FINAL REPORT OF THE TASK FORCE

Draft of Final Report of the Task Force

Contents

Chapter I

The Micro, Small and Medium Enterprises (MSME) Sector
(Organised and Unorganised Sector)

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well known. It is the nursery for entrepreneurship, often driven by the individual creativity and innovation, with a significant contribution in the country's GDP, manufacturing output, exports and employment generation. MSMEs contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSMEs and the overall growth in the MSMEs is much higher than in the larger industries. MSMEs are better dispersed. In view of these factors, MSMEs are important for achieving national objectives of growth with equity and inclusion.

As per the quick estimates of 4^{th} All-India Census of MSMEs, the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons (**Appendix I**). Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment.

The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships.

MSMEs in the country manufacture over 6,000 products. Some of the major sub-sectors in terms of manufacturing output are food products (18.97%), textiles and readymade garments (14.05%), basic metal (8.81%), chemical and chemical products (7.55%), metal products (7.52%), machinery and equipments (6.35%), transport equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).

In view of the MSME sector's role in the economic and social development of the country, the Government has emphasized on its growth and development. It has taken various measures/initiatives from time to time which have facilitated the sector's ubiquitous growth. Some of the recent measures include enactment of the Micro, Small and Medium Enterprises Development Act, 2006, amendments to the

Khadi and Village Industries Commission Act, announcement of a Package for Promotion of Micro and Small Enterprises (MSEs), launching of new/innovative schemes under National Manufacturing Competitiveness Programme (NMCP), launching of Prime Minister's Employment Generation Programme (PMEGP) to generate employment opportunities, etc.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced, the levels of technology employed, etc. These could be broadly grouped into the following three categories, based on the different sets of constraints faced and requirements of policy interventions:

(a) <u>High Growth Enterprises</u>

One end of the MSME spectrum contains highly innovative and high growth enterprises. These include MSMEs in sectors like textiles and garments, leather and leather products, auto components, drugs and pharmaceuticals, food processing, IT hardware and electronics, paper, chemicals and petrochemicals, telecom equipment, etc. Such enterprises not only have high potential for growth but could also contribute significantly in enhancing country's exports. One of the major constraints in growth of such enterprises is access to equity capital. At present, there is almost negligible flow of equity capital into this sector despite the fact that overall such capital inflow has witnessed significant increase in the recent years. There is, therefore, a need to promote inflow of equity capital into this sector by providing suitable incentives to MSME-focused angel/venture capital funds as well as by setting up of SME Exchanges/platforms.

Another aspect that is critical for their growth is technology. Given their scale of operations, it is not only difficult for them to invest in research and development activities but even to acquire modern and latest technologies available in the market due to high costs. The Government has launched the National Manufacturing Competitiveness Programme with the objective of enhancing the competitiveness of MSMEs. The programme includes several new and innovative schemes (viz., Lean Manufacturing, Design Clinics, Quality Management Standards and Quality Technology Tools, Incubators, etc.) for assisting the MSMEs in adoption of best international practices to enhance their competitiveness. Simultaneously, there is a need to make massive efforts for dissemination of information on the latest/modern technologies among the MSMEs and supporting them for undertaking technology upgradation, acquisition, adaptation and innovation. In addition, the Government also needs to encourage R&D in the engineering/technical institutions through suitable tax incentives and setting up of Business Incubators.

(b) <u>Enterprises with market linkages (Sub-Contracting)</u>

Promotion of sub-contracting has been one of the important ingredients of the policy envisaged for the development of MSMEs in the country. Several measures have been taken by the Government towards this endeavour such as ancilliarisation, vendor development programmes, buyer-seller meets, etc. This has resulted in a significant number of micro and small enterprises operating under some system of sub-contracting with large enterprises. Such arrangements has not only helped in providing marketing linkages but has also resulted in technological linkages through provision of product specification and design. However, in view of the dependent relationship of such enterprises with the large enterprise, they also face several problems. Some of the major problems include: (i) Considerable delays in payments; (ii) Uncertainty – in case of rejection, the small firms end up with practically no option but to dispose off their products; (iii) Linkages such as financial and supply of raw material are seldom provided by the buyer enterprises; and (iv) Buyer enterprises are not bothered to ensure that such enterprises operate with minimum working conditions or comply with various regulations related to their working.

In the present globalised regime, there is an increasing pressure on industries to reduce costs to withstand the domestic as well as international competition. Sub-contracting offers significant scope for cost reduction and may lead to higher incidence of sub-contracting among micro and small enterprises. It is, therefore, important to address the constraints faced by the enterprises operating under such arrangements. While the MSMED Act, 2006 provides for more rigorous provisions to counter the problems of delayed payments to the MSEs, the sense of insecurity of contract prevents them from taking legal action for recovery of dues. The MSE Facilitation Councils constituted in the States have to become more active to help MSEs in quick resolution of disputes relating to delayed payments. Further, the MSMEs need to be supported through appropriate programmes/schemes with focus on skill development and technology upgradation for improving the quality of their products so that rate of rejection is minimized. Also, there is a need to provide enabling legal environment by suitably amending the labour and urban zoning laws that is conducive to setting up of new enterprises as well as functioning of existing enterprises.

(c) <u>Unorganised Sector Enterprises</u>

No discussion on MSMEs can be complete without a full treatment of the unorganized sector in which enterprises are typically established through own funds or funds obtained through non-institutional sources, they lack managerial bandwidth, do not have established channels for marketing and are centered around a single traditional technology. More than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector.

The National Commission for Enterprises in the Unorganised Sector (NCEUS) defines unorganized sector as enterprise employing less than 10 workers. It has estimated such enterprises at 58 million with employment generated of 104 million persons. Of these, more than half the workers are classified as ‘self-employed’. A large segment in this universe of self-employed consists of those who are engaged in non-farm activities. This segment predominantly consists of own account enterprises, i.e., where there are no hired workers and are run by self with or without the help of unpaid family members. The own account enterprises can be distinguished into those running within households and those outside the households. The household enterprises operate on the basis of family labour – organizing production on its own, acquire its own raw material, use its own machinery and tools and market its products. Apart from own account enterprises, this segment also consists of enterprises having hired workers between 2 to 9. Very often, these enterprises are located in clusters but function independently without inter-firm linkages.

Shortage of capital, particularly working capital, is the major problem faced by the enterprises in the unorganized sector. Further, the field studies undertaken by NCEUS indicate that seasonality of markets is another major problem faced by them. Although enterprises in the unorganized sector do not report skill shortages as a major constraint – may be because skilled workers demand higher pay, leave to work for competitors or establish enterprises themselves – it remains a serious barrier towards their upgradation/modernization. A similar situation exists for technology upgradation – market uncertainties, lack of information, etc. have resulted in poor adoption of even the available technologies by the enterprises in the unorganized sector.

Based on the examination of the problems faced by the enterprises in the unorganized sector, the NCEUS has submitted eleven reports to the Government. In these reports, the NCEUS has made several recommendations for facilitating adequate access to credit, technology, skill development, etc. The recommendations for augmentation of credit flow, inter alia, include revising Priority Sector Lending Guidelines to earmark 12% of Net Bank Credit (NBC) for micro enterprises, providing Adequate Safety Nets to the Banks by undertaking modifications in Credit Guarantee Scheme, fixation of annual targets of new accounts of non-farm unorganised sector enterprises by each bank branch (of commercial, RRBs, co-operative), same rate of interest on loans up to Rs.5 lakh to non-farm unorganised enterprises as for agriculture and creation of a National Fund for the Unorganised Sector (NAFUS). Similarly, for skill-related issues of the unorganized sector, the Commission has recommended launching of a National Mission for Development of Skills in the Unorganised Sector and a massive Programme for Employment Assurance and Skill Formation with the aim to develop human capital through on-job-training. Further, the Commission has recommended adoption of Mission Mode approach for promotion of technology in the unorganized sector.

