Chapter V

Recommendations of the Task Force

The Task Force constituted 6 Sub-Groups on the major areas of concern for the MSME sector, namely, credit, marketing, labour, exit policy, infrastructure/ technology/skill development and taxation. A separate Sub-Group was constituted to look into specific problems relating to special package for North-East and Jammu & Kashmir. Each of the Sub-Groups examined the specific issues over a series of meetings and after detailed deliberations with all the stakeholders, including MSME Associations, submitted their Reports to the Task Force. After detailed discussions on each of the recommendations contained in the reports of the Sub-Groups, the Task Force makes the following recommendations as given below. A statement showing the industry demand, their current status and the recommendations of the Task Force is enclosed at **Appendix IV.**

a. Credit

(i) All the scheduled commercial banks should achieve a 20% growth in credit year-on-year to micro and small enterprises and strictly adhere to the allocation of 60% thereof to micro enterprises to ensure enhanced credit flow. From 1st April 2010, shortfall of any bank against the already accepted target of 60% to micro enterprises (of the total lending to MSEs) may be put into an appropriately named corpus with the Small Industries Development Bank of India (SIDBI). This would facilitate additional credit flow of over Rs.3 lakh crore to micro enterprises from the scheduled commercial banks over a period of 5 years.

(Action: Ministry of MSME / DFS - 3 months)

(ii) A target of 15% annual growth in number of micro enterprise accounts may be stipulated for all scheduled commercial banks till financial inclusion has been substantially achieved. Reserve Bank of India (RBI) may issue necessary instructions in this regard. This would help in covering an additional 30 lakh micro enterprises under institutional credit in a period of 5 years.

(Action: DFS/RBI – 1 month)

(iii) **The stimulus package announced by the government/RBI/IBA may be extended upto 31st March 2011 including special refinance facility of Rs.7000 crore provided to SIDBI (Action: DFS/RBI/SIDBI - 2 months)**

(iv) A Committee under the chairmanship of Member (Industry), Planning Commission, with the Secretary, Department of Financial Services, Chairman, Indian Banks' Association and representative of the industry as Members and the Secretary, Ministry of MSME as its Member Secretary, may be constituted. The Committee may (i) Monitor the overall credit flow to the MSME sector at regular intervals; (ii) Look into the existing interest subvention schemes for the agriculture and housing sectors to examine the extent of replicability for the MSEs; (iii) Identify institutional bottlenecks in the flow of credit to the sector; and (iv) Suggest policy measures for augmenting credit flow to the MSME sector.

(Action: Ministry of MSME – 1 month)

(v) The ability of MSMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. For this purpose, removing fiscal/regulatory impediments to use such funds by the MSMEs should be considered on priority.

(Action: Ministry of MSME/DOR/DEA – 3 months)

(vi) SIDBI may constitute an Advisory Group comprising members from M/o MSME, D/o Financial Services and representatives of MSME Associations for monitoring the operations of Special Cell set up to provide refinance for micro/unorganised sector enterprises. The Group may periodically meet to resolve any problems relating to lending of funds earmarked for micro enterprises. The Group may also review the effectiveness of this arrangement after a year to decide on the need for a separate body for this purpose.

(Action: DFS/SIDBI – 1 month)

(vii) Securities and Exchange Board of India (SEBI) may expedite the process of setting up of SME Exchanges in consultation with all the stakeholders.

(Action: DEA/SEBI - 3 months)

(viii) The recommendations of the High Level Committee to review the Lead Bank Scheme under Smt. Usha Thorat, Deputy Governor, RBI may be implemented on priority basis to facilitate banking penetration and to strengthen the monitoring systems at State/District level.

(Action: RBI – 1 month)

(ix) The Task Force noted that a Working Group under the chairmanship of Executive Director, RBI is looking into the issues regarding: (a) Enhancement of the collateral-free loan limit for MSEs from Rs.5 lakh to Rs.10 lakh; and (ii) Absorption of the one-time guarantee fee and annual service charges by the banks under the Credit Guarantee Scheme to facilitate higher flow of credit to MSEs without collateral/third party guarantee. The Working Group may submit its report within 3 months.

(Action: RBI – 3 months)

(x) The Task Force noted that the RBI has constituted a Working Group on 'Securitization of Trade Credit Receivables' to examine various options for liquidating the receivables before maturity. This process need to be expedited for larger benefits to MSMEs. Further, the D/o Financial Services may look into the issue of evolving a suitable legal framework for promotion of factoring services without recourse in the country for MSMEs.

(Action: DFS/RBI - 3 months)

(xi) Banks should approve project loans (comprising of both term loan and working capital) for MSEs to avoid delay in tying up of funds by the MSEs. The RBI may consider making this mandatory for the banks.

