation of German Skilled Crafts) and the Bundesverband der Freien Berufe (BFB- German Federal Association of Liberal Professions).

²² Deutscher Bundestag: Grundsätze einer Strukturpolitik für kleine und mittlere Unternehmen. Drucksache VI/1666, 29.12.1970. [German Parliament: Principles of structural policy for small- and middle-sized Businesses]

²³ Even if we use the term SMEs to translate precisely, German (and European) economic policy also targets so-called micro-enterprises. The abbreviation MSME could also be used in this context. A discussion of the political usage of the German term 'Mittelstand' (medium-sized businesses, also middle class) in this context can be found in: Institut für Mittelstandsforschung (IfM): Unternehmensgrößenstatistik 2001/ 2002. Daten und Fakten. Günterberg, B.; Wolter, H.-J. (authors). Bonn: IfM 2002, pp. 1-14.

²⁴ Cf. paragraph 2.1.1.4; for database see: <http://www.foerderdatenbank.de/>

The initiative comprises different measures, among them an enhanced range of information and advertising by potential entrepreneurs and improved financing opportunities for business start-ups. **With regard to BMOs, some aspects are worth noting:**

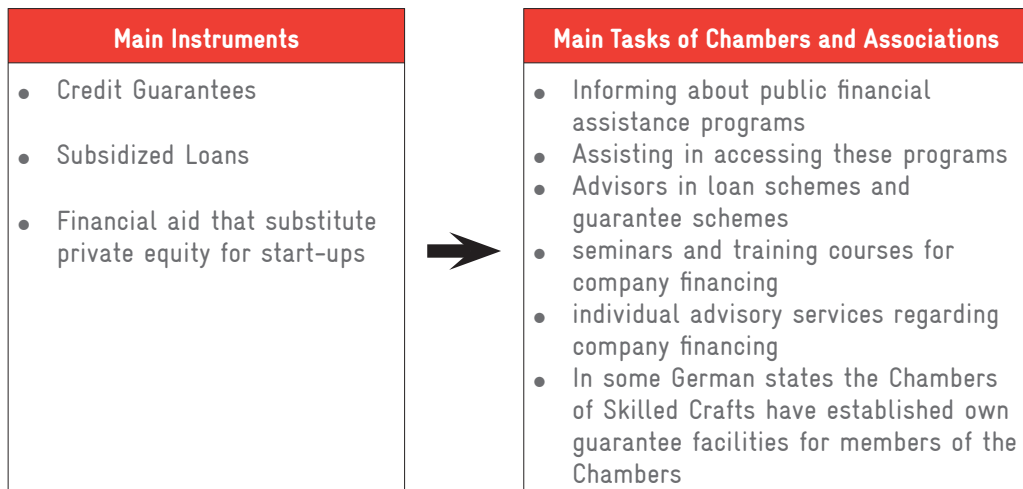
- While a lot of different organizations strive towards potential entrepreneurs, the plethora of offers of information and support is often more confusing than helpful. For this reason, in cooperation with the chambers and other relevant BMOs, a central point of contact for business founders has been created in each federal state – something like an initial ‘one-stop-shop’. Wherever necessary these points of contact refer the founders on to the ‘correct’ institution – the one that is responsible for supporting the next step.²⁵
- While such contact points offer information and will coordinate all required activities where more detailed advisory services are needed. Financed by the Central Government, potential entrepreneurs can apply for advisory services or some sort of coaching. Here applications for coaching are made through the local chambers, the Chamber for Industry and Commerce or the Chamber for Skilled Crafts. They forward the applications to the aforementioned federally owned bank „Kreditanstalt für Wiederaufbau“ (KfW). In case of approval, the chambers can establish contact with qualified advisors.
- The Federal Government has created several preferential financing instruments for start-ups – implemented by the federally owned KfW. In this context especially the Chambers and some BMOs assist in accessing the respective programs, operate as advisors in guarantee schemes etc.

2.1.2 Enterprise Financing

For SMEs – compared to large enterprises – access to sufficient and favorable financing is less than optimal. The Federal Government tries to overcome these obstacles with different (i) lines of credit, (ii) collaterals and (iii) supporting guarantees. The provision of these financing aids is largely done by the state owned Kreditanstalt für Wiederaufbau (KfW) and by local trustee savings banks²⁶. In this context BMOs, especially the Chambers – play an important role:

²⁵ ICf.: www.existenzgruender.de. A shortened version also in English.

²⁶It needs to be pointed out that several Federal States have their own banking institutions which also offer preferential financing to companies / business start-ups in their territories. One example is the Investitions- und Strukturbank Rheinland Pfalz (ISB) the board of which is partly staffed with chamber representatives.



2.1.3 Advisory Services

Advisory services for potential entrepreneurs, for existing micro-, small- and medium-sized enterprises as well as for large industries are being provided by a variety of BMOs, agencies etc.. Regardless of the suppliers, many of these services are financed or co-financed by the German Federal Government. One example is the advisory services of the German Chambers of Skilled Crafts as mentioned above.²⁷

There are also other **consultancy programs financed by the German Government and implemented by Chambers or other BMOs**. In the following section, we will discuss in detail about a programme that particularly involves the chambers and other BMOs in the implementation of advisory services.

The Federal Ministry of Economics and Technology promotes advisory services, in particular for small and medium-sized companies through - Bundesamt für Wirtschaft und Ausfuhrkontrolle (BAFA -Federal Office of Economics and Export Control). Under the programme "Förderung von Unternehmensberatungen für kleine und mittlere Unternehmen sowie Freie Berufe"²⁸ grants are awarded towards the costs of such consultancies. The aim is 'to improve the performance and competitiveness of small and medium-sized companies and facilitate their adaptation to changed economic conditions.'²⁹ Topics for consultancy could be:

²⁷ Cf. paragraph 2.2, no. 4

²⁸ Förderung von Unternehmensberatungen für kleine und mittlere Unternehmen sowie Freie Berufe" – Promotion of Advisory Services for Small and Medium-sized Enterprises as well as for Liberal Professions. Cf. latest version of respective Legal Directives, dated June 27, 2008, published in the Federal Gazette: BAnz. 99 p.2404.

²⁹ Cf. previous footnote: Legal Directive, paragraph 1.1.

- General consultancy regarding all economic, technological, financial, personnel related and organizational questions of business management.
- Specialist consultancy regarding:
 - Technology and innovation
 - Foreign trade
 - Quality management
 - Recruiting and retention of qualified employees etc

Support is available for MSMEs, which have been registered for at least one year. The subsidy granted by the Federal Government towards the costs of consultancy covers up to 50 percent in the old (western) federal states and up to 75 percent in the new (eastern) states and is capped at 1,500 Euros for each consultancy case. Within a three-year period a maximum amount of 3,000 Euros per company can be awarded.

With this program, a special aspect needs to be emphasized namely – the **close and fruitful cooperation between the Central Government and the Federal Ministry of Economics represented by bafa and the chambers and other BMOs as representatives of the German business community.** The programme is being implemented and administered by “Leitstellen”, i.e. a kind of guiding and coordinating agencies. They accept the applications for subsidies, decide on their approval in specific committees and initiate the payout of grants approved to the applicants. They are being held responsible by bafa and the ministry for the correct handling of the program’s finances. **Six of these coordinating agencies were created throughout the Federal Republic and all of them are run by BMO-owned organizations!** For example:

- The „DIHK-Service GmbH“, a company named after the Federation of German Chambers of Industry and Commerce and administered by staff delegated by the federation. However, in spite of its name in this program, the company is the common coordination centre of the Federation of Chambers of Industry and Commerce (DIHK), as well as of the Federation of German Industry (BDI), and the Confederation of German Employers (BDA).
- The Zentralverband des Deutschen Handwerks (ZDH), i.e. the Federation of the German Skilled Crafts, has established another coordinating centre.
- The Bundesbetriebsberatungsstelle für den Deutschen Groß- und Einzelhandel GmbH is a third coordinating and guidance center under this program. It is an advisory agency of the Federation of German Wholesale, Foreign Trade and Services (BGA).

Besides this program, bafa offers other support activities, for instance the financing of information and training events for small and medium-sized enterprises, potential entrepreneurs and others. The financial support for these is paid to business associations and chambers and other BMOs, which organize the events.

2.2 MSME Promotion by the German States

Next to the Federal Government, the German states have created an extensive set of promotion programs and activities for MSMEs. It is remarkable in this context that nearly all the states – quite different from the federal level – have passed their own laws for the promotion of small- and medium-sized enterprises. This underlines the importance of these enterprises for development in the states, regions and municipalities.

In most of the promotional activities of the states BMOs are involved. However – while the chambers are operating under public law the state governments have some sort of supervising function. While the chambers are obliged to advise state governments concerning economic affairs etc. they have to be heard in the process of economic policy development. In general: the cooperation between states and regional chambers regarding economic policies is strong.

The German states support MSMEs with financial programs but also with services – financed by state governments but implemented by BMOs. For example in Bremen, the state through its guarantee bank subsidizes consultancy services that are supposed to initiate a long term favorable restructuring of companies and thus indirectly promote a sustainable economic structure within the state. chambers can and will recommend appropriate consultants. But other offers of support are possible as well, In North Rhine-Westphalia, the government promotes the joint participation of small- and medium-sized firms in foreign trade fairs – to compensate for disadvantages compared to larger companies, but also to improve the image of the Federal State. The shared 'look' of those companies at the trade fair is supposed to communicate that the companies come from this particular Federal State. Chambers and associations are involved in advertising and administering this programme

The most convenient overview of all the activities of the individual states can be found in the promotion data base of the Federal Ministry of Economics described above.

2.3 MSME Promotion at Regional Levels

Enterprises settle in cities and municipalities. The decision to settle in this city or that town is made dependent on optimal local conditions: a well-developed infrastructure, experienced workforce, favorable taxation etc.. Conversely, the revenues of towns and municipalities depend on tax paying companies and on the taxes paid by the workforce they employ. About 40 percent of the local budgets of local authorities are derived from Municipal Business Tax. They are exclusively paid to local authorities and the taxation rate is determined by the local authority. The second most important source of revenue is employee income tax, of which a share goes to local authorities. As with all other kinds of taxes, the largest share of this last mentioned tax goes into the federal and state budgets. By implication this means: The states and the Federal Republic have an interest in a prospering local economy.

