

**Government of India
Ministry of MSME
O/o DC (MSME)**

Nirman Bhawan, New Delhi.

Scheme: “Financial Support to MSMEs in ZED Certification Scheme (ZED)”

Frequently asked questions (FAQ) related to ZED

Q1. What exactly is the MSME ZED Scheme? When was the scheme launched?

Reply: MSME ZED scheme namely ‘Financial Support to MSMEs in ZED Certification Scheme’ envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification with objectives like, developing an Ecosystem for Zero Defect manufacturing in MSMEs, to promote adaption of Quality tools / systems and Energy Efficient manufacturing, enabling MSMEs for manufacture of quality products and to encourage MSMEs to upgrade their quality standards in products and processes with adoption of Zero Defect production processes and without impacting the environment, etc.

The scheme is an extensive drive to create proper awareness in MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED and support them. After ZED assessment and adoption of proper other tools, MSMEs can reduce wastages substantially, increase productivity, expand their market as IOPs, Vendors to CPSUs, more IPRs, development of new products and processes etc.

The Ministry of Micro, Small & Medium Enterprises (MSME), Government of India has launched this scheme on 18th October, 2016 at Ludhiana, Punjab by the Hon’ble Prime Minister.

Q2. What was the idea behind its launch? Specifically, what does it plan to achieve annually till next 5 years?

Reply: The idea behind its launch is promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification so as to:

- Develop an Ecosystem for Zero Defect Manufacturing in MSMEs.
- Promote adaptation of Quality tools/systems and Energy Efficient manufacturing.
- Enable MSMEs for manufacturing of quality products.
- Encourage MSMEs to constantly upgrade their quality standards in products and processes.
- Drive manufacturing with adoption of Zero Defect production processes and without impacting the environment.
- Support 'Make in India' campaign.
- Develop professionals in the area of ZED manufacturing and certification.

During the next three years, plan to achieve under the scheme 22,222 MSMEs will be accredited under ZED Maturity Assessment model and certification, 5,000 MSMEs will be accredited under ZED Defence certification, 7368 MSMEs will be supported for Gap Analysis, Handholding, Consultancy for their improving rating of MSMEs, etc.

Q3. What are the main parameters on which the MSMEs will be assessed in this scheme?

Reply: Under ZED Maturity Assessment Model there are 50 parameters for ZED rating and 25 additional parameters for ZED Defence rating on which the MSME will be assessed and rated under ZED. The MSME applicant is required to comply with identified 20 essential parameters and at least 10 other parameters (as per the MSME's domain competency, i.e. sector of operation and type of industry) as per ZED Guidelines. Hence, the MSME will be rated on a minimum of 30 parameters for the assessment process.

The main parameters cover various Aspects like Technology selection and Upgradation, Process Capability, Automation, Waste Management, Safe Working Environment, energy efficiency, etc.

Q4. Which sectors are covered under the scheme? Will the parameters be sector-specific?

Reply: Under this scheme, the MSMEs will be assessed & rated on the ZED Maturity Assessment Model. The sectors are aligned with the manufacturing sectors under the Make in India initiative and also with the National Industrial Classification (NIC).

The Scheme is open to all Micro, Small and Medium Manufacturing Enterprises (MSME) throughout the country. The unit should be registered with Ministry of MSME (Udyog Adhar Memorandum), DIC (EM –II) or with any other agency (Industry Association and Govt. agency).

The MSME is rated on 30 minimum parameters. In which 20 parameters are essential parameters and 10 parameters are selected as per the domain of the MSME.

Q5. Which States / Cities are likely to take lead? Is MSME Ministry prioritizing based on some criteria, for speedier implementation, based on the receptivity of locations?

Reply: ZED Certification Scheme is a voluntary scheme to adopt a Zero Defect Zero Effect culture in their manufacturing practices. This scheme will be implemented throughout the country on the basis of the demand from MSMEs (as the scheme is demand driven). Moreover, MSMEs of NER and J&K, Industrially backward and remote areas are facilitated under the scheme for onsite training for enterprise capacity building.

Q6. How has been the response to the scheme till now? Is the registration process complete?

Reply: The response so far has been encouraging considering the fact that the ZED scheme was launched only on 18th October, 2016.

- We have more than 2300 MSMEs registered for ZED certification till now.
- This is just the beginning and about 50 MSMEs have already paid for Desktop Assessments.
- The first site assessments are expected to commence from June, 2017 end and we expect about 1000 MSMEs to undergo site-assessment in FY 2017-18.

- We are hopeful that this number will exponentially increase in the coming years and we will achieve our target of 22,222 Certifications.
- Registration is an ongoing process and will continue till there is a demand for assessment.

Q7. A general feedback we get to hear about the MSMEs is that they are very conservative to take a high tech path. What do you think is a more truthful assessment?

Reply: You see this question is not directly related to ZED. The scheme does not mandate any technology. It merely assesses an enterprise at that point of time on the given set of parameters. To begin with, under this scheme an individual MSME has to make online self assessment of his enterprise which is free of cost. Further, this office assists the unit for subsequent steps like Desk Top assessment and complete assessment with Subsidy for Micro, Small & Medium Enterprises @ 80%, 60% and 50% respectively.