(Action: DFS / RBI / Banks – 3 months)

(xii) Banks may be encouraged to use scoring model so as to have speedy disposal of loan applications of micro and small enterprises.

(Action: DFS/RBI – instructions issued)

(xiii) In order to simplify the process of credit dispensation to micro enterprises, a uniform loan application form for loans up to Rs.25 lakh should be devised by the IBA that should be applicable to all the banks. The D/o Financial Services may bring out a model form within 3 months.

(Action: DFS – 3 months)

(xiv) All the banks may adopt Banking Code for MSEs to bring about uniformity in operations. DFS may examine this issue through RBI.

(Action: DFS/RBI – 3 months)

(xv) Banks should be encouraged to participate in organizing joint programmes relating to entrepreneurship and skill development. RUDSETI, which are promoted by the banks, should also impart entrepreneurship and skill development training for different MSME clusters.

(Action: DFS/RBI/Banks – 3 months)

(xvi) Taking into account the recent experience during the economic slowdown, banks may extend liberal moratorium on their term loans and working capital to MSE entrepreneurs by including interest during first 6-12 months of operation as part of the long term funding of the projects.

(Action: DFS/RBI/Banks – instructions issued)

(xvii) Banks may put in place an electronic tracking system for ensuring timely approval/rejection of loan applications of MSEs and they should be informed about the reasons for rejection of their loan application within a definite period. For this purpose, Banks may have a dedicated cell at the Regional Office level to monitor the progress of applications received till its final disposal. RBI may suitably advise the Banks in this regard.

(Action: DFS/RBI/Banks – 2 months)

(xviii) The Lead Bank in association with the District Industries Centre should prepare a shelf of project profiles on a periodic basis for different viable activities which have a good potential. The progress in this regard may be monitored at the District, State and Central level.

(Action: DFS/RBI/Banks - instructions issued)

(xix) Each lead bank of a district may adopt at least one MSE cluster and banks should open more MSE focused branch offices at different MSE clusters which can also act as Counseling Centres for MSEs.

(Action: DFS/RBI/Banks – Instructions issued)

(xx) While loans up to Rs.50,000 are covered under micro finance, banks are generally not inclined to provide loans below Rs.5 lakh due to a high risk perception and transaction costs. Banks may lend to pool of micro entrepreneurs who have been financed by Micro Finance Institutions and are now ready for borrowing at higher levels in the missing middle segment of Rs .50,000 to Rs. 5 lakh by covering them under the Credit Guarantee Scheme.

(Action: DFS/RBI/Banks – no time lines)

(xxi) Banks should encourage their officials to undergo specialized certificate course run by Indian Institute of Banking and Finance on the subject of SME Finance for Bankers by suitably incentivising them. The Task Force noted that an incentive scheme already exists in the Banks.

(Action: DFS / IBA – no time lines)

(xxii) The Ministry of MSME may set up an 'MSME Helpline' after detailed discussions with the Departments/agencies having similar 'Helplines' to ensure that the same is successfully implemented.

(Action: Ministry of MSME – 6 months)

b. <u>Rehabilitation and Exit Policy</u>

(i) The Limited Liability Partnership Act 2008 (LLP) provides for enabling schemes of revival as well as liquidation and winding up. The Ministry of Corporate Affairs has also introduced the Companies Bill 2009 which includes a provision for a 'one person company (OPC)'. The MSMEs need to be encouraged/ incentivised to convert to these forms through: (a) increasing awareness by organizing awareness campaigns across the country; (b) introducing a graded corporate tax structure with base rates lower than the income tax slab rates in terms of the new Direct Tax Code; and (c) keeping registration and transaction costs low for adopting the LLP or OPC mode.

(Action: MoCA/ DoR/MoMSME – no time lines)

(ii) Banks have existing mechanism/ procedures for rehabilitation/ restructuring of potentially viable sick MSMEs. However, as the track record of the sick units is generally poor, the bankers are often reluctant to rehabilitate such units. Consequently, very few units are being rehabilitated by banks. Moreover these mechanisms do not provide protection from statutory dues or other creditor action. There is, therefore, a need for an alternate mechanism to re-examine the viability of such units and implement a rehabilitation package in a time bound manner. It is suggested that for MSME units in the micro and small sector found to be unviable by the banks, an administrative mechanism may be put in place at district level, under the GM (DIC) to re-examine the viability and implement a rehabilitation package, wherever necessary. The rehabilitation package may comprise of relief and concessions in statutory dues by the State Governments/autonomous bodies, Power Supply Company etc. The State Governments may formulate appropriate schemes for this purpose. If there is need for fresh infusion of capital, of the 30% promoters' contribution requirements laid down by the banks, 20% may be provided by the Central Government and the balance 10% may be brought in by the promoters themselves. The Central Government may support setting up of rehabilitation fund in the States to meet the share of the promoters' contribution in the approved package. This may be provided as a loan at concessional rates (1-2%) to the entrepreneur and disbursed through the bank. An amount of Rs.1,000 crore may be set aside for a scheme to be formulated by the MoMSME for this purpose.