It is therefore hardly surprising that German local authorities have their own promotion policies for industry, actively solicit the settlement of businesses and are being supported in this by the Federal Republic and the states. 'Location marketing' is a current buzzword. In practice, local authorities try to create attractive conditions for enterprises. The creation and expansion of attractive industrial sites and suitable infrastructure, the development of industrial parks and technology and founders' centres are some of the related activities.

With regard to BMOs, in the development and implementation of such activities three aspects are essential:

- The necessity to consider and balance mutual interests is more widely accepted on the local and regional levels than on the state and national levels. In spite of potential differences of political allegiance cooperation between different stakeholders from politics, the business community and society is often more intensive than on superior levels. This even applies to codified rules of procedure! Thus, most local statutes require that representatives of the local business community – representatives of the local Chambers of Industry and Commerce and Chambers of Skilled Crafts – have to be heard as part of the planning or development procedure of local sites. Similar provisions apply in other areas. In most cases the consideration of the interests of local SMEs has priority.
- The limitations of city and municipal budgets make the financing of a local or regional economic policy from its own budget almost impossible. It is therefore necessary and usual to fall back on programs and initiatives generated and

financed on higher political levels – state, Federal Republic or EU. This leads – and that is a decidedly positive aspect – to more vertical cooperation.

- Such cooperation corresponds to current economic demands. The changing economic framework and structural changes in the economy force cities and municipalities to reconsider their previous promotion policies which were strictly limited to local activities and replace them by a regional or supra-regional industrial policy involving a wide range of stakeholders! This also implies an organizational shift of local economic policies. Whereas previously decisions on local economic policy were taken in the respective departments of municipal administrations, often they are now being made in so-called „Wirtschaftsförderungsgesellschaften“ (‘companies for economic promotion’). These companies are (mostly) non-profit making companies – jointly run by the respective local authority, local business associations and/ or Chambers, and other institutions that are important for economic policy. In the city of Kassel in northern Hesse, for instance, important parts of local economic policies have been taken over by „Wirtschaftsförderung Region Kassel GmbH“³⁰. Twenty-one percent of the shares of this company are owned by the city and the rural district of Kassel. The remaining shares are held (among others) by the local Chamber of Industry and Commerce and the local Chamber of Skilled Crafts.

2.4 MSME Promotion in Germany by the European Union

In supporting SMEs, the EU is beginning to play an increasingly important role. The relevant programmes and initiatives of EU can be divided into three categories:

- Structural-political programmes, with the aim of dismantling economic disparities between the various EU countries and regions;
- Programmes for constructing economic networks for the business communities within the EU, including networks of European and extra-European business;
- Individual programmes to support SMEs in particular, with the general aim of increasing the international competitiveness of the businesses – through support for R&D in the businesses, participation in trade fairs etc.

³⁰ Regional Business Promotion Kassel Ltd.

In addition, there are financing programmes for special purposes of SMEs.

All programmes are described systematically and in detail in relevant publications and databases. In this context, the titles and programme descriptions alone expressly indicate the importance of SMEs. For example, current information and all relevant programmes and initiatives for these businesses can be accessed on the web via a "European Small Business Portal". Comprehensive manuals offer "An overview of the main funding opportunities available to European SMEs"³¹.

For SMEs in Germany, two structural programmes of the EU are of particular significance: the European Regional Development Fund (ERDF) and European Social Fund (ESF). Broadly speaking, the former concentrates on supporting businesses and economic infrastructure, while the latter deals with individuals, with human resources.

For us the ERDF is the more important. It has been described in detail in chapter 3. In the following we wish to emphasize at least one aspect that is significant for the involvement of BMOs: On the homepage of the European Commission the goal of the ERDF is described as follows: "The objective of the ERDF is to help reinforce economic and social cohesion [between European Countries and regions] by redressing regional imbalances. This is achieved by supporting the development and structural adjustment of regional economies, including the conversion of declining industrial regions."³² In order to achieve this goal the guidelines also explicitly mention: "measures which support regional and local development, including support and services for businesses, in particular small and medium-sized enterprises (SMEs);"³³.

³¹ Cf. 'European Small Business Portal': <http://ec.europa.eu/small-business/>. For a compilation of EU-programms for SMEs, see: European Commission, Enterprise & Industry Directorate General: European Union Support. Programmes for SMEs. An overview of the main funding opportunities available to European SMEs. Brussels: Europ. Commission October 2009. (Available as PDF-file via Internet too: http://ec.europa.eu/enterprise/newsroom/af/_getdocument.cfm?doc_id=4619).

³² Cf. webpage: Europa. Summaries of EU Legislation. / European Regional Development Fund (ERDF) (2007-2013). http://europa.eu/legislation_summaries/agriculture/general_framework/g24234_en.htm

³³ See European Union: Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999, Chapter 1, Article 3, No. 2. c

The relatively open goals of this EU-programme were decided in agreement with EU Member States. **In Germany, it is the Federal Government, the states and other municipal institutions, e.g. cities, towns etc. that participate in the process - including representatives of local chambers and local industrial associations. In this context chambers and associations have their first opportunity to be actively involved in measures in favour of MSMEs.** As emphasized above, however, the guidelines are only a rough framework, which is to be filled in later according to regional needs with detailed projects. In the 'bottom-up' process, such projects are formulated above all at the local level and re-addressed to the EU via the federal states and national governments. In determining and formulating projects at the local or regional level, the local chambers and other industrial associations again are requested to take part as well in the project application itself.



3 MSME Promotion: Description of selected programs

MSME Promotion: Description of selected programs

3.1 Introduction

After having outlined the ensemble of promotional activities for small and medium companies in Germany, this chapter provides a more detailed presentation of selected exemplary programs and initiatives. The aim is to present activities which might be interesting for India, too.

The choice of programs for this presentation was made according to several different criteria:

- The first priority was to choose programs and activities which are linked to different political and administrative levels. Since Germany – like India – has a federal structure, programs are presented as financed or implemented by the Central Government, by the states as well as by local communities. And as Germany is a strong partner in the European Community, and the European Community is active in MSME promotion, too, we present some select EU programs first. This approach also serves to demonstrate the opportunities for intervention by different political and administrative levels.
- The second objective has been to present promotional activities which are especially targeted at small enterprises and support them in a very specific manner in achieving and sustaining a competitive edge. In this context, of special interest for Germany and possibly for India as well, the programs may be interesting which enable companies to





develop innovative technological products and services and market them internationally. To the extent that production costs are rising in both countries, small and medium-sized enterprises in particular are compelled to offer high quality goods and services. In Europe and especially Germany this trend is clearly visible. Therefore the Federal Government, and also the European Union support the upgrading of enterprises through R&D. Thus, they subsidize research activities aimed at developing innovative products up to market maturity.

- A third intention was not only to select support programs targeting individual companies, but to present initiatives which – in an interrelationship between state or local authorities, industrial associations and requesting entrepreneurs – aim to improve the general conditions for the development of MSME. We have chosen two initiatives to illustrate these efforts: The first is the **„Förderdatenbank“ (support programme data base) provided by the Federal Ministry of Economics and Technology**, which is a kind of „One-Stop-Shop“. It provides detailed descriptions of all German, European and international support activities that might be interesting for German enterprises – including all information, contact and email addresses of referring supporting agencies, forms for application, etc. The second example is of the **legal requirement for city and state authorities to involve Chambers of Commerce, Chambers of Skilled Crafts and/or industrial associations in the planning processes of industrial zones, commercial areas etc.**

3.2 European Union Programs

3.2.1 ERDF - European Regional Development Fund

EFRE – Europäischer Fonds für Regionale Entwicklung

3.2.1.1 Overview

Name of Program	„ERDF – European Regional Development Fund“ (Europäischer Fonds für regionale Entwicklung)
Aim of Program	Offsetting the most serious (economic) imbalances between different regions of the European Union by – among others: <ul style="list-style-type: none"> • Modernizing economic structures • Subsidies for employment generating enterprise foundations, in particular of small and medium size • Investment subsidies for small and medium-sized enterprises • Support of measures for a sustainable establishment of enterprises, e.g. through the establishment of industrial zones, infrastructural improvements etc., according to regional needs specified in the application.
Target Group	Depends on the specifications in the programme for the respective region. Directly targeted organization(s): state governments, local authorities and city-governments as facilitators for final beneficiaries. Final beneficiaries: according to applied measures: (potential) entrepreneurs, companies, city governments (for infrastructural development) etc.
Programme started	1975; divided into time periods. Actual funding period: 2007 – 2013
Programme financed by	European Union; financial contribution by the EU program: up to 85 percent of eligible costs
Financial Framework	First funding period: total 1.4 billion ECU (“European Currency Unit”, i.e. European unit of account, forerunner of €) Actually 2007 – 2013: € 201 bn., around € 16 bn. for Germany
Programme implemented by	According to applied and confirmed programs resp. measures: various state or local authorities, local organizations, NGOs etc. – also BMOs, e.g. in case of local economic supporting measures.
Programme activities	Beyond others: <ul style="list-style-type: none"> • Promotion of (economy related) infrastructural improvements through different financing instruments • Financial support of enterprise foundations • Assisting small and medium-sized enterprises in their investments for the creation of permanent
Role of BMOs	Depending on local/ regional/ state conditions: <ul style="list-style-type: none"> • involvement in analysis of local/ regional demands • involvement in planning of appropriate remedies to overcome (economic) imbalances in local/ regional areas. • according to applied/ confirmed ERDF programs/ measures: involvement in implementation
Further Information	„ http://www.foerderdatenbank.de/Foerder-DB/Navigation/Foerderrecherche/suche.html?get=50c0e8ed2f5f8520c0c9ea871ab83f73;views;document&doc=2650 “

3.2.1.2 Description

The forerunner of the European Union, the European Economic Community (EEC) had six member states in 1957³⁴ – actually, the EU counts now for 27 member states Statistics³⁵ show that the EU states are quite varied, especially in terms of economic performance, living standards etc. Even within the individual member states, serious disparities are evident. Contrary to this development, it has always been the declared goal of the EU to minimize such differences and to guarantee all EU-citizens equal living standards.