The social security aspects relating to the unorganized sector have been sought to be addressed by the Unorganised Workers Social Security Act, 2008 (UWSSA). The UWSSA provides for a National Social Security Board at the Central level and for welfare schemes to be formulated by the Central Government on matters relating to (a) health and disability cover, (b) health and maternity benefits, (c) old age protection, and (d) any other benefits as may be determined by the scheme (Indira Gandhi National Old Age Pension Scheme, National Family Benefit Scheme, Janshri Bima Yojana, Rashtriya Swasthya Bima Yojana etc. are among the welfare schemes notified in Schedule 1 of the Act under the Central Government). The Act provides a State Social Security Board at the state level to recommend suitable schemes in the State sector and monitor social welfare schemes for unorganized workers. Schemes relating to (a) Provident Fund (b) Employment Injury Benefit (c) housing (d) educational schemes for children (e) skill upgradation of workers, (f) funeral assistance; and (g) old age homes, is to be formulated and administered by the State Governments.

Policy Implications

In addition to the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation. There is considerable segmentation among the MSMEs in terms of their size and need tailor made policies for each size class. The policies and programmes for the micro and small enterprises in the unorganized sector would need to address their survival strategies and should be in the direction of providing livelihood alternatives such as social security, skill formation and credit. On the other hand, policies/programmes for the larger sized MSMEs need to address issues relating to marketing, access to raw material, credit, skill development and technology upgradation. The Government policy must focus its attention to ensure support to the growth-oriented MSMEs to prosper as also to provide an enabling atmosphere for the MSMEs in the unorganised sector to flourish and progressively integrate with the organized sector. At the same time, the government must take effective steps for the welfare of the workers in this sector.

During the past few decades, for several reasons, not unconnected with the way industrial growth took place in our country, labour related issues had focused on regulation rather than welfare. Though labour welfare has taken deep roots, the actual number of workers in the country provided with social security continues to be quite small in relation to the work force. Therefore, if we are to reach out to the uncovered segment we need to focus equally on regulation and welfare.

Future Strategy:

The future strategy ought to focus on providing social security to the unorganised workers in the MSME sector in terms of the mandate under the UWSSA. The definition of each segment of unorganized worker will have to be clearly evolved because this will facilitate identification of workers for providing social security. This will also help in the registration of such workers.

The UWSSA provides for issuing a smart card to each of the worker. The smart cards are already being issued under Rashtriya Swasthya Bima Yojana (RSBY), but the scheme extends to only BPL families. This scheme can gradually be extended to other segments of unorganized workers as are identified in due course. The RSBY platform can also be used for incorporating other social security schemes like Aam Admi Bima Yojana which is presently riding on an independent platform. Thus, there needs to be a convergence of schemes as far as possible on a single platform which will facilitate an easier and convenient delivery of benefits to the target group without any leakage.

The existing socials security schemes incorporate a fund mechanism. In case of RSBY, 75% of the premium is paid by the Central Government and the remainder by the States. In case of Aam Admi Bima Yojana, it is 50:50. Since these schemes are meant for poorest of the poor, almost the entire funding is by the government. However, for schemes that are to be extended to non-poor workers, a contribution can be sought from the workers and, where employer can be identified, even by the employer. The RSBY is being operated in the States through State nodal agencies which are separate legal entities that are wholly owned by the State Governments. These independent institutions can be gradually assigned task of implementing the other social security schemes in respective states.

Chapter II

Setting up of the Task Force

The Hon'ble Prime Minister met the representatives of 19 prominent MSME Associations on 26th August 2009 to discuss matters impacting the growth of MSME sector. During the meeting, several important issues were highlighted by the MSME Associations including shortage of credit, need for a focused procurement policy, prompt payment of MSME dues, simplification of labour laws, formulation of a one-time settlement policy, etc. to strengthen the MSMEs and remove bottlenecks in their development. The Prime Minister announced setting up of a Task Force to reflect on the issues raised by the associations and formulate an agenda for action within a period of three months after deliberation with all stakeholders.

Accordingly, a Task Force under the chairmanship of the Principal Secretary to Prime Minister was constituted to address the issues of MSME sector. The composition of the Task Force is given in **Appendix II**. The Task Force classified these issues into 6 major segments and constituted separate Sub-Groups for detailed examination. These Sub-Groups included credit, marketing, labour, exit policy, infrastructure/technology/skill development and taxation. A separate Sub-Group was constituted to look into the specific problems relating to the North-East and Jammu & Kashmir. The composition and scope of work of the seven Sub-Groups are enclosed at **Appendix III**. Each Sub-Group examined the specific issues assigned to it over a series of meetings, held detailed deliberations with all the stakeholders, including MSME Associations, and submitted their Reports to the Task Force.

Chapter III

Issues concerning the MSME sector

The problems faced by MSMEs (access to bank credit, access to capital, technology, skill, market, etc.) are quite unique to the nature of the sector. These concern several institutions and departments of the Government. There is, therefore, a need for an MSME perspective in the functioning of such institutions and departments. Some of the major bottlenecks impeding the growth of the MSME sector are briefly discussed in the subsequent paragraphs.

Access to adequate and timely credit at a reasonable cost is the most critical problems faced by this sector. The major reason for this has been the high risk perception among the banks about this sector and the high transaction costs for loan appraisal. While the quantum of advances from the public sector banks (PSBs) to the MSEs has increased over the years in absolute terms, from Rs.46,045 crore in March 2000 to Rs.1,85,208 crore in March 2009, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has declined from 12.5 per cent to 10.9 per cent during the same period. Similarly, there has been a decline in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009. Access to Equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector, despite the fact that overall capital inflows have witnessed significant increase in the recent years. Absence of equity capital may pose a serious challenge to development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge.

In the present global environment, the MSMEs have to be competitive to survive and thrive. To ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends. MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganised manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable. Further, the MSE sector in India, with some exceptions, is characterised by low technology levels, which acts as a handicap in the emerging global market. As a result, the sustainability of a large number of MSEs will be in jeopardy in the face of competition from imports. Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with the right skill set for specific areas like, manufacturing, service, marketing, etc. The HR problem is further exacerbated by the low retention rate.

While India continues to be a growing market with overall economic development, cheap imported goods have a direct impact on the MSEs and its survival. Given their globalisation, governments across the world provides supportive measures to the MSEs through targeted benefits and facilities. In line with the practice internationally, a Public Procurement Policy for MSEs is vital to ensure a stable market for the MSEs.

Worldwide, MSMEs are credited with high level of innovation and creativity, which also leads to higher level of failures. Keeping this in view, most of the countries have put in place mechanisms to handle insolvencies and bankruptcies. The present such mechanism available in India for MSMEs is archaic. It does not focus on revival. Hence, business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. An enabling policy environment, which helps viable enterprises facing temporary disruptions to continue while allowing others to close down speedily, with an appropriately structured social security base, is essential for the promotion of MSMEs in India.

Although the government has provided an overarching legislation in the form of MSMED Act, 2006 for the MSME sector, there is a large number of regulatory issues which impact on the development of entrepreneurship generally and on the efficiency of MSMEs in particular. The regulatory aspects concern compliance with labour, environment, urban and various taxation laws (both state and central). An understanding of the concerns from all perspectives, including regulator, labour and MSMEs, will help in formulating a friendlier regulatory environment which would facilitate promotion and ensure better compliance.