District Level Committees will be convened by GM, DIC and comprise of representatives of leading banks, representatives of SIDBI and SFC/SIDC, state government officials including representatives of power supply company (whether government or private) and MSME Associations. The rehabilitation Cell set up in DICs will form the Secretariat of these committees. It will receive and monitor the applications and will also draw up a panel of Technical Officers/ Chartered Accountants to provide assistance in the preparation of the rehabilitation packages. The Rehabilitation cell in consultation with the entrepreneur shall prepare the rehabilitation packages and place before the Committee for approval. The entire process of preparation of rehabilitation plan to finalization of the rehabilitation package should be completed in 2 months time. Till the rehabilitation package is finalized, all statutory and bank payments will be kept in abeyance. This will be binding on all parties by issuance of Government order by the State Government.

In order to incentivize quick sanction and implementation of the rehabilitation packages, RBI may permit the asset classification of the account to be retained as prevailing on the date of reference provided the scheme is implemented within 90 days of the reference without taking cognizance of the restructuring/ reschedulement that may have been allowed by the banks earlier. The banks should devise a liberal OTS policy for small enterprises particularly micro enterprises found unviable by the District level Committee.

(Action: Ministry of MSME/State Governments/Banks – 6 months)

(iii) In place of the outdated Provincial Insolvency Act, 1920, action may be initiated to formulate and circulate a model Insolvency Act within 6 months which will have enabling provisions for time bound revival and exit for the unincorporated firms. The model Act should take into consideration the following 4 critical elements: (a) a specialized quasi-judicial body, to appraise viability and set up time bound revival/ closure plans; (b) enabling provisions for a holding period for revival; (c) segregation of business assets from personal assets based on reasonable norms; and (d) speedy winding up in case the business is determined as non-revivable.

(Action: Ministry of MSME in consultation with M/o Company Affairs & Ministry of Law & Justice – 6 months)

c. Taxation Matters

(i) The Department of Revenue in collaboration with MSME Associations (including CII) shall organize seminars/workshops on GST, with special sessions for MSMEs, for wider debate and allaying the apprehensions of the MSMEs about GST.

(Action: Department of Revenue – 1 month)

(ii) Department of Revenue to convene separate pre-Budget meetings for discussing issues relating to MSMEs.

(Action: Department of Revenue – As per schedule)

(iii) To evaluate the impact of not allowing exemptions for MSMEs under GST, the Federation of Industries in the North East Region (FINER) will undertake studies of specific products produced in both MSME and large sectors analyzing the cost impact of taxes on MSMEs vis-à-vis large enterprises.

(Action: Ministry of MSME/FINER – 2 months)

(iv) Department of Revenue may examine the suggestion regarding raising the limit for tax audit from Rs. 40 lakh to Rs.1 crore in 3 months time.

(Action: Department of Revenue – 3 months)

(v) The scope of presumptive taxation has been extended to all small businesses with a turnover of Rs. 40 lakh, which provides the option to all such taxpayers to declare their income from business at the rate of 8% of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. The Department of Revenue and the Ministry of MSME may jointly organize awareness programmes on presumptive taxation for MSMEs.

(Action: Department of Revenue/Ministry of MSME – 1 month)

(vi) MSME Associations will take steps to guide their members in the facility of e-filing of IT returns through interactive workshops.

(Action: Department of Revenue/MSME Associations – 3 months)

d. Labour Issues

(i) All out efforts may be taken to get the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Amendment Bill passed. The amendment will increase the coverage of the Act to existing 16 Acts and ‘small’ establishments will cover employees between 10 to 40 workers as against 19 in the Principal Act. Further, the Ministries of Labour and Employment and MSME may jointly examine the feasibility and desirability of a separate legislation (single & comprehensive) for MSE Sector.

(Action: Ministry of Labour & Employment – 6 months)

(ii) The ESIC and EPF Acts may be examined by the Ministry of Labour & Employment in consultation with stakeholders with a view to find if the social security objectives under these Acts could be met through other mechanisms. Further, the Ministry may also examine ways of utilizing Rs.5000 crore lying unclaimed with EPFO for the welfare of workers and bring it for approval within 3 months.