To reach this goal, apart from others in 1975 the “European Regional Development Fund” (ERDF) was established. The fund explicitly aims to strengthen the economic cohesion between the countries in the European Union and to adjust economic imbalances. Ultimately it means that the fund would support the economic catching-up process of poorer regions. To achieve this, amongst other measures small- and medium-sized businesses are supported, job creation in MSME is promoted, infrastructure projects carried out, industrial estates developed. For the current period (2007–2013) such overall goals are classified under three headings. Objective one for example is entitled ‘Convergence’ and wants to stimulate measures able to create sustainable jobs etc.. Objective two ‘Regional Competitiveness and Employment’ includes the development of forward-looking industries, the promotion of R&D, the modernization of infrastructure, such as transport and telecommunication etc.. and objective three is European Territorial Cooperation

The priorities described above are anchored in a relatively complex agreement process:

- In a first step, in individual EU states – support priorities will be discussed and developed. Various organs will be involved in this – in Germany, for example, Federal and State ministries, chambers, associations etc. Based on the results of these discussions from all EU states the EU Commission will then draw up guidelines for the support of certain areas.
- Based on these guidelines in a second stage each member state will draw up a ‘strategic framework plan’. The guidelines will be broken down to the national level. BMO’s will be active participants in this process.
- In a third stage such ‘framework plans’ will be converted into ‘operational plans’ by the individual EU states. In Germany, for example, the individual Federal States propose operational plans, agree on rules and regulations and appoint institutions responsible for application procedures and the implementation of individual measures. The Chambers and other business organizations are also a part of this process.

³⁴ 1951: ‘ECSC – European Coal and Steel Union’; 1957: ‘EEC – European Economic Community’.

³⁵ Cf.: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

As an example of these operational plans developed in the context of this third stage the support areas of the State of Hesse for the period 2007 to 2013 will be described in brief. According to the Wirtschaftsministerium (Ministry of Trade and Industry Hesse) ERDF funding is to be used in particular for four priority cases: (i) measures to support innovations and knowledge-based business; (ii) promotion of start-ups and support for operational competitiveness and employment of small and medium-sized businesses; (iii) expansion of specific (regional) economic development potential; and (iv) funding for the administration of the program³⁶. These measures can be demonstrated by means of examples. In Hesse, ERDF can be used in general to support:

- The establishment of loan funds and venture capital funds for MSME business start-ups and expansions for businesses of this size.
- The establishment of advisory centres for MSMEs in general and start-ups in particular. The establishment of the centres and provision of advisory measures and training are co-financed. **By priority, chambers and industrial associations apply for financing such centers to be built up within their own organization. However, it is also possible for the chambers and associations to function as mediators between businesses and consultants on the free market.**
- Business start-ups and MSMEs can be supported 'directly' - if improvement of the economic situation can be achieved in disadvantaged areas ('local economy').
- With the help of funds the expansion of start-up centers and incubators can be supported. Those who can apply include universities and research establishments, local authorities and BMOs.

The example of a city in North Hesse may be cited. A consortium of urban administration, local university and the chambers applied for ERDF funding of a business start-up center. The owners today are the city etc., but also the local Chamber of Industry and Commerce and the local Chamber of Skilled Crafts with 5 percent each.

ERDF, roughly speaking, serves structural economic development. As described above, the decision about support priorities is bottom-up at the European level, and the funds agreed between state and national level are then distributed regionally or locally. From the EU point of view, the 'first recipients' are the federal and state governments, the 'final recipients' are the businesses which have to apply for the funds from the former as well as from cities and business organizations. This procedure allows a very precise use of the funds and a very precise regional support - because it is locally evident what is needed to support the development of the local economy. However, this requires a complex and sometimes tedious process of approval and of final evaluation: from the local authorities via the national government and federal states back to the EU.

³⁶ Cf.: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/340&format=HTML&aged=1&language=DE&guiLanguage=en>

With ERDF the EU is not assuming responsibility for full financing of the individual measures and projects; ERDF is to finance individual measures only on a partial basis. The subsidies are usually between 50% and 85% of the project costs, depending on the economic situation of the region from the application is made.

3.2.1.3 Summary and Relevance for India

The ERDF is one of the oldest and most successful EU funds. Although it is not a pro-program directly targeted to businesses, MSMEs benefit in several ways. First, because the fund supports the development of an infrastructure which especially helps small businesses – development of industrial parks, preparing structures for appropriate supply, sales, the collaboration with other businesses etc.. Second, the program's support measures is available for businesses in terms of advisory services and training, loans at favorable rates etc.

Only in the second instance, ERDF is a direct support programme for businesses. The prime concern is to equalize economic disparities – between the regions of an EU state and between various EU states. This has one major advantage: support measures for individual businesses can be tailored to regional economic parameters and successively realized in one concept.

Such tailor-made concepts are facilitated by an involvement of BMOs – chambers and industrial associations – in a very early stage. This is not mandatory but depends on the role BMOs are willing to take over while preparing the program, while developing strategic and operational plans and implementing them.

It has to be deliberated as to whether it would be appropriate to establish a similar programme in India and involve BMOs in a similar manner to Germany. The Indian states are even more varied in terms of economic performance compared to EU member states or German federal states. The infrastructure conditions in the Indian states are highly varied, as are living conditions. Against this background, one might consider deploying a programme along the lines of the ERDF to level out regional differences by providing economic incentives. An advantage for India seems to lie in the divided financing and regional adjustment of planning specifications. The financial support of individual measures from the Central Government might mobilize an altogether much larger support volume from the Indian states. The regionally adjusted development and implementation of the individual programme components will also assuredly guarantee a higher level of efficiency in India.

The role of BMOs could be similar in India as in Germany. Under the ERDF program, BMOs in Germany – even the governmental acknowledged chambers – play an important role. **According to experiences in some German states we can state the sooner BMOs are involved in the development of the programme and in its subsequent implementation, the better it might work on the ground.** The already mentioned Region Hesse, especially North-Hesse may be an example.

In both Europe and India, a major challenge is the administration of the programme as a whole. The procedures and control mechanisms in the EU – local authorities, federal states, states, EU – are complex. Although the procedures were tightened before the actual programme period, they are still cumbersome. Similar problems might also arise in India. On the one hand, it is necessary to ensure that such a large programme has adequate control mechanisms to guarantee that financial resources reach the applying regions correctly and be purposefully employed even at great distance and through the intervening stations. On the other hand, the bureaucracy necessary to administer the programme properly should not cancel out the intended effects of the program. A just balance is necessary.

3.2.2 EUROSTARS - Program

3.2.2.1 Overview

Name of Program	"EUROSTARS Program"
Aim of Program	<ul style="list-style-type: none"> • Improvement of competitiveness of small and medium- sized enterprises by promoting R&D activities • R&D cooperation among enterprises and research institutions in different European countries • Development of innovative products up to market maturity
Target Group	<p>Small and medium-sized enterprises in Germany and various other European countries (EU member states, but also Switzerland, Turkey and others).</p> <p>The programme targets joint undertakings of enterprises from at least 2 European countries. Research institutions which are involved in R&D projects of these companies are also supported.</p>
Programme started	2008 (until 2013)
Programme financed by	European Union
Financial Framework	<p>During the entire duration of the program: 400 m Euros for all countries involved. In Germany approximately 5 m Euros are made available per year.</p> <p>The support ratio for SMEs is up to 50 %, for other enterprises up to 25% of the eligible costs, up to a maximum of 1 m Euros. Research institutes can be reimbursed up to 100% of their costs.</p>

Programme implemented by	In Germany the Ministry of Education and Research (BMBF – Bundesministerium für Bildung und Forschung). The responsibility for the technological and organizational implementation rests with the German Research Center for Aeronautics and Space 'DLR'.
Programme activities	Support of R&D measures in cooperation between SMEs or SMEs and research institutions from at least two different countries that take part in the EUROSTARS program. There is no limitation regarding subject matter (bottom-up-policy).
Role of BMOs	No direct involvement. In Germany BMOs play an important part in publicizing the program, in supporting SMEs to draft applications and in finding partners for the SMEs.
Further Information	http://www.eurostars-eureka.eu/

3.2.2.2 Description

The costs of industrial production in Germany and other European countries are relatively high. Therefore, simple and operative tasks are relocated to more cost efficient threshold countries with increasing frequency – a tendency which affects SMEs more and more. Against this background, also in Germany access to the latest technology, to research and development is crucial for the future viability and competitiveness of the small and medium-sized companies. In the words of Janez Potočnik, European Commissioner for Science and Research: "Making it possible for SMEs to collaborate with the best European research teams, Eurostars will help them turn new ideas into successful businesses, and reinforce their competitive edge in knowledge and innovation – the cornerstones of our prosperity."³⁷

In 2008 the EU launched the Eurostars programme in order to support the R&D orientation of SMEs. Eurostars is intended to promote cross-border cooperation in R&D. It focuses primarily on SMEs in member countries of the EU who want to cooperate in their research and development work with partners from other European countries³⁸. Such partners can be other SMEs, but universities and research institutions are also acceptable.

The overriding aim of the Eurostars programme is to increase the capacity for innovation and thereby competitiveness of small- and medium-sized companies. The second objective of enhancing the international orientation of SME is promoted by making an international

³⁷ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1005&format=HTML&aged=0&language=DE&uiLanguage=en>

³⁸ In projects supported by Eurostars also partners – MSMEs, universities, research agencies, etc. – from five other countries may participate. Island, Israel, Norway, Switzerland, and Turkey

partnership a precondition for participation in the program. This is supported by the responsible German ministry, which maintains that in an export oriented economy like Germany international orientation is especially important for SMEs, too, a view which is also agreed by more or less by all German BMOs.

Although chambers and industrial associations are not directly involved in the implementation of the program, **German BMOs play an important role in publicizing the program, in recommending the programme to member companies and in supporting member companies in drafting applications. Especially the German chambers of industry and commerce and the industrial associations are ready to support companies in finding appropriate partners for R&D-cooperation in other countries participating in Eurostars.** More or less all webpages of German chambers and other BMOs refer to Eurostars³⁹.

Applications under the programme can be made by SMEs from EU member states and from five associated countries. Applicants should be able to relate at least 10 percent of their turnover to R&D or employ at least 10 percent of their workforce in R&D-related activities. The planned budget of the research project has to be financed to at least 50 percent by the applicants themselves. The other 50 percent up to a maximum of 1 million Euro can be contributed by the Eurostars program.

Since the adoption of the programme in 2008, the EU has provided about 100 million Euro, added to that should be about the same amount from national German funds and the funds contributed by the applying SMEs and other parties. In 2008, the expectations for the total amount mobilized were put at € 300 m, while the actual amount was much higher.