Chapter IV
Status of recommendations of earlier Committees/Working Group relevant to the sector

In the past, several Committees/Study Groups, that had been set up to look into the issues relating to MSMEs, have made important recommendations for the promotion and development of this sector. Action taken on the recommendations of these Committees/Study Groups is briefly summarized as under:

a. Expert Committee on Small Enterprises

An 'Expert Committee on Small Enterprises' was constituted under the chairmanship of Shri Abid Hussian, Former Member, Planning Commission. This was expected to address the need for reforms in the existing policies and design new policies for MSME development to facilitate the growth of viable, agile and efficient enterprises responsive to technological change and international competition. Some of the major recommendations made by the Committee were as under:

- The concept of Small Scale Sector should be widened to include small scale business and service enterprises.*
- Complete abolition of reservation.*
- DICs need to be redesigned as autonomous District Enterprises Promotion Agencies (DEPAs) with participation from business associations, government agencies, banks etc.
- RBI should promote the speedy establishment of the local area banks in the districts where SSI clusters have been identified.
- SIDBI in co-operation with national credit rating agencies should promote the establishment of local credit rating agencies in the identified SSE clusters. The government could provide a small seed fund to help in kick starting this process.*
- Limited Partnership Act should be enacted as soon as possible.*
- Earmark a minimum of 70% of priority lending allocated to Small Scale Sector to the tiny sector.
- Establish funds at both central and state level in order to design schemes which provide matching funds as incentives to clusters industry associations to establish the required technology support institutions.*

- Government should make provision for matching funds to be provided for establishing skills development centres.
- On the lines of Marketing Development Assistance Fund set up earlier in EXIM Bank with World Bank assistance, a fund be created and operated through SIDBI for assisting the targeted SSE exporting units.
- A suitable mechanism be evolved to promote marketing outlets specialising in marketing the products manufactured by the tiny sector.
- States should form State Industrial Park Authorities to facilitate the entry of the private sector.
- The new single business law called the ‘Basic Law for Small Enterprises’ should be enacted.*
- The labour laws should be waived for enterprises employing upto 50 workers with power and 100 without power if employers agree to pay for unemployment insurance.

On the recommendations that were accepted by the government (marked as *), the required action has been taken and/or completed.

b. <u>Study Group on Development of Small Scale Enterprises</u>

A ‘Study Group on Development of Small Scale Enterprises’ was set up under the chairmanship of Dr. S.P. Gupta, the then Member, Planning Commission in May 1999 to, inter alia, examine the existing policies/programmes for SSI development, review the definitions and legal framework, examine the necessity of reservation policy, suggest innovative instruments/institutions to build up the equity base, review the fiscal policy/ tax incentives, examine the impact of various regulatory laws and procedures and review the problems/prospects of marketing of SSI sector. The main recommendations of the Study Group are as under:

- A three tier definition including: (i) Tiny unit: upto Rs 10 lakh investment; (ii) SSI unit: above Rs. 10 lakhs to Rs. 100 lakhs in plant and machinery; (iii) Medium unit: Rs. 1 crore to Rs. 10 crores in plant and machinery.*
- Need for a single comprehensive law for SSI sector like Small Business Administration (SBA) Act of United States.*
- For infrastructure development, a corpus of Rs.2000 crore be set up so that adequate infrastructure facilities are available to the SSI sector.

- An Incubation Infrastructure Development Fund with a corpus of Rs.1000 crore for setting up of incubation centres.
- Strengthening of factoring services.
- FDI to be encouraged in SSIs for better technology transfer (within the permitted ceiling of equity participation by large scale units in the equity of SSI units).
- Allowing excise exemption on SSI manufactured goods for large units under brand name in urban areas as is presently allowed for rural areas.
- To free SSI sector from rigid and harassing regulatory laws applicable to the SSI sector and to reduce inspectors' visit, the Study Group recommended a number of measures, like (i) need for a single unified Act for small enterprises, (ii) replacement of inspection by self certification, (iii) simplification of regulatory laws, etc.
- To enhance the data base for the SSI sector, the Study Group recommended (i) conduct of fresh census for SSI sector, (ii) collection of detailed data on clusters, (ii) sample survey by the office of DC(SSI) to be conducted annually, and (iv) involvement of SSI associations in the census and other data collection activities.*
- Setting up of targets for tiny and SSI units for credit from banks and FIs under priority sector lending.
- Need for reduction of cost of credit for SSI sector.
- Setting up of more specialized bank branches for SSI sector.*
- Measures for strengthening resource support to SIDBI and to make available cheaper resources for on-lending at low interest rates to SSI sector.*
- Venture capital for SSIs.
- Setting up of special venture capital type fund of Rs.500 crore to be named as Laghu Udyog Nirman Nidihi for equity support.*
- Standardisation of procedure and simplification of forms by banks.

- Statutory backing to State Level Inter-Institutional Committees (SLIICs).
- Raising the present excise exemption limit for Rs.50 lakh to Rs.100 Lakh.*
- Extension of Credit Guarantee Fund Scheme with a corpus of Rs.2500 crore.*
- More effective monitoring of credit flow to SSI sector by the Monitoring Committee of RBI.*
- Setting up of a Technology Bank for collection and dissemination of information about technology resources.
- A Technology Up-gradation & Modernisation Fund of Rs.5000 crore with an interest subsidy of five per cent.
- Accelerated depreciation on plant machinery installed for technology up-gradation and modernisation.
- Statutory backing and continuation of the priced preference (upto 15% to SSI products) under Government Purchase Programmed and Purchase Preference Scheme in respect of 358 items on the lines of USA.
- Subsidisation of participation of SSI units up to 50% in air fare for export related buyer-seller meets.*
- Timely release of institutional finance for export orders of SSI units.

On the recommendations that were found feasible (marked as *), the action has been taken/ completed.

c. <u>Committee to Examine the Adequacy of Institutional Credit to SSI Sector</u>

A Committee was constituted by Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the issues related to the matter of SSI finance. The Committee submitted its report in 1992. All the major recommendations of the Committee have been accepted and the banks advised to:

i) give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;

ii) grant working capital credit limits to SSI units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs.2 crore [since raised to Rs.5 crore];

iii) prepare annual credit budget on the `bottom-up' basis to ensure that the legitimate requirements of SSI sector are met in full;

iv) extend ‘Single Window Scheme’ of SIDBI to all districts to meet the financial requirements (both working capital and term loan) of SSIs;

v) ensure that there should not be any delay in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;

vi) not to insist on compulsory deposit as a `quid pro-quo’ for sanctioning the credit;

vii) open specialised SSI bank branches or convert those branches which have a fairly large number of SSI borrowal accounts, into specialised SSI branches;

viii) identify sick SSI units and take urgent action to put them on nursing programmes;

ix) standardise loan application forms for SSI borrowers; and

x) impart training to staff working at specialised branches to bring about attitudinal change in them.

d. <u>High Level Committee on Credit to SSI</u>

The Governor, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India, to look into various problems, germane to credit flow to SSI sector and suggest appropriate measures for their redressal. These recommendations were examined by the RBI and most of the recommendations were accepted. Some of the major recommendations accepted are:

i) Delegation of more powers to branch managers to grant ad-hoc limits;

ii) Simplification of application forms;

iii) Freedom to banks to decide their own norms for assessment of credit requirements;

iv) Opening of more specialised SSI branches;

v) Enhancement in the limit for composite loans to Rs. 5 lakh (*since enhanced to Rs.1 crore);*

vi) Strengthening the recovery mechanism;

vii) Banks to pay more attention to the backward states;

viii) Special programmes for training branch managers for appraising small projects;

ix) Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

x) Framing a separate law for small enterprises;

xi) According SIDBI the role and status of the nodal/co-ordinating agency for financing of small enterprises;

xii) Publicity to the Margin Money Scheme of the KVIC;

xiii) Simplification and rationalisation of loan application forms;

xiv) Promotion of SSI cluster level activities and facilities.

Some of the major recommendations that were not accepted by the RBI are:

(i) To encourage banks to take up rehabilitation of potentially sick SSIs, some relaxation in Income Recognition and Asset Classification norms should be provided;

(ii) SSI should get a special treatment in the matter of interest rates. In view of their contribution to the economy, they should normally get credit at PLR; and

(iii) Consequent upon the revision in the definition of SSI, the 40% allocation of SSI credit for units having investment in plant and machinery upto Rs.5 lakh may continue. However, the allocation of 20% for units having investment between Rs.5 lakh and Rs.25 lakh should be raised to 30%.

e. <u>Working Group on Flow of Credit to SSI Sector (Ganguly Committee)</u>

As per the announcement made by the Governor, Reserve Bank of India, in the Mid-Term Review of the Monetary and Credit Policy 2003-2004, a “Working Group on Flow of Credit to SSI sector” was constituted under the Chairmanship of Dr. A.S. Ganguly. The Committee made 31 recommendations covering wide range of areas pertaining to financing of SSI sector. The major recommendations commended to banks for implementation are as under:

i) adoption of cluster based approach for financing MSME sector;

ii) sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;

iii) sanctioning of higher working capital limits by banks operating in the North East region to SSIs, based on their commercial judgement due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;

iv) exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs, and

v) revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending.