(Action: Ministry of Labour & Employment – 3 months)

(iii) To reduce compliance costs, merger of ESIC and EPFO forms into a single form with separate entries for ESIC and EPFO and payment through a single cheque in respect of the deposits against three EPF Schemes may be done within 30 days.

(Action: Ministry of Labour & Employment – 1 month)

(iv) The Task Force noted that computerization of the activities of ESIC and EPFO is in process. The same needs to be expedited.

(Action: Ministry of Labour & Employment – 2 months)

(v) The amendments in the Factories Act, 1948 may be undertaken in consultation with the Ministry of MSME and MSME Associations.

(Action: Ministry of Labour & Employment – no time lines)

(e) <u>Infrastructure/Technology/Skill Development</u>

<u>Infrastructure</u>

(i) Local bodies may be encouraged to set aside substantial part of the collections derived from industrial estates, to upgrade infrastructure such as roads, drainage, sewage, power distribution, water supply distribution, etc. for the existing industrial estates. Alternatively, industrial estates could be notified as separate local bodies as envisaged in the Constitution and entrusted with municipal functions that shall include levy of taxes, responsibility to maintain the infrastructure within the Industrial Estate, etc. As this may involve some reforms/changes in the existing laws/administrative arrangements, a suitable reforms-cum-financial package may be evolved to incentivise the State Governments, within 3 months.

(Action: Ministry of MSME/State Governments – 5 months)

(ii) Expand the scope of the existing Integrated Infrastructural Development (IID) scheme of Ministry of MSME to cover the private sector.

(Action: Ministry of MSME – 6 months)

(iii) For new industrial parks/areas being developed under various programmes of different Ministries, where there is no specific provision for locating MSEs, it may be made mandatory to earmark at least 40-45% (preferably 60%) of available land for MSEs.

(Action: All Ministries/Departments – 3 months)

(iv) Flattened Factory Complexes may be set up, particularly in and around large cities for MSEs on PPP mode. On similar lines, dormitories for industrial workers in industrial estates may be set up.

(Action: Ministry of MSME – no time lines)

(v) Setting up of common facility services in the industrial estates/clusters on PPP mode be encouraged by providing adequate assistance under various on-going schemes of the Ministry.

(Action: Ministry of MSME – on-going)

(vi) Encourage setting up/earmarking of at least one industrial estate in each block for MSEs. Wherever possible, private sector participation may be encouraged.

(Action: State Governments – no time lines)

<u>Technology</u>

(i) Set up a mechanism in the Ministry of Defence to ensure that the offsets under defence purchases are suitably focused to support the small and medium enterprises in upgrading their capacities, capabilities and technology. Ministry of MSME may be associated in this exercise. The Offset Policy for other departments under consideration should also give priority for extending on the benefits under the off-set policies to the MSMEs in the country. The mechanism for review should include a representative of the MSME.

(Action: Ministry of Defence/Department of Commerce – no time lines)

(ii) The initiatives taken under National Manufacturing Competitiveness Programme (NMCP) by the Ministry of MSME for technology upgradation and competitiveness, such as Application of Lean Manufacturing, Implementation of quality management system and quality technology tools, Design Interventions for MSME sector, Scheme for Marketing Assistance, etc., be further strengthened and the required flexibility in operationalising such initiatives should be encouraged. The adoption of ICT (Information and Communication Technology) for MSMEs be encouraged on highest priority to enable SMEs to compete in global market.

(Action: Ministry of MSME – on-going)

(iii) A coordinating body (to function as a Technology Bank) be established for continuous interaction with various agencies engaged in development of new technologies for the MSMEs like Department of Science and Technology, Department of Scientific and Industrial Research, Department of Bio-Technology, Council of Scientific and Industrial Research, etc., for dissemination of information on appropriate technologies among the MSMEs. This body may also have representatives of MSME Associations.

(Action: Ministry of MSME – 4 months)

(iv) A symbiotic relationship between the MSME clusters and the Technical Institutions be developed by linking each cluster with a Technical Institution to solve the technical and design related problems of the MSMEs.

(Action: Ministry of MSME – 3 months)

(v) All stakeholders should extend financial support to engineering/technical institutes for undertaking research for technological upgradation in MSMEs. To encourage such research, 150% deduction be allowed for contribution made towards funding of R&D work in the engineering/technical institutes under section 10 (21) of Income Tax Act.

(Action: Ministry of MSME/Ministry of HRD/Department of Revenue – 2 months)

(vi) Funding to about 1,000 engineering/technical institutes located across the country be provided for setting up of Business Incubators. Schemes of Department of Science and Technology/MSME may be upgraded and enhanced for this purpose.