3.2.2.3 Summary and Relevance for India

In India, just as in Europe, it will increasingly become crucial for small and medium-sized businesses to secure access to global markets. In future and with given costs this will most likely be possible only with innovation and high quality / high value goods and services. India has witnessed success to some extent in software development, electronics, car manufacture and the use of renewable energies. Given the normal size of business, this implies an increasing integration of SMEs into the global production chains. This translates therefore into the production of higher quality goods on a technically more advanced level, clearly emphasizing the need to gain cost-effective access to research and development.

³⁹ Cf. „IHK Südlicher Oberrhein: www.suedlicher-oberrhein.ihk.de/international/eu_beratung/EU-Informationen/EU-Finanzierungs-_und_Foerdermittelberatung/1490822/Eurostars_Foerderung_von_Forschungs_und_Innovationsprojekten.html;jsessionid=ADCC850F66917632E79D515892343399.repl1; cf. IHK Braunschweig: www.braunschweig.ihk.de/innovation_umwelt/nachrichten_11/mai_2011/?viewMeldung=meldung_1304145478.68; cf. IhK Cologne, IHK Wiesbaden etc.

A programme like Eurostars could provide this opportunity , even in the context of international cooperation. The German experience with Eurostars witnessed 400 projects with funds amounting to more than € 570 m⁴⁰ since the inception in 2008/09 demonstrating that there is a demand to be met with the SMEs in R&D.

3.3 Programs of the Federal Republic of Germany

3.3.1 „ZIM – Zentrales Innovationsprogramm Mittelstand“

Central Innovation Programme for Small and Medium-Sized Enterprises

3.3.1.1 Overview

Name of Program	“ZIM – Zentrales Innovationsprogramm Mittelstand“ (Central Innovation Programme for Small and Medium-Sized Enterprises)
Aim of Program	To provide MSMEs with R&D - aimed to rise their competitiveness
Target Group	Micro, Small and Medium-sized Enterprises
Programme started	2008 – (2013)
Programme financed by	BMWi – Bundesministerium für Wirtschaft und Technologie (German Federal Ministry for Economy and Technology)
Financial Framework	<ul style="list-style-type: none"> 1,921,892 Mio. € spent up to Oct.2011 by the Ministry as co financing - 50% of the overall mobilized financial amount
Programme implemented by	See, Role of BMOs'
Programme activities	Co-financing of R&D activities <ul style="list-style-type: none"> In an individual company (ZIM-Solo) Implemented in cooperation between companies or between companies and research agencies etc. (ZIM KOOP). Co-financing of management and organizational services for the development of innovative networks with at least six companies involved
Role of BMOs	Advisory services on application, implementation etc. by agencies established as branches of industrial associations: <ul style="list-style-type: none"> AiF Projekt GmbH – a branch of the “Arbeitsgemeinschaft industrieller Forschungsvereinigungen” (“German Federation of Industrial Research Associations”) VDI/ VDE Innovation + Technik GmbH – a branch of the VDI Verband deutscher Ingenieure e.V. („Association of German Engineers”, NGO), and VDE Verband der Elektrotechnik, Elektronik, Informationstechnik (Association for Electrical, Electronic & Information Technologies)
Further Information	http://www.zim-bmwi.de/download/infomaterial/informationsbroschuere-zim-englisch.pdf http://www.zim-bmwi.de/zim-ueberblick

⁴⁰ <http://www.eurostars-eureka.eu/>, Ende Oktober 2011.

3.3.1.2 Description

To become competitive on national and international levels, businesses have to produce high quality goods and to be profitable have to rely on sophisticated production technology. Both requirements demand technically advanced standards in companies and necessitate some R&D efforts there. In Germany, where small and medium-sized companies dominate the overall picture, these requirements also apply to MSMEs. But, although 99 percent of all German companies can be categorized as micro, small and medium-sized, only a small number are engaged with R&D. For example, in 2007 only 14 percent of the total R&D outlay was spent by MSMEs⁴¹.

In order to improve the competitive edge of MSMEs in particular, to facilitate access to R&D for them, and to minimize the economic risk connected with R&D, the **German Federal Ministry for Economics and Technology (BMWi)** started a new programme in 2008: **“Central Innovation Programme for Small and Medium-Sized Enterprises” (ZIM)**. ZIM is considered to be the central and basic German programme for market oriented promotion of technology in small and medium-sized enterprises. This becomes obvious when looking at the amounts potentially paid out by the program. In contrast to the Eurostars programme where financial support can be made available up to 1m Euro, under ZIM maximum support amounts to about 150,000 Euro.

The programme started in 2008, the first stage will be completed by 2013. ZIM supports several types of projects:

- R&D projects of individual companies: development of innovative products, processes or services. For MSMEs project related costs up to 350,000 Euro will be taken into account. Between 25 and 50 percent of these costs (up to 175,000 Euro) can be covered by a project grant of ZIM.
- Cooperative projects between individual companies, between companies and research institutions: again with the object of support being market oriented R&D. There have to be at least two partners involved – they could be exclusively enterprises or enterprises and research institutions. The project related costs of the MSMEs involved can be taken into account under the ZIM programme up to the maximum of 350,000 Euro and the grant covers between 25 and 50 percent of that. Research institutions participating in such a project can be reimbursed for 100 percent of their costs, up to a ceiling of 175,000 Euro.

⁴¹ Cf. Kleine und mittelgroße Unternehmen im Focus: FuE-Aktivitäten, Wirtschaftsstruktur, Ausbildungsanstrengungen und Nachfrage nach Hochqualifizierten. [Focus on Small and Middle-sized Enterprises: R&D Activities, Economic Structure, Training Efforts and Needs for High-qualified Manpower] Hannover, Essen, Bonn: HIS, Stifterverband, BIBB, Nieders. Institut fuer Wirtschaftsforschung 2009. (mimeo)

- Network projects in R&D, with a minimum of six participating enterprises. The maximum support for each network is set at 350,000 Euro. During the initial (preparation) stage up to 90 percent of the costs can be covered by ZIM, with a ceiling set at 150,000 Euro. During the implementation period ZIM provides declining grants: in the first year 70 percent of the eligible costs, 50 percent in the second year and 30 percent in the third year.
- External services and consultancy for MSMEs related to R&D project applications. Up to 50 percent of these costs can be taken over by ZIM with a ceiling set at 25,000 Euro.

Entitled to apply for support under ZIM are MSMEs as defined in European Union guidelines, i.e. companies with up to 250 employees and a yearly turnover of less than 50 m Euro.

A look at the application procedure and the administration of the programme provides some very important details: **Industrial associations and enterprises are involved in the procedures, they are more or less the core of the programme** – for example:

- ‚AiF – Arbeitsgemeinschaft industrieller Forschungsvereinigungen‘ (Association of Industrial Research Agencies) with its subsidiary „AiF Projekt GmbH“ (AiF Projekt Ltd.).
- „VDI – Verein deutscher Ingenieure“ (VDI – The Association of German Engineers) and „VDE – Verband der Elektrotechnik.Elektronik. Informationstechnik e.V.“ (VDE Association for Electrical, Electronic & Information Technologies) with their joint subsidiary „VDI/VDE Innovation und Technik GmbH“ (VDI/VDE Innovation and Technology Ltd.).

The associations are involved in advisory services regarding the programme and support for the implementation of the programme in individual companies etc.. The swiftness of internal procedures which was commented on in a recent evaluation might be related to the involvement of such organizations.

3.3.1.3 Summary and Relevance for India

The programme was evaluated in June 2010 by the well-respected German ‚Fraunhofer Institut für System und Innovationsforschung‘ (Fraunhofer Institute for System and Innovation Research)⁴². Some of the results were surprising: They demonstrated above all the high need for R&D, especially in small enterprises.

⁴² Fraunhofer Institut für System- und Innovationsforschung (ISI); Gesellschaft für Innovationsforschung und Beratung (GIB): Evaluierung des Programmstarts und der Durchführung des „Zentralen Innovationsprogramms Mittelstand“ (ZIM). Endbericht. Studie im Auftrag des Bundesministeriums für Wirtschaft und Technologie. Karlsruhe, Berlin: Juni 2010

- ZIM encounters a very high demand. Between the end of 2008 and the middle of 2010 – 13,899 applications for support were filed. In both years about 8,800 applications could be approved. The total sum of grants amounted to 1.11 bn. Euro. This means that ZIM is the R&D support programme that meets the highest demand from MSMEs in Germany.
- Undoubtedly, ZIM is of special interest for Micro and Small Industries. About 75 percent of all enterprise related grants went to companies with less than 50 employees. This also indicates that the programme is well-known and well-received among its target group.
- Preparing an application takes about 10 working days and the effort is manageable for these companies
- In a company survey, the majority of participants described the speedy payouts and the comparatively high share of R&D costs taken over by ZIM as “very important advantages” or “important advantages” of the program. In addition, the rather high approval chances of applications were rewarded with “good marks” – approximately 75 percent of the applications were granted.

ZIM should be of interest for India, precisely because it does not limit its support to cooperative projects between two partners, but also supports other types of R&D projects. From the evaluation the general conclusion can be derived that practical details like lean application and approval procedures have a significant influence on the success of such a program.

3.3.2 „Förderdatenbank. Förderprogramme und Finanzhilfen des Bundes, der Länder und der EU“ Promotion Data Base. Promotion Programs and Financial Support of the German Central Government, the Federal States and the European Union

3.3.2.1 Overview

Name of Program	„Förderdatenbank. Förderprogramme und Finanzhilfen des Bundes, der Länder und der EU“ (Promotion Data Base. Promotion Programs of and Financial Support by the Federal (Central) Government, the Federal States and the European Union [sc. for the business community])
Aim of Program	To provide the business community online with always actual and comprehensive information on programs and financial initiatives meant to support the development of companies.
Target Group	Micro, Small and Medium-sized Enterprises, BMOs, local governments
Programme started	(1998) 2006

Programme financed by	BMWi – Bundesministerium für Wirtschaft und Technologie (German Federal Ministry for Economy and Technology)
Financial Framework	--/ --
Programme implemented by	BMWi – German Federal Ministry for Economy and Technology
Programme activities	Data bank maintenance, data bank updating <ul style="list-style-type: none"> • Provision of always actual information on more than 1,000 promotional programs/facilities for businesses • Apart from a description of the programs – opportunities to contact respective programs online: for more information, for applications etc. • One-stop shop
Role of BMOs	BMOs belong to the target group and act as providers of information
Further Information	http://www.foerderdatenbank.de/

3.3.2.2 Description

In 1998, the Federal Ministry of Economics developed an information data base on the internet presenting supportive initiatives for potential and already existing entrepreneurs. Although the data base is not a programme itself but a collection of information on a multitude of economic support programs, it shall be presented here because of its importance for information sourcing and for the role of BMOs in the context of MSME promotion. In 2006, the database was redesigned and enlarged to a comprehensive, full-fledged and interactive data base with extensive online services. The data base provides a comprehensive and up-to-date overview of the promotion programs of the Federal Government, the Federal States and the European Union for potential entrepreneurs and existing enterprises. More than 1,000 support facilities with an emphasis on MSMEs are presented in detail. Apart from an extensive description, most programs described are offering online procedures to file an application etc.