The recommendations that were not accepted by the RBI are:

(i) Risk sharing mechanism between foreign banks and SIDBI on credit extended to the SME sector by SIDBI; and

(ii) Uniform target in priority sector lending at 40% of Net Bank Credit for all domestic and foreign banks.

f. National Commission for Enterprises in the Unorganised Sector (NCEUS)

The Government of India constituted National Commission for Enterprises in the Unorganised Sector (NCEUS) in September 2004 to examine the problems confronting enterprises in the unorganized sector and make appropriate recommendations to provide technical, marketing and credit support to the enterprises. In pursuance of the above, the NCEUS has submitted eleven reports to the Government relating to various issues connected with the unorganized sector. Brief summaries on each of the reports along with status thereof are as under:

(i) Report on 'National Policy on Urban Street Vendors': The Prime Minister's Office requested the NCEUS to examine and comment on the National Policy on Urban Street Vendors prepared by the Ministry of Housing & Urban Poverty Alleviation in early 2004. The Commission has identified a number of issues relating to urban street vendors in India including the implications of local administration laws, social security issues, penal clause under different laws, credit issues, etc. Besides enunciation of policy on urban street vendors, the

Commission has suggested GoI to initiate amendments to the IPC and Police Act and frame central legislation and also encourage State Governments to legislate/frame rules on the basis of central legislation to suit local conditions.

<u>Status:</u> The Report was considered by the IMG in its meeting held on 10th June 2009. The Ministry of Housing and Poverty Alleviation informed that the Revised National Policy on Urban Street Vendors 2009 and Model Street Vendors (Protection of Livelihood and Regulation of Street Vending) Bill 2009 have been approved by the Union Cabinet. Since street vending is a State subject, these documents have been forwarded to the State/UT Governments for suitable and appropriate adoption. It was agreed that the action may be treated as complete.

(ii) <u>Reports on (a) ‘ Social Security for Unorganised Workers’, (b) ‘Conditions of Work and Promotion of Livelihoods in Unorganised Sector’ (c) ‘Comprehensive Legislation for Minimum Conditions of Work and Social Security for Unorganised Workers’</u>: These reports have focused on the protective social security for workers in the informal sector. The Commission has recommended a National Minimum Social Security Scheme for all unorganized workers, consisting (i) Health Benefits to cover hospitalization, sickness allowance, and maternity benefit. (ii) Life insurance to cover natural and accidental death (iii) Provident Fund cum Unemployment Benefit for APL workers and pension of Rs.200 per month for old aged (60+) BPL workers. The reports also propose comprehensive protective legislations for agricultural workers and the unorganized non-agricultural workers. The legislation include provisions for regulating minimum conditions of work, social security, welfare and livelihood promotion. In view of the differences between agricultural non-agricultural workers in the condition of work, the Commission has proposed two separate Bills.

<u>Status:</u> The Report was considered by the IMG in its meeting held on 10th June 2009. The Ministry of Labour & Employment informed that the Government has notified the Unorganised Workers’ Social Security Act, 2008 to provide for the social security and welfare of unoganised workers. The Unorganised Workers’ Social Security Rules 2009 have also been framed and notified. Further, three schemes have been introduced, viz., the Rashtriya Swasthya Bima Yojana, the Aam Admi Bima Yojana and the Old Age Pension. It was agreed that the action may be treated as complete.

<u>(iii) Reports on ‘Financing of Enterprises in the Unorganised Sector’ and ‘Creation of a National Fund for Unorganised Sector’</u>: The Report on ‘Financing of Enterprises in the Unorganised Sector’ examined in detail the status of financing to this sector and deals with the deficiencies in institutional infrastructure, constraints in financing this sector and provides a set of comprehensive recommendations. These, inter alia, include revising Priority Sector Lending Guidelines to earmark 12% of Net Bank Credit (NBC) for micro enterprises, providing Adequate Safety Nets to the Banks by undertaking modifications in Credit Guarantee Scheme, each bank branch (of commercial, RRBs, co-operative) may fix annual targets of new accounts of non-farm unorganised sector enterprises, same rate of interest on loans up to Rs.5 lakh to non-farm unorganised enterprises as for agriculture, introducing innovative financing instruments such as factoring services, venture capital, etc. Further, based on examination of the constraints faced by the unorganised sector enterprises in regard to the credit and developmental support, the NCEUS has proposed creation of a National Fund for the Unorganised Sector (NAFUS). The National Fund proposed by the Commission is envisaged as a statutory body funded by the Central Government and Financial Institutions to primarily focus on non-farm micro enterprises with investment of less than Rs.5 lakh.

Status:

(i) The Report on 'Creation of a National Fund for Unorganised Sector' was considered in the first meeting of the IMG held on 14th November 2008. Based on the decisions taken in the meeting of the IMG and the subsequent deliberations held with the Ministries/Departments concerned, a Note for consideration of the Cabinet was submitted to the Cabinet Secretariat. The IMG in its meeting on 10th June 2009 observed that since a note is already under submission for the consideration of the Cabinet, we may await the outcome thereof. Subsequently, a meeting was held under the chairmanship of Secretary (Coordination), Cabinet Secretariat on 16th July 2009 to consider the aforesaid Note submitted by the Ministry of MSME. After detailed deliberations, the following decisions were taken: (a) The Department of Financial Services (DFS) will take action to put in place suitable administrative arrangements to operationalise a Special Cell in SIDBI for refinancing to micro enterprises; (b) DFS will take steps at the earliest to earmark Rs.1000 crore with the Special Cell; (c) DFS will also take appropriate steps for ensuring that there is continuous and close interaction between SIDBI and the representatives of the micro enterprises sector, and take other measures as necessary to increase the effectiveness of credit delivery to this sector; and (d) The operation of this arrangement may be reviewed after six months.

(ii) The report on ‘Financing of Enterprises in the Unorganised Sector’ was considered by the IMG in its meeting held on 10^{th} June 2009. The Ministry of MSME informed that the issue of fixing of a separate sub-target of 15% for the MSE sector under the priority sector lending targets was taken with the Reserve Bank of India/Department of Financial Services. However, the same has not been agreed to. After reviewing the position, the Ministry of MSME is now pursuing the issue of earmarking 6% of NBC for micro enterprises under the priority sector lending targets with the Reserve Bank of India/Department of Financial Services. It was pointed that at present the share of micro enterprises advances to NBC is around 4.9% and earmarking 6% of NBC for micro enterprises would enable an additional credit flow of over Rs.18,000 crore to the sector. The IMG recommended that 6% of NBC should be earmarked for the micro enterprises which could be reviewed after one year. On the issue of lowering the interest rates for loans to the unorganized sector, it was agreed that the Ministry of MSME may formulate a scheme to provide interest subvention for loans upto Rs.5 lakh.

(iv) **Report on ‘Definition and Statistical Issues relating to Informal Economy’:** The Report has analysed in detail the concept and the quantitative status of the informal sector and made recommendations with regard to definitional issues, data base and structure and contribution of the unorganised sector to the GDP. The major recommendations, inter alia, include, harmonising the multiplicity of definitions of unorganized sector currently in use, introduction of annual surveys of non-manufacturing enterprises in line with Annual Survey of Industries, improving the survey methods on continuing basis, strengthening of quinquennial employment-unemployment surveys, strengthening of annual employment-unemployment surveys to estimate the employment generation in informal sectors and estimation of the contribution of informal sector to GDP as a part of the National Accounts Statistics.

Status: The Report was considered by the IMG in its meeting held on 10^{th} June 2009. The Ministry of Statistics and Programme Implementation informed that broadly there are two issues: (i) definition of unorganised sector and (ii) undertaking more surveys for the unorganised sector. While they are in agreement on the first issue, the second issue would require more manpower. It was agreed that the Ministry of Statistics and Programme Implementation may conduct one thematic survey relating to the unorganised sector every year, the theme being decided in consultation with Ministry of MSME. For the first survey the theme could be impact of global economic slowdown on the enterprises in the unorganised sector.