(Action: Ministry of MSME/DST – 6 months)

(vii) For supporting innovations and technology advancement in rural areas, the Council for Advancement of People's Action and Rural Technology (CAPART) under the Ministry of Rural Development should play a more active role and should come out with specific schemes in this regard.

(Action: Ministry of RD/CAPART – 6 months)

(viii) A Technology Acquisition/Development Fund or an appropriate scheme be formulated in consultation with the Planning Commission and others within 3 months to support MSMEs to undertake technology acquisition, adaptation and innovation to enable them to move up the value chain and effectively meet the challenges of a competitive environment. The funds for this purpose may be made available through budgetary sources. A substantial part of the fund should go towards promotion of clean technologies among MSMEs so as to meet our national commitment to reduce emission intensity by about 20% between 2005 & 2020.

(Action: Ministry of MSME/Planning Commission – 3 months)

(ix) To strengthen the infrastructure of existing product-specific technology development centres and set up new such centres in different parts of the country in collaboration with MSME Associations/Industry, a scheme may be evolved in consultation with the Planning Commission. Setting up of new institutions in collaboration with MSME Associations/Industry may be actively encouraged.

(Action: Ministry of MSME/Planning Commission – 6 months)

Skill Development

The Task Force noted that the Government has already put in place a comprehensive institutional structure for Skill Development. This consist of (i) National Council on Skill Development headed by the Prime Minister of India - to lay down broad policy objectives, financing, governance models and strategies; (ii) National Skill Development Coordination Board in the Planning Commission - to implement the decisions of the National Council and develop appropriate operational guidelines and instructions; and (iii) National Skill Development Corporation - to enable the corporate sector to initiate major steps in skill development. The PM's National Council has set a target to train 500 million people by 2022. Further, the Government has also approved the National Policy on Skill Development with the objective to create a workforce empowered with improved skills, knowledge and internationally recognized qualifications to gain access to decent employment and ensure India's competitiveness in the dynamic global labour market. The Task Force was of the view that skill development initiatives for MSMEs would have to be dovetailed with the overall national framework of the skill development. Under these overarching objectives, the Task Force recommended the following:

(i) The Prime Minister had recommended that State Government may making available the existing Government infrastructure like school/college buildings, etc. to the private sector for running entrepreneurship/skill development courses The recommendation of the Prime Minister should be pursued. The Ministry of MSME may take up the matter with the Ministry of HRD and the State Governments. the State Governments.

(Action: Ministry of MSME/Ministry of HRD/State Governments – 3 months)

(ii) To integrate entrepreneurship/skill development with the secondary, intermediate and university level education, appropriate course curricula be designed and developed by a central entrepreneurship/skill development organisation and included in the curricula of the education system all over the country.

(Action: Ministry of HRD – 6 months)

(iii) Linkages between industry and entrepreneurship/skill development centres be strengthened by incentivising Industry Chambers/Associations to set up skill development centres.

(Action: Ministry of MSME – no time lines)

(iv) Existing Entrepreneurship/Skill Development Centres (both public and private) should give special thrust on training of trainers to ensure a cascading effect. For this purpose, the Ministry of MSME may develop course modules for 'Training of Trainers Programme' through its National Entrepreneurship Development Institutes.

(Action: Ministry of MSME – 3 months)

(v) The Ministry of MSME should expand the coverage under its existing entrepreneurship and skill development programmes by adopting innovative models like tie-ups with NGOs, educational and technical institutions, Entrepreneurship Development Institutes and e-learning. Infrastructure of specialized entrepreneurship/skill development institutions in government sector may also be suitably scaled up for this purpose.

(Action: Ministry of MSME – on-going)

(vi) Setting up of entrepreneurship/skill development in private sector be encouraged through various programmes/schemes of the Ministry of MSME. For this purpose, the Ministry of MSME may evolve a system to part compensate the cost of training through financial assistance to trainees. This could either be a new scheme or a component under any of the existing schemes for skill and entrepreneurship development.

(Action: Ministry of MSME – action initiated)

(vii) To establish a strong relationship between the students of ITIs, polytechnics, engineering and other institutes, the Apprenticeship Act should be reviewed and, if possible, enlarged so that MSEs are encouraged to provide on-the-job training. Draft amendments should be prepared in consultation with Member (Industry), Planning Commission and others within 3 months.

(Action: Ministry of Labour – 3 months)

(viii) The local Panchayati Raj Institutions should be involved in imparting the required training to the artisans and village industry workforce. The Ministry of MSME may firm up the proposal in consultation with the Ministry of Panchayati Raj/Rural Development.