For each individual programme these types of information are being offered:

- A short overview for orientation with respect to the most important aspects;
- A detailed description of the program;
- For in-depth information the applicable legal rules and regulations and information leaflets can be accessed;
- Check lists help to find out whether the programme is suitable for the purposes of the respective user.
- For many programs application forms are available, which can also be filed online.

The data file for each programme is completed with addresses of contact points and institutions that will accept applications as well as internet links to further information and downloads.

3.3.1.3 Summary and Relevance for India

The data base presents itself almost as a one-stop shop. The access to the web-page and the use of presented information is remarkable: as already mentioned the number of hits on the web-page is growing by two digit percentages every month. By the end of 2011 about 1.12 m hits were registered.

Compared to India, Germany is a small country. The information infrastructure is well developed, information is available and accessible without major problems. For this reason the success of the data base was somewhat surprising. It can be assumed that such a comprehensive information offer – including the opportunity to handle application procedures etc. – would be much more appreciated in such a large country like India. **The German example also shows that BMOs can act as relevant information providers about a multitude of business support programs in co-operation with public institutions.**

3.4 Programs on State Level in Germany

3.4.1 “Betriebsberatungen und Unternehmensschulungen für kleine und mittlere Unternehmen in Hessen” Business Advisory Services for SMEs in Hesse and Training of Entrepreneurs

3.4.1.1 Overview

Name of Program	Betriebsberatungen und Unternehmensschulungen für kleine und mittlere Unternehmen in Hessen (Business Advisory Services for MSMEs in Hesse and Training of Entrepreneurs)
Aim of Program	Improvement of the economic performance of Hessian companies and entrepreneurs by <ul style="list-style-type: none"> • Business Advisory Services • Advisory Services for business start-ups • Entrepreneurial training
Target Group	<ul style="list-style-type: none"> • Micro, Small and Medium-sized Enterprises (according to EU standards), which are located in Hesse or have at least a branch in the state. • Potential Entrepreneurs
Programme started	(1998) 2006

Programme financed by	BMWi – Bundesministerium für Wirtschaft und Technologie (German Federal Ministry for Economy and Technology)
Financial Framework	For 2007 – 2013: € 8 Mio. provided by Hesse, as well as € 18 Mio provided by the European Union (EFRE)
Programme implemented by	<ul style="list-style-type: none"> - Wirtschafts- und Infrastrukturbank Hessen (Bank for Economy and Infrastructure of the state of Hesse) - Various BMOs – cf below ‚Role of BMOs‘
Programme activities	<p>Advisory services on, e.g.</p> <ul style="list-style-type: none"> • Adjustment to new technologies or environmental standards • Upgrading of entrepreneurial competencies • Improvement of marketing potentials • Support for business start-ups • Support regarding special aspects, e.g. company succession, etc.
Role of BMOs	<p>BMOs have an important role also in the context of this programme – as contact points, as information agents, as agencies mobilizing appropriate consultants etc.</p> <p>The following organizations are involved:</p> <ul style="list-style-type: none"> • all ‘Chambers of Industry and Commerce’ in Hesse • all ‘Chambers of Skilled Crafts’ in Hesse • the Federation of Hessian entrepreneurs associations (Vereinigung der Hessischen Unternehmerverbände) • RKW – Hesse, the Centre for Rationalization and Innovation of the Hessian Business Community • Chamber of Engineers in Hesse • Association of liberal professions (Verband freier Berufe)
Further Information	<ul style="list-style-type: none"> • http://www.foerderdatenbank.de/Foerder-DB/Navigation/Foerderrecherche/suche.html?get=7559912bf34ce0fac1d2014433ee6f32;views;documents&doc=8318 • http://www.wibank.de/de/Foerderprogramme/Wirtschaft/Betriebsberatung-Unternehmerschulung-KMU.html

3.4.1.2 Description

Promoting medium-sized enterprises is an essential component of German economic policy. The Federal Government supports small and medium-sized companies through a variety of measures. As has already been outlined above, it is remarkable that no legal framework exists for these support activities. In contrast, all but two federal states have respective legislation and executive guidelines⁴³.

For example the State of Hesse: The Law Regarding the Support of Small and Medium-sized Enterprises of the Hessian Economy („Gesetz zur Förderung der kleinen und mittleren

⁴³ Cf. Paragraph 2.1. For an overview on state laws on promotion of SMEs please refer also to the webpage “www.forum-vergabe.de/fileadmin/user_upload/Downloads/%C3%9Cbersicht_Mittelstandsfoerderungsgesetze_L%C3%A4nder_08-2011.pdf”

Unternehmen der hessischen Wirtschaft“) dates from 1974 and was last amended in 2010. Previously, for the last time in December 2008, its application had been clarified by the state government in so called „Guidelines“⁴⁴. Part I, clause 1 defines the objective: „It is the objective of the support for founders and small and medium-sized enterprises [. . .] to improve the performance and competitiveness of small and medium-sized enterprises in the Hessian economy, [and] to facilitate the founding (of enterprises) . . . “. Part II specifies the activities established for this purpose.

In the first place the state government introduced a consultancy programme for existing MSMEs and founders⁴⁵. Existing enterprises and potential founders can be granted financial support for obtaining consultancy from reputable institutions. Other measures that can be supported include coaching (provided the company has existed for at least 5 years) and check-ups, for instance in the run up to a rating. Additionally, advising institutions can apply for and receive subsidies for group trainings and similar activities.

The subject matters for these consultancies are only vaguely defined. In principle, every consultancy is considered worthy of support as long as (i) it is aimed at improving the competitiveness of the business or (ii) assists in the realization of an enterprise foundation. Possible matters of consultancy include for instance:

- Business start-ups; diverse aspects of the founding project: drawing up a business plan, legal and financial advice, etc.

For existing enterprises:

- Short consultancies regarding analysis of weak points,
- Consultancies regarding the implementation of business development concepts
- Technological advice (including innovation and design)
- Consultancies on integrating pollution control into production processes
- Consultancies regarding the introduction of integrated management systems
- Consultancies regarding the establishment and use of e-commerce, including new information technologies
- General check-ups regarding the economic capability of the enterprise as part of the preparations for a rating or in the founding process.

The small and medium-sized enterprises as defined by the criteria set by the European Union are entitled to this support. However, those definitions were adapted to explicitly

⁴⁴ Cf. "www.hessen-umwelttech.de/mm/richtlinie_gruendung_mittelstand.pdf"

⁴⁵ Cf. www.wibank.de/de/Foerderprogramme/Wirtschaft/Betriebsberatung-Unternehmerschulung-KMU.html

target micro and small enterprises. In the State of Hesse, MSMEs which have annual turnovers significantly below those required by EU regulations can benefit from support measures. In addition, these turnovers are specified according to industrial sector. The companies must be located within the State of Hesse. It is noteworthy that member companies of a Chamber of Skilled Crafts can only be supported, if the chamber itself does not offer suitable consultancy⁴⁶.

The grants provided by the State of Hesse for these services vary according to type and length of consultancy. For example, a consultancy about business pollution control can be supported with a grant covering 10 days of consultancy up to a maximum of 400 Euros per day. For the foundation of an enterprise, only a maximum of 5 consultant days can be subsidized with up to 450 Euros. It is required that founders will bear at least 15% of the cost themselves. Existing enterprises should contribute up to 40% from their own budget.

Applications for consultancy grants have to be filed directly or indirectly with Investitionsbank Hessen, a state owned bank; indirectly, because applications can be forwarded to the bank by organizations that were contacted by the enterprise to find out about possibilities of consultancy. Usually, these would be the local Chamber of Industry & Commerce or the local Chamber of Skilled Crafts where membership is mandatory for companies according to their respective trade. But applications can also be sent by other industrial associations. **The Hessian Ministry of Economics names a multitude of BMOs as contact points where information about the uses of the programme can be obtained and later on suitable consultants can be found, e.g.:**

- All Chambers of Industry and Commerce in Hesse
- All Chambers of Skilled Crafts' in Hesse
- Union of the Entrepreneurs Associations in Hesse (Vereinigung der Hessischen Unternehmerverbände)
- RKW – Hesse, the Centre for Rationalization and Innovation of the Hessian Business Community
- The Engineering Chamber of Hesse (Ingenieurkammer Hessen)
- Association of Liberal Professions (Verband freier Berufe) etc.

In summary, BMOs play a major role in the program. They are the well informed help desk for their advice seeking member companies or clients and competent agents looking for a professional advisor precisely matching with the clients' requirements.

3.4.1.3 Summary and Relevance for India

According to information from 'RKW Hesse, the Centre for Rationalization and Innovation of the Hessian Business Community' the programme is fairly successful. In particular, **the**

⁴⁶ Cf. paragraph 2.1.1

dual role of the chambers and other BMOs as contact and information points and intermediaries between enterprises and consultants leads to a significant degree of familiarity and use. Due to the mandatory membership of German enterprises the chambers are the prime address for services and – as a rule – refer their clients to the relevant programs.

An analysis of requests and procurements of consultancy from two local chambers in the north of Hesse shows a wide range of problems stated. Also, the requesting companies were rather heterogeneous and by no means limited to the membership of the chambers. According to the chambers the attractiveness of the programme results in particular from its flexibility with respect to subject matter and the width of the target groups. They state that it offers a flexible instrument for short-term support and transfer of know-how, which in many cases has initiated substantial improvements for the enterprises concerned.