(vi) <u>Report on 'Skill Formation and Employment Assurance for the Unorganised Sector'</u>: This report has focused on the skill-related issues of the unorganized sector and has, inter alia, recommended the following: (i) The National Skill Development Coordination Board (NSDCB) should launch a National Mission for Development of Skills in the Unorganised Sector, to support skill development in the unorganised sector, (ii) Launch of a massive Programme for Employment Assurance and Skill Formation with the aim to develop human capital through on-job-training, (iii) For Vocational training, a three tier structure with a National Council for Vocational Training (NCVT) at the national level, Sate Council for Vocational training at the state /UT level and District Skill Development Council (DSDC) at the district level have been proposed, (iv) Strengthening of the Skill Development Initiative (SDI) and expansion of the Entrepreneurship Skill Development Programmes (ESDP), and (v) The Commission has advocated that: (a) a sum of Rs. 5000 crore be allocated to the NSDCB for a National Mission for Skill Development in the Unorganised Sector for supporting the cost of setting up and operating the proposed institutional infrastructure for expansion of training initiatives at the district level and, (b) at least a doubling of the existing training schemes under the SDI and MSME (Rs.1000 crore); and (c) Rs.10,000 crore for the proposed Employment Assurance Scheme.

<u>Status</u>: The Report was considered by the IMG in its meeting held on 10^{th} June 2009. Chairman observed that these recommendations should be linked to the Skill Development Mission and incorporated in the implementation of National Skill Development Policy.

(vii) <u>Report on 'Growth Pole Programme for Unorganised Sector Development'</u>: The report provides growth pole theory and approach, NCEUS approach to growth poles, case for growth pole, recommendations, etc. In addition, executive summaries of 6 pilot growth pole projects (Sikandara, Chamoli, Kollam, Champa, Howrah and South West Kamrup Growth Poles) have been given. The major recommendations, inter alia, include adoption of Growth Pole model as the strategy for the development and strengthening of the unorganized sector enterprises in India, 25 Growth Poles (one in each State) be supported during 11^{th} Plan and Growth Pole should be given the same incentive being offered to Special Economic Zones (SEZs).

<u>Status</u>: The Report was considered by the IMG in its meeting held on 10^{th} June 2009. It was agreed that it would be better if the cluster development programme currently underway was strengthened/enlarged to incorporate elements of growth poles, instead of introducing a new scheme at this stage.

(viii) **<u>Report on 'Technology Upgradation for Enterprises in the Unorganised Sector'</u>**: The Commission has observed that the unorganized sector is not adequately prepared to meet the internal and external competition. Technology acquisition, adaptation and innovation will facilitate the unorganised enterprises to move up the value chain and effectively meet the challenges of a competitive environment and overcome the prevailing disjunction between the organised and small and micro enterprises. The Commission has recommended adoption of Mission Mode approach for promotion of technology in the unorganized sector and creation of a National Council for policy formulation under the Chairmanship of the Prime Minister. It has envisaged linkages between governments, colleges and technical institutions and R & D centres with MSEs and closer co-operation of the MSEs with large and medium enterprises. The Commission has proposed a 4 tier institutional structure with an Apex Institution at the National level and appropriate structures at State, District and local levels, for promotion and dissemination of information for technology upgradation. The Commission has recommended strengthening polytechnics & IITs for Rural/Small town areas for linking technology with skill, launching country wide programmes on entrepreneurship and innovation as a national movement by MSME DIs and adoption of Unorganised Enterprises by Technical Colleges. The commission has also recommended changes in the existing schemes for technological upgradation of the Ministries of Textiles and MSME.

<u>Status</u>: The Report was considered by the IMG in its meeting held on 10th June 2009. It was agreed that promotion of technology in the unorganised sector can be done through Council for Advancement of People's Action and Rural Technology (CAPART) under Ministry of Rural Development as this is one of the core activities of the organisation. For this purpose, Ministry of MSME may be provided Rs 5 crore per annum for 3 years on a pilot basis to be spent through CAPART. The proposal could be considered for expansion during the XII th Five Year Plan.

(ix) **<u>Report on 'The challenge of Employment in India – An Informal Economy Perspective'</u>**: The report takes an aggregative perspective of what the Commission has called the central problem of the challenge of employment namely, deficit in its quantity and quality. This report is an over arching report that summarises the recommendations made by the NCEUS in its previous reports.

Status: The Report was considered by the IMG in its meeting held on 10th June 2009. The Ministry of Labour & Employment informed that they are in the process of consultation with their social partners.

g. Working Group on Rehabilitation of sick SMEs

In recognition of the problems being faced by the MSME sector, particularly with respect to rehabilitation of potentially viable sick units, the RBI had constituted a Working Group on 'Rehabilitation of sick SMEs' under the chairmanship of Dr. K. C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank in June 2007. The Working Group submitted its report to the RBI in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector. The RBI has issued a circular dated 4th May, 2009 to all scheduled commercial banks enclosing therewith recommendations made by the Working Group that needs to be considered by them. The banks have been advised to consider speedy implementation of the recommendations made by the Working Group with regard to timely and adequate flow of credit to the MSE sector. Further, the RBI has also advised the banks to undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors:

(i) Loan policy governing extension of credit facilities;

(ii) Restructuring/rehabilitation policy for revival of potentially viable sick units/enterprises; and

(iii) Non-discretionary One Time Settlement (OTS) scheme for recovery of non-performing loans.

The recommendations relating to the State Governments were forwarded by the RBI to the State Level Bankers' Committee (SLBC) Convenor Banks for taking up the issue in the SLBC meetings. The recommendations relating to the Central Government have been taken up with the concerned Ministries/Departments.

However, the RBI has not fully addressed the following recommendations contained in the report of the Working Group: (a) Change in the definition of sick MSEs, time-bound decision on viability, streamlining of procedure for declaring a unit as unviable and giving opportunity to units to present their case if found unviable to bring in greater transparency in the matter of rehabilitation; and (b) A more liberalized OTS Scheme, which may inter alia provide for settlement at a discount to the principal outstanding on the date of NPA and promoters made eligible for obtaining finance after settlement of the dues under OTS. In addition, there is also a need to consider setting up of various Funds, as recommended by the Working Group in its report.

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 RBI may examine the feasibility of extending the validity of special refinance facility of Rs.7000 crore provided to SIDBI up to 31st March 2011.

(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 – 1 month)

(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 – 1 month)

(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 – 9 months)

c. <u>Taxation Matters</u>

(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. <u>Labour Issues</u>

(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 – 3 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 – 3 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 – 1 month)

(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)

Technology

(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 – 2 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 – 6 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>District Industries Centres (DICs)</u>

(i) 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

Formatted: Indent: Left: 0", First line: 0.5", Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75" 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.

(ii) 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)

<u>Marketing facilitation to Micro, Small & Medium Enterprises (MSMEs)</u>

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 – 3 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 – 2 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) <u>Special Measures for North-East Region and Jammu & Kashmir</u>

<u>North-East Region</u>

(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 – 1 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)

Chapter VI
Report of the Sub-Group on Credit

SECTION I: BACKGROUND

A Task Force under the chairmanship of Principal Secretary to the Prime Minister has been constituted to address the issues of micro, small and medium enterprises (MSME) sector (copy enclosed). The Task Force in its first meeting held on 25th September 2009 decided to constitute seven Sub-Groups on credit, marketing, labour, exit policy, infrastructure/technology/skill development, taxation and special packages for North East and Jammu & Kashmir. Further, it was decided that the Sub-groups will send outlines of their recommendations to PMO with a copy to Secretary (MSME) by 26th October 2009. The composition and scope of work of the Sub-Group on Credit is enclosed at **Annexure I**.

The first meeting of the Sub-Group was held on 15th October 2009 to deliberate on the issues/problems relating to access to credit by the MSEs. The Sub-Group in its meeting decided to constituted a small group under the chairmanship of CMD, SIDBI and comprising of the CGM (SME), SBI, President, IFRASTE, President, Jharkhand Small and Tiny Industries Association and representative of O/o DC (MSME) to work out an action plan for facilitating/augmenting the flow of credit to MSEs. Based on the deliberations held in the meeting on 20th October 2009, the group submitted its recommendations to the Sub-Group. The Sub-Group considered the aforesaid recommendations in its meeting held on 26th October 2009.

