

Ref. No. 106/7861

10 August 09

To,
Hon'ble Prime Minister
Govt. of India
New Delhi

Subject: IIA Representation on issues relating to MSME Sector.

Sir,

Indian Industries Association (IIA) an apex body of MSME is thankful to you for your concern for the MSME Sector. Probably it is for the first time in the history of independent India that our Prime Minister is meeting the representatives of MSME Sector so frequently. We had a meeting with you on 8th Dec. 09 wherein number of issues were submitted to you as enclosed at Annexure-I. We are happy to note that few of them have been addressed fully or partially such as Sr. No. 3, 6 & 9.

In the forthcoming meeting on 17th Aug. 09, we would invite your attention on the following issues:-

Sno.	Issue/Legislative	Problem	Solution/Suggestion
(A) Issues related to Ministry of MSME, Got. of India			
1	Delayed payments to Micro and small Enterprises.	MSMED Act 2006 provides for the solution for the delayed payments to Micro and Small Enterprises in Chapter-5. The provisions of the Act are not being implemented properly. For example:- (a) Cases in MSME facilitative Councils remain pending for as long as 6 months to 1 year whereas Act provide that the cases should be decided within 90 days. (b) Meetings of the Facilitation Council are not held every month as provided in the Act. Either the Meetings are not scheduled regularly or even if these are scheduled, the meetings are cancelled due to other pressing assignments of the Chairperson i.e Director Industries of the State. (c) Section -22 of the Act which provides for requirement to specify unpaid amount with	(a) It is recommended that Ministry of MSME Govt. of India may ask for regular information from the Facilitation Councils on Number of cases received and disposed off with corresponding dates. This information may also be displayed on Ministry of MSME website State wise. (b) Holding Facilitation Council Meetings every month should be made mandatory. For any reason if the Chairman is not present, provision may be notified for alternative arrangements. (c & d) As provided in Section -26 of the Act, the Officers and other employees may be appointment urgently at Central Govt. and State Govt levels to ensure the implementation of the Act

		<p>interest in the annual statement of accounts by the buyers is not being implemented and monitored properly.</p> <p>(d) Section-26 of the Act provides for appointment of Officers and other employees for the purpose of this Act who will require any person to furnish such information, in such form, as may be prescribed. Such appointments have not been made as yet.</p>	<p>especially to ensure the implementation of Section 15,16,17 and 22 of the MSMED Act.</p> <p>Ministry of MSME as well as Industry Association may advise MSE's to print MSME Memorandum No. on the Bills/Invoices so that whenever such Bill/Invoice reaches the buyer it is known to him that the unit is MSE and his payments are to be cleared within stipulated time period as provided in the Act.</p>
2	Discrimination in purchases by Govt departments against MSME by imposing turnover/production Capacity/other conditions such that MSME are not able to even participate in the tenders.	<p>Ministry of MSME is holding discussion on how MSME's are provided preference in Govt/Semi Govt. purchases. Contrary to these efforts, many Govt./Semi Govt. departments are imposing conditions in their tenders. Such as Minimum Turnover or Minimum Production Capacity such that MSME are not able to even participate in the tenders. Ministry of MSME though have issued instructions to the Directorate of Industries etc but these instructions are not being implemented as yet.</p>	<p>Govt of India may ensure that such discriminatory practices against MSME are stopped immediately.</p>
3	Purchase preference for MSME	<p>MSME are not equipped financially to advertise their products & services as Large Enterprises and MNC's can do. As such ,MSME find it difficult to sell their products/Services even if these are competitive in price as well as quality.</p>	<p>A provision in the Act it self should be made to reserve at least 40-50% of the quantity of purchase by any department from MSME at competitive price & quality.</p>
4	Effectiveness of MSME Development Institutions	<p>There is a large network of MSME Development Institutions under the Ministry of MSME. However, it is observed that these institutions are not effective in promotion and development of MSME's to the desired level. The industry-institute interaction of most of these institutions needs improvement.</p>	<p>It is recommend that the Governing Bodies of these development institutions should have representatives of MSME Association.</p>