The Business Advisory Programme for MSMEs in the state Hesse is a very classical initiative. It combines governmental support with a strong involvement of BMOs. Its flexibility with regard to subjects opens up a wide variety of implementation opportunities: an ideal programme to be implemented in India, too.

3.4.2 Programm "Außenwirtschaftsberatung in Hessen" „Foreign Trade Consultancy in the State of Hesse“

3.4.2.1 Overview

Name of Program	"Hessisches Außenwirtschaftsberatungsprogramm" (Foreign Trade Consultancy Programme of the State of Hesse)
Aim of Program	Support for SMEs in Hesse in the development of new markets outside EU member states
Target Group	<ul style="list-style-type: none"> • Micro, Small and Medium-sized Enterprises according to EU standards, which are located in Hesse or have at least a branch in the state. • Services available for companies of following domains: <ul style="list-style-type: none"> - Industry, manufacturing trade - Crafts sector - Wholesale and retail businesses - Services - Liberal professions • Companies applying for the programme must document their potential to do business abroad
Programme started	Not known (2003)
Programme financed by	Ministry of Economics, Transport, Urban and Regional Development of the State of Hesse
Financial Framework	--/--

Programme implemented by	<ul style="list-style-type: none"> • Regional Chambers of Industry and Commerce in Hesse state • Joint Working Group of Hessian Chambers of Industry and Commerce • Chambers of Skilled Crafts in Hesse state • Joint Working Group of Hessian Chambers of Skilled Crafts
Programme activities	<ul style="list-style-type: none"> • Foreign Trade Advisory Services • Opportunities to complement the programme by other appropriate services
Role of BMOs	<ul style="list-style-type: none"> • The Hessian Chambers of Industry and Commerce and the Chambers of Skilled Crafts are operating as implementing agencies • The Joint Working Group of the Hessian Chambers of Industry and Commerce decides on incoming applications of companies/entrepreneurs to get support by the program
Further Information	<ul style="list-style-type: none"> • http://www.wibank.de/de/Foerderprogramme/Wirtschaft/Aussenwirtschaftsberatung.html

3.4.2.2 Description

How can a small or medium-sized enterprise with limited human, financial and time resources successfully explore markets outside Europe and establish its business there? This challenge has to be met by European and Asian SMEs in equal measure.

In order to especially support SMEs in the initiation of foreign trade, the State of Hesse has created a special support program. The state subsidizes the cost of foreign trade consultancy for small and medium-sized enterprises which have an interest in it. These consultancies can cover the following topics:

- Exploration of markets in the prospective (export) destination country
- Establishment and/or expansion of an export organization
- Establishment and/or expansion of branches or joint ventures in the destination country.

Consultancies will only be supported, if the prospective destination is a country outside the European Union.

Beneficiaries of this scheme are small and medium-sized enterprises according to the criteria of the European Union. They should be enterprises from manufacturing industries, skilled crafts, wholesale and retail trade, service industries or the liberal professions. Consultations can be provided individually or in groups.

The State of Hesse pays a subsidy towards the costs of these individual or group consultancy sessions:

- For individualized consultancy of a single enterprise: support covers two to five consultant days per year. The amount can be up to 400 Euros per day. The sum (per enterprise) must not exceed 6,000 Euros in three years.
- Group consultancies: up to 500 Euros per consultant day.

These grants are possible, if the companies which apply for support, shoulder a substantial share of the costs themselves. They should come up with at least 40 per cent of the total costs.

The chambers play a crucial role in the implementation of the program. The regional Chambers of Industry and Commerce in Hesse, respectively their Joint Working Group, as well as the Hessian Chambers of Skilled Crafts are intensively involved in the program. The local Chambers of Industry and Commerce or Skilled Crafts respectively, act as the first point of contact for interested businesses. They provide information regarding the scope of the program, help with the filing of applications, and forward completed applications to the Hessian Joint Working Group. This organization of all the Hessian Chambers of Industry and Commerce finally decides whether an application will be approved or disapproved. In case of applications reaching the Working Group via one of the regional Chambers of Skilled Crafts, this chamber will make a preliminary decision.

When an application has been approved the chambers can also act as agents in finding competent consultants. In line with such a concept it stands to reason that also the German Chambers of Foreign Trade are entitled to offer the respective advisory services.

Also, the local chambers and their state associations can be the organizers of group consultancies financed by the program. These can be seminars for companies that require intensive information regarding the same export related subjects, but also seminars on countries with growing relevance for exporting businesses are possible.

3.4.2.3 Summary and Relevance for India

In times of more and more globalizing markets, serious foreign trade advisory services are essential, especially for small and medium-sized companies. This will presumably apply to Germany and to India in similar ways. At any rate, in Germany the export ratios of smaller companies are growing slowly, but steadily. In contrast to big companies SMEs are confronted with very specific problems in the course of entering into international, especially non-European, markets. One of the major difficulties is the lack of expert knowledge in analyzing the potential and opening up of markets for specific products and services in non-European countries, or the lack of resources to purchase such expertise.

Against this background, foreign trade consultancy services are currently an almost regular „must“ within the catalogue of MSME promotion. Not only in Germany – also in India, at least the big federations of chambers have established foreign trade departments, for

⁴⁷ Arbeitsgemeinschaft Hessen der Industrie- und Handelskammern' („Working Group Hesse of the Chambers of Commerce and Industry')

example the Federation of Karnataka Chambers (FKCCI), Bangalore and the Federation of Andhra Pradesh Chambers (FAPCCI) Hyderabad etc. However, one of the advantages in Germany is the opportunity to complement such services with appropriate other measures. As it is in the Hessian program: **The chambers are in a position to supplement foreign trade consultancies pertinently and systematically with activities from (other) public programs: They can offer to procure export credit guarantees for concluded business, or subsidies towards the cost of participating in foreign trade fairs etc.**

3.5 Programs at the Community Level in Germany

3.5.1 Kommunales Förderprogramm: "Lokale Ökonomie" Communal Support Program: 'Local Economy'

3.5.1.1 Overview

Name of Program	"Lokale Ökonomie" – Wirtschaftsförderprogramm für Kassel 'Local Economy' – Business Development Programme for the City of Kassel
Aim of Program	<ul style="list-style-type: none"> • Reactivation of economically underdeveloped urban districts • Promotion of the settlement of new industries in such districts • Development of industrial zones
Target Group	<ul style="list-style-type: none"> • Local Industry and Trade, in particular MSMEs • Potential entrepreneurs
Programme started	1995
Programme financed by	Mixed financing: <ul style="list-style-type: none"> • City Government of Kassel • State of Hesse, Ministry of Economics, Transport, Urban and Regional Development • European Union, ERDF – European Regional Development Fund⁴⁸
Financial Framework	--/--
Programme implemented by	City Government of Kassel in cooperation with the local Chamber of Industry and Commerce, local Chamber of Skilled Crafts, regional employment office and other affected official departments or NGOs
Programme activities	E.g. <ul style="list-style-type: none"> • Investments in infrastructure to attract business • (financial) Incentives to promote businesses/business start-ups in the targeted city districts • Incentives for companies to create new employment • Marketing for the targeted urban districts/ regions

⁴⁸ Cf. Paragraph 3.2.1 above

Role of BMOs	In the framework of the programme BMOs play a major role – e.g. in identifying economically underdeveloped urban districts, in drafting development concepts, in implementing entrepreneurship development training in the districts etc.
Further Information	<ul style="list-style-type: none"> • http://www.stadt-kassel.de/projekte/wirtschaft/ • City of Kassel , Dept. for Urban and Regional Planning (Abt. f. Stadtplanung, Bauaufsicht u. Denkmalschutz)

3.5.1.2 Description

Even Germany has its economically poor areas as well as cities which have lost out in the course of structural changes. Different programs have been created to revive the economy of these regions or cities, some of which we have already mentioned, for instance the European Regional Development Fund⁴⁹. Apart from those, the Federal Republic of Germany has promotional initiatives which have been conceptualized for the smallest towns or rural entities, for example town districts or villages, and which are run by the immediately superior level of administration, for instance by the municipal authorities. In the State of Hesse this kind of programme has been given the name Local Economy (Lokale Ökonomie).

Let us take the example of the city of Kassel. Until the German reunion it was located near the impenetrable intra-German border, and the region had been designated as economically weak. Industrial operations moved out of the area, new companies only rarely moved in, unemployment grew. In the city itself entire residential quarters were in danger of depopulation and their buildings were becoming outdated. The Kassel city authorities strove for economic revitalization, in particular after the reunification in 1990. One exemplary measure was the development of new industrial zones on the outskirts of the city. Within the city, the refurbishment of old industrial quarters was attempted. The basic hypothesis was:- Supporting enterprises leads to an increase in employment, the settlement of small businesses and trade reduces the number of empty buildings and can revive the districts concerned. Revitalizing the economy secures increased tax revenue for the city.'

However, the realization of the concept proved to be difficult: The city's finances were insufficient for this intra-urban reorganization. Thus, the city made use of a support programme of its state: Cities and municipalities in the State of Hesse can obtain grants from the state (and the European Union), when they tackle the economic renovation of individual town districts. In the meantime, the Local Economy programme has developed into one of the most important instruments for targeted economic promotion on the municipal level in all of Hesse.

⁴⁹ Cf. For example ERDF, see paragraph 3.2.1 above

And it became the most important subsidy scheme, in particular for micro and small enterprises at the local level. A substantial part of the funds is allocated directly to enterprises. From 2009 until 2013 eight districts of Kassel were included in the scheme. The funds made available under the programme were used for infrastructure improvements in the chosen districts and for the introduction of measures to secure the economic future of the area, and aimed at individual companies, enterprises and potential entrepreneurs, funds were reserved for:

- financial incentives for moving “custom-fit” enterprises into a district
- attracting new industries into a district by promising financial support or non-cash benefits
- supporting start-up businesses
- creating new and innovative work and training places
- adapting existing buildings to the requirements of specific production or manufacturing technologies
- introducing new production technology and new environmental and energy technology for the enterprises of a district
- the purchase of premises that were threatened by closure or already disused by entrepreneurs willing to settle in the district
- measures to support marketing for the enterprises in the respective district, e.g. promotion of internet presence, marketing or advertising efforts⁵⁰.