The Sub Group would like to express its appreciation to all the Members of the Sub-Group for actively participating in the deliberations and providing valuable suggestions.

SECTION II: ISSUES AND STATUS

The micro, small and medium enterprises (MSME) sector constitutes an important segment of our national economy. As per the quick estimates of 4^{th} All-India Census of MSMEs, the number of enterprises is estimated to be about 26 million, providing employment to an estimated 60 million persons. The MSME sector is estimated to contribute to about 45% of the total manufactured output and nearly 40% to India's exports.

Although MSMEs contribute significantly to overall economy of the country, they suffer from several disadvantages. Of all the problems faced by the micro and small enterprises (MSEs), issues relating to credit are the most critical. Some of the major issues are:

- Availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Access to equity capital; and
- Rehabilitation of sick enterprises.

Credit related problems of MSE sector have been examined by several Committees in the past. The gist of action taken on the recommendations of the earlier Committees set up to examine the adequacy of institutional credit to MSE sector is enclosed at **Annexure II**. Further, in recognition of the problems being faced by the MSE sector particularly with respect to rehabilitation of potentially viable sick units, the RBI had constituted a Working Group on 'Rehabilitation of Sick SMEs' under the chairmanship of Dr. K.C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank. The Working Group submitted its report to the RBI in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector. The major recommendations of the Working Group are enclosed at **Annexure III to V**.

In spite of acceptance of most of the credit-related recommendations of these Committees by the Reserve Bank of India (RBI), the availability and cost of credit remain far from satisfactory. While the quantum of advances from the public sector banks (PSBs) to the MSEs has increased over the years in absolute terms from Rs.46,045 crore in March 2000 to Rs.1,85,208 crore in March 2009, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has declined from 12.5 per cent to 10.9 per cent during the period (**Annexure VI**). Similarly, there has been a decline in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009. The major reasons for low availability of bank finance to this sector are high risk perception of the banks in lending to MSEs and high transaction costs in processing of loan applications of MSEs. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs.

For addressing the credit issues relating to MSE sector, some of the major suggestions made by the MSE Associations are:

- Separate sub-target for micro enterprises under priority sector lending;
- Setting up of National Fund for the Unorganised Sector;
- Interest Subvention on Micro Enterprises Loans;
- Setting up of SME Exchange; and
- Implementation of the recommendations contained in the Report of the Working Group on Rehabilitation of sick SMEs.

The present status on each of the suggestions made by the MSE Associations is enclosed at **Annexure VII**.

SECTION III: RECOMMENDATIONS

Based on the examination of the reports of the earlier Committees and the suggestions made by the MSE Associations, the Sub-Group makes the following recommendations:

(a) Sub-target for micro enterprises under priority sector lending

The demand for fixing a sub-target of 6% for micro enterprises under the priority sector lending was examined by the Sub-Group. The Sub-Group is of the view that higher credit flows would follow from the existing stipulation of providing 60% of MSE credit to micro enterprises. The Sub-Group, therefore, recommends that:

(i) As already stipulated, all the scheduled commercial banks should achieve a year-on-year credit growth of 20% to micro and small enterprises and strictly adhere to allocation of 60% thereof to micro enterprises to ensure enhanced credit flow to micro enterprises. From 1st April 2010, any shortfall of any bank against the already accepted target of 60% to micro enterprises (of the total lending to MSEs) be put into a separate Fund with SIDBI. This Fund may be appropriately named. In this way at least from 1st April 2010 onwards, it will be ensured that the intended assistance to micro enterprises is provided one way or another. Of course, the preference would be for the banks to give credit and the expectation is that they will make full efforts to do so.

(ii) A high level Task Force be set up to review the progress against targets every quarter for the next year to point attention to States and Districts in which progress is unsatisfactory so that banks may pay special attention to their facilitation mechanism in those areas. This Task Force may be chaired by Member (Industry), Planning Commission, with the Chairman, Indian Banks' Association as a Member and the Secretary, Ministry of MSME as its Member Secretary.

(iii)A target of 15% growth in number of micro enterprise accounts may be stipulated for all scheduled commercial banks.

(b) Setting up of National Fund for the Unorganised Sector

SIDBI has already set up a Special Cell for refinancing micro enterprises. The Sub-Group recommends that the Special Cell should be adequately equipped to manage its operations. Further, the operations of Special Cell may be monitored by an Advisory Group comprising members from M/o MSME, D/o Financial Services and other concerned Departments/agencies. The Group may periodically meet and resolve any problems relating to lending of funds earmarked for micro enterprises. An evaluation of this arrangement may be done after a year to review its effectiveness and a separate body for this purpose may be considered if this mechanism is not found appropriate.

In addition, to provide promotional and developmental support and to advocate policy formulation for the unorganized/micro sector, a separate wing in the National Manufacturing Competitiveness Council (NMCC) may be set up.

(c) Interest Subvention on Micro Enterprises Loans

The Sub-Group recommends that M/o MSME may formulate the scheme relating to interest subvention for micro enterprise sector. While extensive deliberations were held on various parameters to be eligible for interest subvention (like fresh or existing loans, loan limit, extent of interest subvention, etc.), the Sub-Group feels that Ministry of MSME in consultation with SIDBI may work out budgetary implication for different scenarios for facilitating necessary decision by the Government.

(d) Setting up of SME Exchange

The Sub-Group recommends that SEBI may examine the proposals received by them early and expedite setting up of SME Exchanges in consultation with all the stakeholders. Further, to unleash the full potential for channelising equity/risk capital to the MSME sector, some broad policy issues that need to be looked at expeditiously are: (a) Change in bank lending norms for innovation start-up firms, and introduction of new debt instruments; (ii) Tax incentives including allowing setting up of domestic angel/venture capital funds in a Limited Liability Partnership (LLP) structure with a tax-pass through status; (iii) Allowing listing of angel/venture capital Funds on the existing Stock Exchanges; (iv) Public funding for setting up new venture funds.

(e) Implementation of the recommendations contained in the Report of the Working Group on Rehabilitation of sick SMEs

While the suggestions regarding creation of Rs.1,000 crore Rehabilitation Fund is being examined by the Sub-Group on Exit Policy, the Sub-Group supports creation of Rehabilitation Fund as recommended by the Working Group. Further, the Sub-Group recommends that RBI's instructions regarding a more liberalized One Time Settlement Scheme should be introduced by all the banks and the same may be placed on their web sites for wider dissemination.

(f) Other Recommendations

The Sub-Group is of the view that a suitable facilitating environment needs to be ensured to enable banks to extend advances to MSEs for undertaking viable activities. Based on the recommendations made by the earlier Committees/Working Group and the suggestions received from the MSE Associations, the Sub-Group recommends the following:

(i) The RBI had constituted a High Level Committee to review the Lead Bank Scheme under Smt. Usha Thorat, Deputy Governor, RBI. The Committee has since submitted its report to the RBI. The Committee has recommended drawing up of a road map for providing banking services at every village with a population of over 2000 at least once a week. Other recommendations, inter alia, include strengthening SLBC/DCC machinery and Lead District Manager's Office, streamlining information and reporting systems, creating awareness and attending to grievance redressal. The recommendations of the Committee should be implemented on priority basis for facilitating banking penetration and for strengthening the monitoring systems at State/District level.

(ii) The contagion of global financial crisis has affected the MSMEs through financial channel and real channel. In order to ensure the smooth flow of credit to this sector, RBI extended a special refinance facility of Rs.7,000 crore to SIDBI, which helped in dispensation of larger credit flow to MSEs. This facility has been extended by SIDBI to public sector banks and available up to March 31, 2010. In view of the effectiveness of this window, the RBI may consider extending this up to 31st March 2011 to ensure the flow of cost effective credit to micro enterprises.

(iii)Taking into account the recent experience during the economic slowdown, banks should extend liberal moratorium on their term loans and working capital to MSE entrepreneurs. Banks should include interest during first 6-12 months of operation as part of the long term funding of the projects of MSEs, since in most cases the projects do not start generating cash immediately after commencement of the operation. This would allow them to concentrate on stabilizing and achieving breakeven level of operations.