So far as your feedback regarding MSMEs being conservative is concerned, it may be noted that MSMEs are surviving despite several constraints and challenges.

- Changes in business and economic conditions place constraints on small-business owners and managers. Main constraints revolve around Finance, Market access, Labour & Policy.
- Globalization means that economic problems in one country or region can spread quickly to other regions. For example, the 2008 recession started in the United States but it affected businesses everywhere.
- It is hence a matter of perspective that our MSMEs are conservative to take a high-tech path under these constraints.
- MSMEs tend to demonstrate culture (or country) specific business practices. However, in spite of the recognized diversity of business practices, strong homogeneous tendencies and norms have been developing specially among the small businesses that operate in the global market place.

- Successful MSMEs plan for these constraints and learn how to adapt quickly to change.
- Having said that, I would like to state that in ZED model, there are effective but low cost initiatives like implementation of 5S, Kaizen, DWM, Waste reduction, process control, low cost technology, energy conservation, design incubation etc where MSMEs can enhance their sales as well as profits without much of capital investment and working around few of these constraints. ZED rating eventually enable to MSMEs to be a part of the global value chains and improve their competitiveness and profitability.

Q8. Which are the unique strengths of the sector that need focused strengthening and recognition? Please give us a sense so that we may factor this in our future engagements.

Reply: Manufacturing has been recognized as the main engine for growth of an economy. The share of manufacturing sector in Indian National GDP over the years has stagnated to 14-15% only. The National Manufacturing Policy of Government of India envisages share of manufacturing to reach the target of 25% of the National GDP by 2022. To achieve a sustained rate of growth, the manufacturing sector needs to build an ecosystem to face the challenges posed by globalization, environmental issues, etc.

In Make in India initiative, there are 25 sectors and ZED has been designed to meet specific requirements of these sectors. To cater to their needs, ZED model focuses on special strengths and specific requirements of all these sectors.

Among sub-sectors in manufacturing, the top five are:

- food products
- basic metals
- rubber and petrochemicals
- chemicals
- electrical machinery

It stands to reason that these sub-sectors would have a greater potential and need for ZED. Together the above account for over 66% of

total revenues in manufacturing. However, these verticals rely primarily on domestic demand for a major part of their revenues.

ZED focuses to enhance the competitiveness of Indian manufacturing globally.

Q9. What role do you see the automation companies playing, in the success of the scheme?

Reply: Industrial automation has produced many of today's technological advances such as computers and cell phones.

- Automation allows the creation of complex applications to become a reality, thus emphasizing its importance.
- There is enormous economic potential of Industry 4.0., though the MSMEs in industry remain relatively cautious about it. It is not easy for small and medium-sized enterprises, due to lack of resources, to assess the technological maturity of the relevant solutions and their business uses. A lack of standards and norms with regard to interface technologies is another reason why investments in the integration of IT systems are either not carried out or delayed. This is where ZED could bridge the gap with the help of trained consultants, who will mentor the MSMEs to adopt automation.
- The automation companies will have a big role to play in building & increasing the competitiveness of our MSMEs; the main objective of ZED is to enhance their global competitiveness through implementation of various tools and interventions.
- Through automation, relevant parameters in ZED will assist in increasing:
 - production rates
 - productivity
 - efficiency with materials
 - product quality
 - worker safety
 - flexibility and convertibility in manufacturing processes
- Automation will also help reduce waste, factory lead times, and production costs. Incorporation of ZED will ensure that the automation process is attuned to minimizing adverse impact on the environment.

- Automation will allow our MSMEs to produce a broader range of products with the ease of being able to switch from product A to B without having to reconstruct entire production lines.
- As technology advances, so does the importance of automation.
- Lastly, we are ourselves automating a lot processes in the implementation of this scheme. For example:
 - The awareness and training programmes are monitored through a mobile application;
 - The self-assessment by MSME is through an automated online self-assessment module;
 - The Site assessment will also be conducted through a geo-tagged site assessment mobile application with zero or minimum use of paper;
 - The handholding process will also be processed and monitors through an online mobile application.
- These are just a few examples. The Quality Council of India, as NMIU, is ensuring effective monitoring and implementation of this scheme with the help of automation companies.

Q10. How does the ministry propose to incentive adoption of Automated Controls and Quality Tracking by Indian MSMEs?

Reply: Automation is inevitable. Large companies increasingly use robots on production lines or algorithms to optimize their logistics, manage inventory, and carry out other core business functions.

- For us as policy makers, an embrace of automation could go hand in hand with measures to support our MSMEs.
- The Ministry can accelerate early development and adoption of automation technologies. Early adoption of automation could benefit from policy support, both in regard to the technology development and for its deployment.
- The support that MSMEs would expect could include investments in developing the technologies themselves, including funding basic

research and support for commercialization, as well as supporting investments in digitally enabled infrastructure for automation.