(B) Issues related to Ministry of Labour Govt. of India			
5	Separate set of Labour Laws and other Acts for MSE's	<p>Micro & Small Entrepreneurs generally run their business single handedly. They are also easing out the big National problem of unemployment firstly by getting self employed and then creating employment to others. Their contribution to the society is no less than a Farmer of our Country. Hence they need to be treated differently compared to large enterprises.</p> <p>As on date more than 35 Acts are applicable on MSE's exactly the same way as these are applicable to large Enterprises. It is practically impossible for a Micro and Small Entrepreneur to follow and implement all the provisions of these Acts. Hence the Micro & Small Entrepreneur always run their business in a state of fear to be caught on the wrong foot. Hence are being exploited in the hands of the inspectors always.</p>	<p>There is a need for separate single & simple set of Law and Act for Micro & Small Enterprises to run their business.</p> <p>Beginning can be made immediately in the first phase by simplifying Labour Laws for Micro & Small Enterprises. Factory Act and EPF Act may be made applicable for MSE's employing more than 50 workers. Appropriate amendment in section 10 of the Contract Labour (Regulation & Abolition) Act 1970 to the effect that the employment of contract labour can not be prohibited in MSME. The allowable working hours in MSE's also need to be reviewed keeping in view the ground realities as well as comparison with other sector e.g. I.T. etc. The EPF Contribution rate should be reduced to 8% as before. ESI scheme should be implemented in MSME Sector as has been announced by the Ministry of Labour for unorganized sector recently.</p> <p>In the second phase other Laws and Acts may be simplified in a time bound manner over a period of not more than one year.</p> <p>If this is done the MSE Sector will flourish and the problem of Inspector Raj will get resolved automatically.</p>

(C) Issues related to Ministry of Finance Govt. of India			
6	Rehabilitation of viable closed and Sick Micro and Small and Medium Units and easy exit route for unviable unit.	As per Govt. data more than 1/3 rd of the total Micro , Small and Medium units in the Country are either closed or sick. This accounts for loss of huge human and financial resources as well as loss of employment opportunities. There is no easy exit route for the entrepreneurs so that they can do something else.	<p>Though there are guidelines for rehabilitation of Sick Micro & Small Enterprises yet the process is ineffective and time consuming. Even the guidelines of the Reserve Bank are not being followed by the Financial Institutions.</p> <p>As such the process has to be made time bound at the same time we strongly recommended for creation of a special fund to waive off the loans of potentially viable units as has been done for the farmers in the country.</p> <p>Un-viable units do not get an easy exit route and the entrepreneur is not able to get rid of the complexities some time throughout his life. As such there is an immediate need for an easy and time bound exist process for MSE's and a special INSOLVANCY ACT may be provided for MSME.</p>
7	Implementation of GST	Hon'ble Union Finance Minister has announced in his budget speech that GST will be applicable from April 2010. IIA welcome the decision. However is concerned about the preparations for implementation of this progressive tax system. The preparations should start immediately. It is important to note that VAT System was also thought of implemented uniformly in the Country. However it did not happened so and there are lot of variations in the VAT Rates among various states. Such variations if exists in GST, will defeat the purpose of if.	We recommend that vigorous awareness campaign about the system and consultative process should be launched immediately. There should be single rate of GST for all commodities/items all over the country. The HSN Code as is used in Excise duty system should be used to define the goods and services clearly.

8	Tax Holidays.	Govt. of India / State Govt's have been announcing tax holidays for certain regions/industries in the past, with an objective to promote industrialization in these regions. IIA support the incentives for industrialization in difficult area however it has been observed that few incentives such as tax holidays have harmed the old/existing industries.	It is recommended that for difficult regions and for priority areas the new industries may be incentivised such that the old/existing industries are not thrown out of business.
9	Excise Duty	The present exemption limit of Rs. 1.5 crore is too low	The exemption limit should be increased to 2.5 crore atleast.
10	Services Tax on Goods Transport Services	Shifting the responsibility of payment of service tax by MSE has resulted in increasing the burden of a single man army of Micro & Small Entrepreneur. We had requested in our earlier representation also that MSME should be exempted from this burden.	All MSME Sector industries should be exempted from paying Service tax on GTS and also thus having to needlessly get registered under Service Tax and file two half yearly returns per annum. It is against the basic principle of Service tax also that the service provider is exempted of the responsibility and the service user is burdened.
11	C.S.T	CST has not been phase out as yet as promised by the Govt. It may hinder with the implementation of G.S.T.	We recommend that C.S.T should be phased out completely before April 2010.
12	Interest rates for MSE's	Contribution of Micro & Small Enterprises Sector towards our society is similar to agriculture sector. However the MSE Sector is not treated equally.	We recommended that the interest rates on loans for MSE should be the same as that for Agriculture Sector.

(D) Issues related to Ministry of Environment Govt. of India			
13	Consent from Pollution Control for Non Polluting Industries	Though 220 industries have been identifies as Non Polluting Industries yet they are required to take consent from the Pollution Control Department to this effect. This creates lot of inconvenience and unnecessary burden especially for MSME's. Even for other than 220 exempted industries number of industries which are non polluting are clubbed in a particular category such as paint industry is clubbed with Chemical Industries.	It is recommended that the 220 non polluting industries in MSME sector may be exempted from taking the consent of the Pollution Control Department. At the same time other industries may also be identified which are non polluting.

Thanking you

Yours truly,

Anil Gupta
President