(Action: Ministry of MSME – 4 months)

(ix) Awareness for innovative/new vocations based on the requirements of industry in domestic as well as international markets should be created to encourage youth in undertaking such activities.

(Action: Ministry of MSME – 3 months)

<u>Institutional Structures</u>

- There are multiple Government agencies engaged in the formulation of policy for the MSMEs and its implementation, often with overlapping schemes. While the Ministry of MSME has the overall mandate for promotion and development of MSMEs in the country, different ministries have their own policies and programs for the MSMEs in their sectors of functional areas. There is a need for a co0ordinated and comprehensive institutional framework for maximizing results of the various initiatives taken by the government. This framework also needs to be extended to the point of delivery with appropriate structures at the district level. The Task Force therefore recommends the following.

- Government should set up an independent body at the national level for the promotion and development of MSMEs. This body may provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganized sector, promote technology development (including clean technologies), provide marketing support and co-ordinate & disseminate information relevant to MSMEs.

- Currently, the Development Commissioner (MSME) is the focal point for all policy matters, formulation of various promotional and developmental schemes as well as channelising certain incentives and subsidies to the MSME sector, the Small Industries Development Bank of India (SIDBI) is the principal financial institution for financing and related promotional and development work for MSMEs, while the National Small Industries Corporation Limited (NSIC) has been set up to facilitate MSMEs in procurement of raw material and helping in marketing of their products. In addition, various Ministries/Departments of the Government have promotional policies and developmental schemes for the MSMEs in their specific sector.

- The proposed independent body could use the existing structures of aforesaid organizations with appropriate changes in their charter and mandate. The experience of other countries with such institutions (Such as the Small Business Administration, in the United States) may be considered while deciding on the mandate and structure of the National level institution.

- As institutional re-building is an intricate task, an Expert Group may reflect on this and come up with suitable recommendations on the structure and mandate of this body within a timeframe of three months and submit these to the Prime Minister. This Expert Group may be headed by Member, Planning Commission and comprise of Deputy Governor, RBI; Secretary (MSME); DC (MSME); CMD SIDBI and CMD NSIC.

- At the district level, concrete steps will be taken to revamp the District Industries Centres (DICs) and ensure that they emerge as genuine agencies for the promotion of the sector. The DICs should be strengthened for providing comprehensive information on policies/schemes, project profiles on viable activities in the District, marketing support through organizing exhibitions, etc. A cell may be set up in DICs for facilitating revival/rehabilitation of sick MSMEs. The infrastructure of DICs should be used for running entrepreneurship and skill development courses. The DICs should also assist MSMEs in obtaining credit facilities as well as monitor the credit flow to MSMEs from the financial institutions.
- A well thought out, properly funded Centrally Sponsored Scheme may be prepared to enable DICs to play a more active role in advocacy and capacity building for potential and existing entrepreneurs. This requires not only the strengthening of the DICs with provision of modern IT enabled communication facilities but also re-training of the human resources available with these institutions. Wherever viable, active involvement of the private sector

for revamping the DIC network should be considered. Such re-engineering of the DICs may be supported by the Central Government by a grant of up to Rs. 1 crore per DIC.

(Action: Ministry of MSME – 6 months)

(f) Marketing:

Implementation of a Public Procurement Policy for Micro & Small Enterprises

The Task Force was informed that Section 11 of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 includes a provision on 'procurement preference policy' to facilitate procurement of goods and services produced and provided by Micro and Small Enterprises by the Ministries and Departments of Central and State Governments, its aided institutions and Public Sector Enterprises. Further, internationally the MSEs are provided governmental support through targeted benefits/facilities such as earmarking of a specific percentage of government procurement for exclusive purchase from MSEs and assistance in marketing development, export promotion, etc. For instance, in USA, the Small Business Administration assigns annual goals for procurement by federal departments in consultation with them, for ensuring compliance of the legislated minimum procurement of 23 per cent from small businesses. Similarly, in South Africa, the 2000 Preferential Procurement Policy Framework Act provides that a preference point system must be followed in awarding public contracts, in order to promote the advancement of people historically disadvantaged by unfair discrimination on the basis of race, gender or disability.

A policy for public procurement from MSEs has been prepared by the Ministry of MSME after several rounds of consultation with the procuring Departments. This envisages an annual goal of procuring a minimum of 20 per cent of the total value of goods/services purchased by the Government from the MSEs. The policy would cover procurements by the Central Ministries/Departments, Central Public Sector Undertakings, Government projects as well as PPP projects.