(iv)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 necessary documents to be attached with the loan application for completing the documentation should be made part of the loan application. The loan application forms should be available in downloadable form on the websites of all the banks. Banks should encourage receipt of loan application through website, on the lines of education loans.

(v) Banks may put in place an electronic tracking system for ensuring timely approval/rejection of loan applications of MSEs. MSEs 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.

(vi)Lead Bank in association with District Industries Centres should prepare shelf of viable project profiles for different activities having good concentration in the District on a periodic basis.

(vii) Banks should, as a policy, approve proposals for term loan and working capital simultaneously for MSE projects to avoid delay in tying up of funds by the MSEs. This would avoid overrun in cost and time, which is a major problem for MSEs.

(viii) Cluster-based approach for financing MSEs offers possibilities of reduction in transaction costs and mitigation of risks. Each lead bank of a district may adopt at least one MSE cluster. Banks should also open more MSE focused branch offices at different MSE clusters which can also act as Counseling Centres for MSEs.

(ix)Banks should encourage lending 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.

(x) Banks may be encouraged to use a scoring model to ensure speedy disposal of the loan applications from micro enterprises.

(xi)Recently, RBI has issued instructions to all Banks clarifying that coverage under CGTMSE is mandatory for all loans up to Rs.5 lakh. The RBI may consider increasing the above mandatory level to Rs.10 lakh for MSEs.

(xii) Banks may absorb the one-time guarantee fee and annual service fee under the Credit Guarantee Scheme to facilitate higher flow of credit to MSEs without collateral/third party guarantee.

(xiii) Most of the banks have adopted Banking Code for MSEs. Other may also be persuaded to adopt the code to bring about uniformity in operations.

(xiv) There is a need of regular training programmes for bank executives to sensitise them about the credit requirements needs of MSEs. 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. This would result in creation of cadre of trained officers in this field.

(xv) Banks branches should be encouraged to participate in organizing joint programmes relating to entrepreneurship and skill development, rural industrialization, etc. and also look at partnering in setting up of institutions like RUDSETI at different MSE clusters.

(xvi) In order to ensure continued liquidity for MSE suppliers, it is necessary that their receivables are converted into cash as quickly as possible. At present, there are not many avenues for encashing the receivables before maturity. RBI has constituted a Working Group to look into various options in the matter. This process need to be expedited for larger benefits of MSEs.

(xvii) There is need to evolve suitable legal framework for promotion of factoring services without recourse in the country for MSMEs.

(xviii) The Ministry of MSME should set up a 'MSME Helpline', which will act as one-stop source for MSME related information. This helpline may provide linkages to the 'SME Helpline' of the Banks for facilitating easy access to loan related information.

(xix) The Sub-Group feels that the credit availability is also linked to the credit absorption capacity of the potential entrepreneurs, especially in micro sector. Thus, there is a need of promoting entrepreneurship, creation of industrial estates, availability of adequate raw materials, availability of infrastructure and hand holding mechanism to link production with market. While other sub-groups will be able to recommend ways and means to ensure environment for higher credit absorption, some suggested measures are: (i) Establishment of a Technology Development Fund for facilitating setting up of Technology Development Centres for different MSME sectors; and (ii) Setting up of a Marketing Development Fund for strengthening the mechanism to link production with market.

*****

Annexure I

Composition and Scope of Work of the Sub-Group on Credit

Composition

(i) Shri Arun Maira, Member, Planning Commission	Chairman
(ii) Shri K.C. Chakrabarty, Dy. Governor, RBI	Member
(iii) Finance Secretary	Member
(iv) Secretary (MSME)	Member
(v) Chairman, State Bank of India	Member
(vi) CMD, SIDBI	Member
(vii) Shri DE Ramakrishan, INFRASTE	Member
(viii) Shri G.P. Dalmia, Jharkhand Small & Tiny Industries Association	Member

Scope of Work

(a) To examine the issues impacting adequate and timely credit flow to the Micro and Small Enterprises (MSEs) and the Unorganised sector;

(b) To consider various suggestions made by the MSE Associations, including earmarking of a separate sub-target under the priority sector lending, setting up of a Fund for the Unorganised Sector, setting up of SME Exchange, etc.

(c) To consider the recommendations of the various Committees/Working Groups relating to credit and sickness;

(d) To recommend measures to improve the credit flow to the MSE/ Unorganised sector; and

(e) To recommend delivery mechanism for credit to MSE/unorganized sector.

Annexure II

Action Taken on the Recommendations of earlier Committees set up to examine adequacy of Institutional Credit to MSE Sector and related aspects

(a) A Committee was constituted by the Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the issues confronting SSIs in the matter of obtaining finance. The Committee submitted its report in 1992. All the major recommendations of the Committee were accepted and the banks advised to:

i) give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;

ii) grant working capital credit limits to SSI units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs.2 crore [since raised to Rs.5 crore];

iii) prepare annual credit budget on the `bottom-up' basis to ensure that the legitimate requirements of SSI sector are met in full;

iv) extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both working capital and term loan) of SSIs;

v) ensure that there should not be any delay in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;

vi) not to insist on compulsory deposit as a `quid pro-quo' for sanctioning the credit;

vii) open specialised SSI bank branches or convert those branches which have a fairly large number of SSI borrowal accounts, into specialised SSI branches;

viii) identify sick SSI units and take urgent action to put them on nursing programmes;

ix) standardise loan application forms for SSI borrowers; and

x) impart training to staff working at specialised branches to bring about attitudinal change in them.

(b) The Governor, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India, to look into various problems, germane to credit flow to SSI sector and suggest appropriate measures for their redressal. These recommendations were examined by the RBI and most of the recommendations were accepted. Some of the major recommendations accepted are:

i) Delegation of more powers to branch managers to grant ad-hoc limits;

ii) Simplification of application forms;

iii) Freedom to banks to decide their own norms for assessment of credit requirements;

iv) Opening of more specialised SSI branches;

v) Enhancement in the limit for composite loans to Rs.5 lakh (*since enhanced to Rs.1 crore);*

vi) Strengthening the recovery mechanism;

vi) Banks to pay more attention to the backward states;

viii) Special programmes for training branch managers for appraising small projects;

ix) Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

x) Framing a separate law for small enterprises;

xi) According SIDBI the role and status of the nodal/co-ordinating agency for financing of small enterprises;

xii) Publicity to the Margin Money Scheme of the KVIC;

xiii) Simplification and rationalisation of loan application forms; and

xiv) Promotion of SSI cluster level activities and facilities.

Some of the major recommendations that were not accepted by the RBI are:

(i) To encourage banks to take up rehabilitation of potentially sick SSIs, some relaxation in Income Recognition and Asset Classification norms should be provided;

(ii) SSI should get a special treatment in the matter of interest rates. In view of their contribution to the economy, they should normally get credit at PLR; and

(iii) Consequent upon the revision in the definition of SSI, the 40% allocation of SSI credit for units having investment in plant and machinery upto Rs.5 lakh may continue. However, the allocation of 20% for units having investment between Rs.5 lakh and Rs.25 lakh should be raised to 30%.

(c) As per the announcement made by the Governor, Reserve Bank of India, in the Mid-Term Review of the Monetary and Credit Policy 2003-2004, a “Working Group on Flow of Credit to SSI sector” was constituted under the Chairmanship of Dr. A.S. Ganguly. The Committee made 31 recommendations covering wide range of areas pertaining to financing of SSI sector. The major recommendations commended to banks for implementation are as under:

i) adoption of cluster based approach for financing MSME sector;

ii) sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;

iii) sanctioning of higher working capital limits by banks operating in the North East region to SSIs, based on their commercial judgment due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;

iv) exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs, and

v) revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending.

The recommendations that were not accepted by the RBI are:

(i) Risk sharing mechanism between foreign banks and SIDBI on credit extended to the SME sector by SIDBI; and

(ii) Uniform target in priority sector lending at 40% of Net Bank Credit for all domestic and foreign banks.