- The Ministry of MSME already has (incentive/subsidy/funding) schemes which assist our MSMEs in adopting latest technologies: like CLCSS, TEQUP & MSE CDP schemes, etc.
- ZED model focuses a lot on automation to assure quality of processes and products. As stated earlier, automated controls result in lowering of defects by reducing human elements. With a critical mass of ZED rated MSMEs in place along with adoption of automated controls and quality tracking by Indian MSMEs. We expect the kicking in of a virtuous cycle which will be self propagating.

Q11. What challenges do you foresee that the MSME sector will face in getting the ZED Certification?

Reply: A mindset change:

- For an MSME, the bottom line is perhaps the top priority. They want to see immediate benefits for any investments they make. ZED aims to change this mindset by highlighting the internal benefits that an MSME will have by adopting best practices and the long-term cost competitiveness ZED will bring. However, MSMEs may fail to see this long-term vision.
- Also, unfortunately, being environment consciousness is perhaps not the top priority of our MSMEs. ZED is attempting to change this mindset and emphasizing the notion that Earth should not be seen as inherited from our ancestors, but as borrowed from our kids. ZED aims to propagate “Responsible Manufacturing”. MSMEs must realize that the costs involved in maintaining an environment friendly product is an investment, and not an expense.

Complete Adoption:

- One of the key challenges will be to ensure that the top management of MSME understand the leadership requirements of implementing ZED and behave in such a way that these terms are met.
- The top-down approach is crucial for the success of ZED.

Not just a Certification:

- One of the most critical aspects that MSMEs must understand is that the ZED journey does not end just at rating and certification.
- ZED is a maturity assessment model. Rating is needed to know where an MSME stands vis-à-vis global benchmarks.
- Using principles of consultation and participation will become vital to the content of the ZED, by getting the employees involved in the process, ensuring their future support and input.
- Since handholding is an optional component in the scheme, MSMEs may not opt for this vital cog.

Q12. What support is the MSME Ministry extending to the MSMEs towards this scheme?

Reply: The Ministry, along with the Quality Council of India, is creating an entire ecosystem for the MSMEs for an easy adoption of the ZED Scheme. The support of this Ministry under the scheme consists of three stages under the assessment process are as under:

- I) Online (e-Platform) self-assessment: Nil Fee.
- II) Desk Top assessment: Rs 10,000/-per MSME
- III) Complete assessment:
 - a) Rs 80,000/- for ZED rating per MSME
 - b) Rs 40,000/- for additional ZED Defence rating
 - c) Rs 40,000/- for Re-rating

Above rating costs will include cost of Rs 10,000/- as certification cost by QCI.

- IV) Financial Support (Subsidy) in assessment & rating and handholding activities of the ZED Scheme: The Government is extending a financial support of 80% to Micro Enterprises, 60% to Small Enterprises and 50% to Medium Enterprises on the costs of assessment/certification and handholding activities. There is

additional 5% financial support (subsidy) for women entrepreneurs and enterprises located in North-Eastern and Jammu & Kashmir regions.

- Apart from the above, a few of such other support are highlighted below:
 - Capacity Building Programmes for MSMEs: 5-Day capacity building programmes are being conducted in their region to enhance their knowledge on ZED and for the MSMEs to adopt the ZED culture.
- Apart from financial subsidy, the Ministry of MSME offices spread all across the country are being trained and geared up to support the MSMEs who wish to embark on the ZED journey.
- Also, we are connecting with large enterprises & OEMs to support us in this scheme. The MSME supply chain of these large enterprises will benefit immensely once support comes to them from the top of the value chain. Organisations like Tata Chemicals, Ashok Leyland, Maruti Centre for Excellence etc. have already signed an MoU with QCI to become a ZED Cell and take forward the implementation of this scheme.

Q13. What is your overall goal for Indian MSME sector in coming few years? How will the ZED scheme support this goal?

Reply: In recent years, the Indian economy has shown an excellent growth performance with annual growth rates closing in on 9 per cent per annum. The sheer magnitude of the MSME sector comes to the fore with them contributing to more than 40% to Gross Domestic Product (GDP) of India.

Together, they make the engine of incessant growth, providing livelihood to millions of people and creating value for the entire global community.

In order to keep the momentum of growth and holistic development, it is imperative that the MSME sector is empowered to meet challenges that can threaten their survival and growth.

- The key Challenges faced by MSMEs today are:
 - Access to Finance;
 - Access to Markets;
 - Access to Infrastructure;
 - Access to People / skilled resources;
 - Access to Technology & Environmental Constraints;
 - Issues regarding Regulatory Facilitation;

We have a vision that ZED will provide a holistic solution to most of these challenges faced by MSMEs of India; by way of policy changes and by way of public & private advocacy.

The ultimate vision is for our MSMEs to become globally competitive and make India a manufacturing hub.

ZED scheme is poised to be a game changer for the Indian industry and show the path to our MSMEs towards global competitiveness.

The larger vision is for ZED to become globally accepted; to be the Indian Certification System accepted and adopted world over thereby reducing trade barriers.