It was also informed that several procuring departments and agencies impose restrictive conditions such as minimum turnover criteria, availability of specific machines, procurement of specific brands, etc. These result in ousting MSEs from the bidding process. Based on the discussions held, the Task Force recommended that:

(i) The Ministry of MSME may bring up the policy before the Committee of Secretaries at the first instance. Further, the policy should include a mechanism for redressing the grievances of MSEs faced by them in Government procurement, including imposition of unreasonable conditions in the tenders. Further, a joint exercise with Ministry of Corporate Affairs may be carried out to evolve norms of procurement for the private sector units.

(Action: Ministry of MSME/ Min. of Corporate Affairs – action initiated)

Marketing facilitation to Micro, Small & Medium Enterprises (MSMEs)

The Task Force noted the Sub-Group recommendations with regard to strengthening of schemes like 'Consortia Formation', 'Brand Building', 'E-marketing through specialized MSME portals', 'Assistance in product designing & packaging', 'Assistance in publicity of MSME products' and holding of more domestic & international exhibitions in order to provide increased marketing support to the micro, small & medium enterprises in the country. It was also noted that some of the existing schemes being implemented by the Ministry of MSME are already catering to the needs of MSMEs in the areas of packaging, consortia formations and brand building, domestic and international exhibitions, etc. Based on the discussions held, the Task Force recommended that:

(ii) The Ministry of MSME may further strengthen and enlarge its existing schemes relating to product designing, packaging, setting up of marketing hubs, etc. in order to expand their reach and coverage of larger number of MSME units.

(Action: Ministry of MSME – on-going)

(iii) National Small Industries Corporation (NSIC) may increase its operations under Consortia Formation and Brand Building to 4 – 5 times of its existing level of activity once the next three years.

(Action: Ministry of MSME/NSIC – 6 months)

(iv) NSIC to set up a specialized Cell to collect and disseminate both domestic and international marketing intelligence in coordination with other relevant departments/agencies like Ministry of Commerce, India Trade Promotion Organization (ITPO), Federation of Indian Export Organization (FIEO), export promotion councils etc.

(Action: Ministry of MSME/NSIC – 3 months)

(v) The NSIC may organize at least 6 sector-specific International level trade fairs in metropolitan cities each year, wherein MSMEs may be provided built-up space at concessional rates to transact B2B business. Further, ITPO may organize product-specific special international exhibitions for MSMEs with involvement of NGOs and MSME Associations.

(Action: Ministry of MSME/NSIC/ITPO – 3 months)

Distribution of Industrial Raw Materials to MSMEs

It was reported that MSME units have been facing difficulties in getting certain critical items of raw materials like iron & steel, aluminum, copper, zinc, plastic granules, bitumen, packaging paper etc., due to sharp fluctuations in market prices, non-availability of small quantities of such materials at reasonable prices and non-availability of some of the materials in time. NSIC and other State Corporations have helped bridge the gap in the distribution of these raw materials which is substantially helping the MSMEs in making their operations competitive. Based on the discussions held, the Task Force recommended that:

(vi) The NSIC should develop a workable system for distribution of raw material to MSMEs in consultation with the MSME Associations and State agencies engaged in such activities.

(Action: Ministry of MSME/NSIC – 3 months)

Equity Support to NSIC

The Task Force noted that NSIC would require additional financial resources to implement the schemes/activities mentioned at (b) and (c) above. While NSIC could mobilize resources from the banks, it would require additional equity support to leverage its net-worth and raise additional market borrowings. Further, by providing sufficient equity support to the NSIC, the schemes/activities to be funded by the Marketing Development Fund of Rs.1,000 crore could also be undertaken by NSIC. Based on the discussions held, the Task Force recommended that:

(vii) The National Small Industries Corporation (NSIC) should be strengthened and made the apex organization for coordination of marketing support programmes for MSMEs. For this purpose, the Government may provide an equity support of Rs. 300 crore to NSIC.

(Action: Ministry of MSME – 3 months)

(g) Special Measures for North-East Region and Jammu & Kashmir

North-East Region

(i) To develop synergies among the various schemes of different Ministries/Departments w.r.t. MSME, a Committee under the Chief Secretary and comprising of representatives of different Central Ministries/ Departments may be constituted in consultation with M/o DONER.

(Action: Ministry of MSME/DONER – 3 months)

(ii) The development focus to shift on thrust areas with promising prospects, such as handicrafts, horticulture (including bamboo and bamboo application), textiles, live stock development, leather and food processing by pursuing the cluster development approach more vigorously.

(Action: Ministry of MSME – action initiated)

(iii) NSIC may evolve a scheme in consultation with DONER and the State Governments to organize exhibitions of NER products in major State capitals. Suitable incentives may be worked out to neutralize the cost of transport and travel.