Where measures that are not directly implemented by the city administration are concerned, the funds provided for companies are allocated on application. All these funds are given as subsidies. Depending on the activity plan, companies, merchants or founders have to cover 50 to 80 per cent of the eligible costs themselves. The funds from the Local Economy programme supplement the private contribution, but are limited to a maximum of 20,000 Euros per case.

3.5.1.3 Summary and Relevance for India

The Local Economy programme provides cities and municipalities with an instrument that allows them to selectively correct undesirable local developments and mitigate local imbalances. The focus on the smallest local unit, e.g. a town district, facilitates clear conceptualization and precisely targeted activities. It is an added advantage of the programme that all the institutions responsible for the varied aspects of positive economic development within a city and the city administration can cooperate smoothly and precisely because their activities are focused on a small area (city district).

⁵⁰ <http://www.stadt-kassel.de/projekte/wirtschaft/index.html>

In this manner also the interests of different (municipal) institutions can quickly be coordinated. For instance, one possible incentive to get an entrepreneur to settle in a particular district could be a subsidy towards the wages of his/her employees. If this entrepreneur has to hire mostly people who are currently (long term) unemployed and have to be supported with public (city) funds, this subsidy relieves the local budget. Also, it can justifiably be expected that the subsidized enterprise will prosper and become independent of city subsidies in the foreseeable future.

However, keeping all these positive effects of the programme in mind, representatives of local industry point to one fundamental problem: The economic prosperity of individual districts within a city does not only depend on their inherent attractiveness; a district is not a closed economic space. If its environment – the entire city, the region etc. – is economically unattractive, economic “beautification” of individual districts is of little use. According to their opinion the Local Economy programme cannot substitute for an active supra-regional economic policy, but is a suitable contribution towards the rebuilding of a sustainable economy. Combined with economic development programs for a region or similar, in this regard such programs would be suitable for India as it ensures that at the smallest level economic development can take place.



4 Conclusion

Conclusion

A first summary of the promotional measures for micro, small and medium-sized businesses in Germany looks slightly ambivalent. Whereas the broad range of promotional possibilities for start-ups and existing businesses is to be welcomed, it is precisely this abundance that leads to lack of transparency and overview.

In the Federal Republic, there are – at first glance – well over 150 offers of support for businesses and start-ups.

	Enterprises	Business start-ups
Financial Support	<ul style="list-style-type: none">- KfW- State banks	<ul style="list-style-type: none">- KfW- State banks
Advisory Services	<ul style="list-style-type: none">- EU- Federal state- States- Municipalities	<ul style="list-style-type: none">- EU- Federal state- States- Municipalities
Specific promotion programs	<ul style="list-style-type: none">- EU- Federal state- States- Municipalities	<ul style="list-style-type: none">- EU- Federal state- States- Municipalities

On the one hand, the number of the programmes is to be welcomed as this ensures availability of support for the diverse problems and tasks of MSMEs . They range from financial help for start-ups to the provision of consulting services for existing businesses. This may include individual assistance in the form of R&D support, financial assistance for attending trade fairs, establishment of suitable infrastructure, for example, industrial parks, among other measures.





On the other hand, the large number of offers leads to considerable lack of transparency. A contributing factor here is that information on the individual offers and the application/approval of measures is with a lot of different organisations. As early as 1999, Geilen und Vielhaber stated: with more than 100 SME support programmes and approximately 1,000 business promotion agencies, the existing support network is anything but transparent.⁵¹ The decentralization of support measures undertaken at that time and the transfer of programmes to regional levels has theoretically increased accessibility, but has not led to greater transparency.

Structurally the problem identified then has still not been solved. The number of existing programmes is still considerable. However, with the establishment of the promotion data base of the German Ministry of the Economics on the internet, availability of the information about programs has changed substantially. Information on almost all programs is now centrally available via the internet, contacts with programme responsables can also be created on the internet. It is even possible in some cases to make an application via the internet.

From the viewpoint of consultation with businesses, the situation has improved a great deal: even if it is still not optimal.

If one considers the MSME support system in Germany in organizational terms, the network of extremely different responsibilities has become more complex. This surely has to do with the increased influence of the EU. First, the significance of the programmes launched by the EU has increased, partly because national promotion programmes are now-a-days re-allocated via the EU. Second, the EU is now entitled to check national support measures in terms of unauthorized subventions. Third, the EU also act as co-financer in programmes that are otherwise mostly national or regional programmes.

The mixed financing of promotion programmes for MSMEs has essentially increased. If the support measures of the Federal Republic, the individual states etc. were presented as such, it does not necessarily mean that these measures are also supported by the relevant institution. In many cases,

⁵¹ See Geilen, Dirk; Vielhaber, Burkhard: *KMU-Förderprogramme und Wirtschaftsförderungsgesellschaften in Deutschland. Ein kritischer Überblick über das bestehende System.* Bonn: Februar 1999. (SME-supportive programs and promotion agencies in Germany. A critical review of the actual system.)

it is a matter of mixed financing at very different levels. One example is the consulting programme presented above of the State of Hesse : It is financed by the EU (via ERDF), the Federal Republic and the State of Hesse. The procedure of programme administration is therefore not simple.

The role of BMOs in the context of support for Micro, Small and Medium-sized Enterprises in Germany is diverse. The distinction has to be made between chambers and other industrial associations. Because every business in Germany has to be a member of a chamber and Chambers according to their statutes must offer their member companies certain business-related services, the former have a special responsibility in this context.

The foremost way adopted by chambers to support MSMEs involves the provision of a well trained workforce. In the FRG, the chambers, commissioned by the government, are responsible for a certified first vocational training⁵³. In addition, all chambers also offer further training measures, the HWK in its own vocational training centres.⁵⁴

Moreover, all chambers provide a more or less broad spectrum of consulting services. In the first place there are consultations according to the statutory duties of the Chambers: legal issues, foreign trade relations, etc. Whereas the IHKs usually offer only a relatively limited provision of individual consultations and refer to external consultants, the situation with the HWKs is different. All HWKs have a more or less large staff of commercial and technical consultants available to member businesses. However, the consultants offered by the HWKs are financed largely by state governments. In evaluations, the HWK consultations are assessed positively.

The industrial associations offer consulting too. In most associations it is not a matter of individual consultations, but so-called group sessions on more or less specific problems. However, the Federal Association of Medium-Sized Businesses (BVMW) offers access to a

⁵² Cf. paragraph 3.4.1 above

⁵³ An initial vocational training – in most professions for three years. The training is split into (i) training in a company for most of the time and (ii) schooling (about one day per week). According to this split we are speaking about the “Dual System” in Germany’s vocational training. In the area of professions the Chambers of Skilled Crafts are responsible for in the last 15 years another part of training was added: (iii) some weeks per year the apprentices will be trained in vocational training centres of the Chambers themselves to become familiar with the newest trends/ techniques in their field of work. In general, the examinations regarding this first basic training are under the responsibilities of the Chambers.

⁵⁴ Apart from basic vocational training and later on: further education/ training the Chambers of Skilled Crafts offer an advanced educational programme to get a ‘Meister/ Master’ certificate – not to mix up with an academic ‘Master’ degree. Only with this examination it is permitted to open up a business in certain fields.

consultancy team in an independent company which is partially owned by the BVMW.

In short, it can be said that in Germany there is a broad range of help for MSMEs. From a business perspective and the overall ecosystem provision, this support is perceived positively. However, the lack of transparency due to 'the great diversity of SME support carried out at various state levels, often not in a harmonised fashion is contributing to the decreasing willingness of MSME participation'.⁵⁵

It is hard to compare the German and Indian MSME sector. The distribution of businesses according to different sectors, the proportion of sizes of the businesses, etc. vary greatly. Also the classification of businesses as micro, small and medium is extremely different in both the countries⁵⁶. Nevertheless, they have one thing in common: In Germany as in India, micro and small businesses are very important for economic development. The situation in Germany has already been described⁵⁷; ample evidence exist as evidence for the importance of the MSME sector in India. The SME sector is often referred to as the 'backbone of the modern day economy'⁵⁸. It is also considered to be a nursery of entrepreneurship, often driven by individual creativity and innovation.⁵⁹

Simultaneously, various agencies are trying to address challenges faced by MSMEs in India. New responsibilities have also been created, and these tend to accentuate a fundamental problem: Like in Germany the number of initiatives, of existing or new MSME promotional agencies has led to a considerable lack of transparency in the MSME development and promotion. The Ministry formulates this as follows: ". . . the scattered landscape of public schemes and programmes bears some strengths and weaknesses." On the one hand, ". . . laying the responsibility of promoting MSMEs in just one agency might miss out the comparative advantages of the specialisation of different actors. . . . On the other hand,

⁵⁵ Cf.: <http://www.foerder-abc.de/kmu-foerderung.html>

⁵⁶ In the EU, the classification of businesses according to the categories named (micro, small, middle) is made according to headcount and annual turnover or annual balance sheet. In India, on the basis of legal specifications, such a distinction is made according to the investment (i) in plant & machinery or (ii) investment in equipment - depending on whether the business is in the manufacturing or service sector. Micro enterprises in the manufacturing sector for example have an investment in plant and machinery of up to 25 lakh (about 37,000 €), medium enterprises in the same sector up to 10 crore (about 750,000 €). In the EU Micro Enterprises should have a headcount up to 10 and an annual turnover res. annual balance sheet total up to 2 mio. € etc. Cf. for the European definition p. 6 above. For the Indian definition see The Micro, Small & Medium Enterprises Development (MSMED) Act, 2006; new nomenclature and classification of MSME. (e.g.: <http://msme.gov.in/gazette%201642-E-Hindi-English.pdf>)

⁵⁷ Cf. paragraph 1 above.

⁵⁸ C.R. Srinivasan, the Director of the Times Group, in preface to a report about an MSME Summit made by the newspaper Economic Times

⁵⁹ Cf.: The Economic Times: India MSME Summit. New Delhi: Febr. 13, 2009, Vol. I, February MMIX. Government of India: Report of Prime Minister's Task Force on Micro, Small and Medium Enterprises. Delhi January 2010, p.

the parallel existence of so many institutional players bears the weakness of losing the overview of who is doing what.”⁶⁰.

Despite extremely different economic structures in the German and Indian MSME sector, the two countries, on a very general level, face similar problems. These include finance, technology upgradation, R&D, the need for training in management and the workforce, as well as marketing possibilities in increasingly international markets.