(Action: Ministry of MSME/NSIC – 3 months)

(iv) The infrastructure of Indian Institute of Entrepreneurship, Guwahati be strengthened and its branches be opened in all the NE States with participation of the Central Government, State Governments and the industry.

(Action: Ministry of MSME – 3 months)

(v) The recommendations of the Usha Thorat Committee Report on the Financial Sector Plan for NER, which are yet to be implemented or need further up scaling, action be undertaken expeditiously.

(Action: RBI – 3 months)

(vi) The Department of Financial Services to encourage banks/FIs to promote micro finance culture and the capacity building in NER.

(Action: DFS – no time lines)

(vii) The Task Force noticed the disparity in the utilization of subsidy under the NEIIPP-2007 between the States. The respective State Governments may look into the reasons and work out remedial measures.

(Action: State Governments – no time lines)

(viii) Under the NEIIPP-2007, incentives may be allowed for subsequent expansion also in the case of existing MSMEs. However, there will be a ceiling of investment in plant and machinery/equipment of Rs.10 crore and Rs.5 crore for manufacturing and services respectively.

(Action: DIPP – 2 months)

(ix) Under the Growth Centre Scheme implemented by DIPP, release of funds amounting to Rs. 33.35 crore for 5 functional centres is pending. Since the scheme has been discontinued from 1.4.2009, the Ministry of MSME may honour these commitments by providing funds from the Micro and Small Enterprises-Cluster Development Programme (MSE-CDP).

(Action: Ministry of MSME – 2 months)

Jammu & Kashmir

(i) The special package for J&K is similar to the package for the NER under NEIIPP-2007 in respect of Interest Subsidy Scheme and Comprehensive Insurance Scheme. However, under Capital Investment Scheme, the subsidy provided under J&K package is 15% of the investment in Plant & Machinery subject to a maximum of Rs.30 lakh, whereas under NEIIPP-2007 it is provided @ 30% of the investment in Plant & Machinery and there is no upper limit for claiming subsidy. For the MSME sector in J&K, the Capital Investment Subsidy Scheme may be implemented on the same terms and conditions as applicable to the North East Region under NEIIP, 2007 after modification. Further, specifically for the MSME sector, subsidy may be allowed for first and subsequent expansion till the total investment in plant and machinery reaches the upper ceiling of Rs.10 crore (manufacturing/Rs.5 crore (services) as per MSME norms.

(Action: DIPP – 2 months)

(ii) Presently in J&K the definition of 'new unit' and 'existing unit' is based on 'date of taking effective steps for setting up of a unit.' On lines of NEIIPP-2007, units in the MSME sector commencing commercial production after 14.6.2002 may be treated as new units irrespective of whether effective steps to set up these units were taken prior to 14.6.2002.

(Action: DIPP – 2 month)

(iii) With regard to 410 sick units, which became sick due to disturbed conditions in the state, the financing pattern of the restructuring/rehabilitation packages may include 70% as loan component from banks, 20% would be the interest free margin money from the Government and the balance 10% would be promoter's own contribution. A Rs.100 crore fund may be set up for this purpose from the Plan resources of the DIPP. The Funds may be provided to Jammu & Kashmir Development Finance Corporation (JKDFC) for channelising the same to the banks concerned.

(Action: DIPP – 4 months)

(iv) JKDFC may become more active in the State since JKSFC is not providing loans. Further, JKDFC may be made member lending institution under CGTMSE.

(Action: DIPP/Ministry of MSME/CGTMSE – 1 month)

(v) Under the Growth Centre Scheme implemented by DIPP, release of funds amounting to Rs.5.75 crore for 1 functional centre is pending. Since the scheme has been discontinued from 1.4.2009, the Ministry of MSME may honour these commitments by providing funds from the Micro and Small Enterprises-Cluster Development Programme.

(Action: Ministry of MSME – 2 months)

(vi) Regarding revival of JKSFC, the State Government should come out with definite plan for this purpose which should be examined by DFS.

(Action: State Government/DFS – no time lines)

<u>Both NER & J&K</u>

(i) To meet the genuine subsidy claims, the Department of Industrial Policy and Promotion may indicate the amount of pending claims and estimate the approximate provisions required for the current year. The Task Force makes a special recommendation for providing adequate budgetary provisions in RE 2009-10 for meeting all claims pending as on 31.3.2009.

(Action: DIPP – 1 month)

(ii) Regarding the particular demands of MSME Associations like refund of central excise, taxation of incentives, abolition of minimum alternative tax, exemption from income and service tax, etc., a Group in the Prime Minister Economic Advisory Council may be requested to examine these issues vis-à-vis the proposed GST system and suggest measures to mitigate the concerns of the MSMEs and their Associations within a month.

(Action: PMEAC – 1 month)