In both countries there is an abundance of help offers. Both in Germany and India promotional programmes and initiatives are offered by the central government, states or provinces, municipalities etc. In Germany there are also the offers from the EU, corresponding to which India has programmes of foreign donor agencies.

In India as in Germany, the number of available initiatives is welcomed; in both countries there is also the complaint that the large number of programmes can cause a lack of transparency for the potential users. In both countries there is discussion over an optimized support structure – so far without any satisfactory result.

It is not possible to say unequivocally to what extent Germany’s MSME support programmes can be adapted to India. The difference lies in the way programmes are designed and implemented. Irrespective of differences in individual countries, programmes with similar intentions are provided in both countries: financial help for MSMEs, further training possibilities for MSME staff, consulting services etc. Against this background, it would be more suitable to set up an institutional mechanism where experiences could be exchanged in joint measure-specific working groups.

- In the first place a forum for the exchange of experiences between India and Germany is recommended on the suitable organization of support measures for MSMEs. German and Indian BMOs would be participants in this forum along with representatives of the relevant Indian and German Ministries to foster exchange and learning.
- In a next phase the establishment of continuous German-Indian working groups on particular subjects of MSME support is conceivable. To name a few, subjects could include the financing of MSMEs, technical upgrading in MSMEs, skills development in MSMEs and international trade opportunities.

⁵⁹ Cf. Government of India: Strength and weaknesses of the current private sector promotion programs and strategies. Mimeo 2007, p.3.



5 Useful Links and Literature

Useful Links and Literature

All literature, documents and other sources are already documented in the preceding text. We do not list all those documents again – most of the literature is in German language only. Therefore, we limit the following information sources to the most relevant documents as well as links to the most important webpages.

1 You can find all laws and regulations with regard to business promotion in Germany in:

- Eberstein, Hans Herrmann (ed.): Handbuch der Regionalen Wirtschaftsförderung. Loseblattsammlung. Köln: Schmidt Verlag 1971 ff. [Manual for Regional Economic Promotion. Loose-leaf collection. Cologne: Schmidt Publishers 1971 following up to now.]

A separated register of laws of the German States on promotion of SMEs can be found on the following webpage:

- http://www.forum-vergabe.de/fileadmin/user_upload/Downloads/%C3%9Cb%C3%9Cbersicht_Mittelstands_f%C3%B6rderungsgesetze_L%C3%A4nder_08-2011.pdf

2.a All actual business promotion programs are listed in the data file of the German Ministry for Economy and Technology. This data file is one of the most important sources. The text is in German language only. Cf.:

- <http://www.foerderdatenbank.de/>

2.b For financial support of MSMEs see also the webpage of the government owned bank 'KfW – Kreditanstalt für Wiederaufbau' – in English language:

- <http://www.kfw.de/kfw/en/index.jsp>

2.c The Ministry of Economy and Technology has established a webpage for people who want to start their own business in Germany. This webpage is available in English:

- <http://www.existenzgruender.de/index.php>

3.a Although EU-Programs are described in the webpage 'foerderdatenbank' as mentioned above, an overview on promotional programs of the EU can be found – in English language – on the webpage:

- http://ec.europa.eu/youreurope/business/index_en.htm





3.b Periodically the EU will compile all support programs for MSMEs:

- European Commission, Enterprise & Industry Directorate General: European Union Support Programmes for SMEs. An overview of the main funding opportunities available to European SMEs. Brussels: EU Commission, October 2009.

Or via internet:

- http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=4619

4.a The 'Oeckl' is a voluminous register of all governmental offices, of all organisations, institutions etc. which are important in Germany's public life. Here you also find a complete register of all BMOs. The Oeckl is reviewed on a yearly basis and available as a book as well as online – you have to pay for access to the online version annually. However, the text is not available in English.

- OECKL. Taschenbuch des Öffentlichen Lebens. Deutschland 2012. Albert Oeckl (ed.); Hey, H.H. et al. (authors). Bonn: Festland 2011.
- <http://www.oeckl.de/index.php?id=10&L=1>

4.b DIHK: Deutscher Industrie- und Handelskammertag – Federation of German Chambers of Industry and Commerce:

- <http://www.dihk.de/>

A map with all regional Chambers of Industry and Commerce:

- <http://www.dihk.de/ihk-finder>

There is also a link to a register of all the individual chambers

The DIHK has established a service company to administer some European and German promotional programs for SMEs. Company name: "DIHK Service GmbH". The respective link:

- <http://www.dihk.de/wir-ueber-uns/wer-wir-sind/dihk-service-gmbh>

4.c ZDH: Zentralverband des Deutschen Handwerks – Federation of German Skilled Crafts (in English):

- <http://www.zdh.de/index.php?id=56>

A map with all the Regional Chambers of Skilled Crafts:

- <http://www.zdh.de/handwerksorganisationen/handwerkskammern/deutschlandkarte-handwerkskammern.html>

A register of all the regional Chambers of Skilled Crafts:

- <http://www.zdh.de/handwerksorganisationen/handwerkskammern/adressen.html>

4.d BDI: Bundesverband der Deutschen Industrie - Federation of German Industry:

- http://www.bdi.eu/BDI_english/index.htm

A register of all member associations with links to the individual ones:

- http://www.bdi.eu/BDI_english/485.htm

4.e BDA: Bundesvereinigung der Deutschen Arbeitgeberverbände - Confederation of German Employers' Associations:

- http://www.bda-online.de/www/arbeitgeber.nsf/id/EN_Missions_of_BDA

4.f BVMW: Bundesverband Mittelständische Wirtschaft - The German Association for Small and Medium-sized Businesses

- <http://www.bvmw.de/service/sprachen/gb.html>

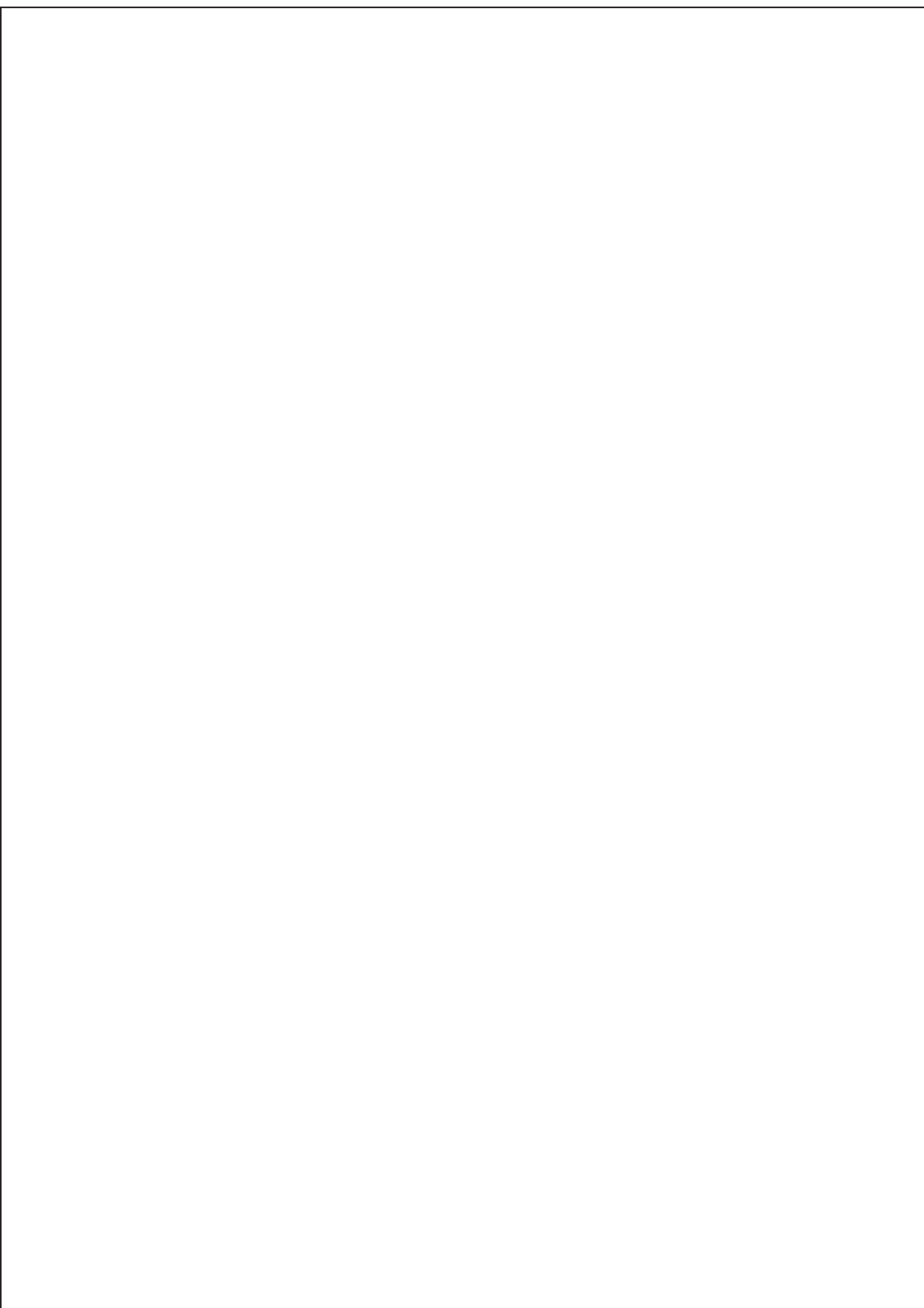
4.g RKW: Rationalisierungs- und Innovationszentrum der Deutschen Wirtschaft e.V. - Center for Rationalization and Innovation of the German Industry

- <http://www.rkw.de/>

5 Nearly every promotional programme of the EU, of the German Central Government, of the German States etc. for MSMEs has its own webpage. You can reach these webpages by identifying the programme in the databank of the German Ministry of Economy and Technology (see 2.a above) and by following the given links.

6 In the meantime, many of the programs have been evaluated once or twice. Also these evaluations can be found on the webpage of the German Ministry of Economy and Technology (in German language only). One example: the evaluation of the Central Innovation Programme for Small and Medium-Sized Enterprises (ZIM) of the German Federal Ministry for Economy and Technology by the Fraunhofer Institut:

- http://www.zim-bmwi.de/download/studien-berichte-expertisen/zim-endbericht-kurz_08-2010.pdf



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