*****

Annexure VI

Credit flow to the micro enterprises and MSE sectors from the public sector banks (PSBs)

(Amount in Rs. crore)

	As at the end of March									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	***2008(P)**	***2009(P)**
Net Bank Credit (NBC)	3,16,427	3,41,291	3,96,954	4,77,899	5,58,849	7,18,722	10,17,614	13,17,705	13,64,268	16,93,437
Credit to MSEs	46,045	48,400	49,743	52,988	58,278	67,634	82,492	1,04,703	1,48,651	1,85,208
MSE Credit as percentage of NBC	14.6	14.2	12.5	11.1	10.4	9.4	8.1	8.0	10.9	10.9
Credit to micro enterprises	24,742	26,019	27,030	26,937	30,826	34,315	33,314	44,311	66,702	83,945
Micro Enterprises Credit as percentage of NBC	7.8	7.6	6.8	5.6	5.5	4.8	3.3	3.4	4.9	4.9

(P) Provisional
* As per revised definition.
Source: RBI

Annexure VII

Status on the suggestions made by the MSE Associations

(a) Sub-target for micro enterprises under priority sector lending

Around 99% of the enterprises in the micro and small enterprise (MSE) sector are micro enterprises and predominantly fall under the domain of unorganised sector. As per the extant guidelines of the Reserve Bank of India (RBI), of the total MSE credit, 60% is earmarked for micro enterprises. As per the data furnished by the RBI for the period ending March 2009, lending to micro enterprises in the MSE credit from public sector banks constitute only 45.3%. Further, the share of advances to the micro enterprises in the Net Bank Credit (NBC) of the public sector banks has been declining over the years. To ensure adequate credit flow to this hitherto neglected sector, there is a need to stipulate a sub-target for micro enterprises under the priority sector lending.

Status

The Ministry of MSME has taken up the issue of earmarking 6% of NBC for micro enterprises under the priority sector lending targets with the Reserve Bank of India (RBI)/Department of Financial Services. Taking into account the NBC at the end of March 2009, this would facilitate an additional credit flow to the tune of about Rs.18,000 crore from the public sector banks.

Responding to the above, the RBI has informed that the domestic scheduled commercial banks have already been set various targets for lending to priority sector, i.e., overall priority sector target of 40% and sub-targets of 18% and 10% for lending to agricultural sector and weaker sections. Further, the RBI is of the view that fixation of additional targets may not serve much purpose and instead a suitable facilitating environment needs to be ensured to enable banks to extend advances to borrowers for undertaking viable activities.

This issue was also considered in the meeting held under the chairmanship of Cabinet Secretary on 13th October 2009 to review the action taken on the recommendations contained in the reports of the NCEUS. It was informed that the Sub-Group on Credit under the Task Force would be addressing the issue of earmarking 6% of NBC for micro enterprises under the priority sector lending targets. As the matter is already under consideration, it was felt that the recommendations of the Task Force may be awaited.

(b) <u>Setting up of National Fund for the Unorganised Sector</u>

The National Commission on Enterprises in the Unorganised Sector (NCEUS) has estimated the size of the unorganized non-farm sector enterprises at 58 million during 2006-07, providing employment to 104 million workers. Of these, 94% are with an investment of less than Rs.5 lakh. The size of the sector is estimated to increase up to 71 million by 2011-12 and the additional employment to be provided during 11th Plan would be 22 million. Despite its large size, the credit to this sector has shown a declining trend. As per RBI data, the share of credit to the micro enterprises (predominantly unorganized sector enterprises) in the net bank credit of the public sector banks has declined from 7.8% in 2000 (Rs.24,742 crore) to 4.9% in 2009 (Rs.83,945 crore).

On the role of SIDBI and NABARD, which were set up to cater to the credit needs of the unorganised sector, the Commission has observed that despite a number of important initiatives, the efforts by these institutions fall far short of meeting the credit and other developmental requirements of the non-farm unorganised sector. The Commission has also looked into the existing funds under SIDBI and NABARD and opined that though these are special purpose funds, they are not specifically targeted for the unorganised sector. Also, there is no national level institution to meet the credit requirements, to provide promotional and developmental support and above all, to advocate policy formulation for the unorganised sector.

For achieving the objective of faster and inclusive growth, there is a need to provide financial and other promotional and developmental services to the unorganised sector. In line with the recommendations of the NCEUS, the National Fund for the Unorganised Sector as an exclusive national level development financial institution should be set up on priority basis.

<u>Status</u>

The Report on 'Creation of a National Fund for Unorganised Sector' was considered in the first meeting of the IMG held on 14th November 2008. Based on the decisions taken in the meeting of the IMG and the subsequent deliberations held with the Ministries/Departments concerned, a Note for consideration of the Cabinet was submitted to the Cabinet Secretariat. Subsequently, a meeting was held under the chairmanship of Secretary (Coordination), Cabinet Secretariat on 16th July 2009 to consider the aforesaid Note submitted by the Ministry of MSME. After detailed deliberations, the following decisions were taken: (a) The Department of Financial Services (DFS) will take action to put in place suitable administrative arrangements for operationalising a Special Cell in SIDBI for refinancing to micro enterprises; (b) DFS will take steps at the earliest to earmark Rs.1000 crore with the Special Cell; (c) DFS will also take appropriate steps for ensuring that there is continuous and close interaction between SIDBI and the representatives of the micro enterprises sector, and take other measures as necessary to increase the effectiveness of credit delivery to this sector; and (d) The operation of this arrangement may be reviewed after six months. Accordingly, SIDBI has set up a Special Cell for refinancing micro enterprises. Further, SIDBI has informed that about Rs.1,000 crore has been disbursed to the banks.

This issue was also considered in the meeting held under the chairmanship of Cabinet Secretary on 13th October 2009 to review the action taken on the recommendations contained in the reports of the NCEUS. During the meeting, it was clarified that that Rs.1,000 crore corpus created is from loans to be returned within 3 years and thus, there is a need for having another source of funding for enterprises in unorganized sector for giving long term loans. Further, it was decided that the Special Cell created in SIDBI may be monitored by an Advisory Group comprising members from M/o MSME, D/o Financial Services and other concerned Departments/ agencies. The Group may periodically meet and resolve any problems relating to lending of funds earmarked for micro enterprises.

(c) <u>Interest Subvention on Micro Enterprises Loans</u>

High cost of credit is one of the major problems faced by micro and small enterprises (MSEs) in accessing the requisite credit facilities from the banks/institutional sources. Despite several measures taken by the RBI in recent times, the interest rates charged by banks on MSE loans continue to be on higher side. This has adversely impacted the competitiveness of the sector and resulted in significant decline in orders, particularly those relating to exports. Since MSEs are predominantly dependent on banks/financial institutions for meeting their credit requirements, it is important that credit to the sector is made available at a cheaper rate for enhancing its competitiveness.

The agriculture sector is being provided loans at an interest rate of 7% through interest subvention. Recently, the Government has also announced interest subvention for the housing sector. The MSE Associations have been demanding that interest subvention on similar lines may also be provided to the micro enterprises for lowering the cost of credit to this labour-intensive sector.

<u>Status</u>

The issue of lowering the interest rates for loans to the micro enterprises was considered by the IMG in its meeting held on 10th July 2009 and it was agreed that the

Ministry of MSME may formulate a scheme to provide interest subvention to micro enterprises sector. To provide interest subvention of 3% to the existing borrowers (loan outstanding of Rs.1,00,000 lakh crore at end March 2009) will require funds of Rs.3,000 crore per annum. If subvention is also extended to incremental credit (projected growth of 25%), the annual additional requirement is Rs.750 crore, Rs.1680 crore and Rs.2850 crore in the three years of the Eleventh Plan.

This issue was also considered in the meeting held under the chairmanship of Cabinet Secretary on 13th October 2009 to review the action taken on the recommendations contained in the reports of the NCEUS. It was decided that M/o MSME may formulate the scheme relating to interest subvention for micro enterprise sector expeditiously and send it to Planning Commission. The Planning Commission may make suitable recommendations as necessary and forward the proposal to D/o Expenditure. M/o Finance may further examine the proposal and finalise their views on the proposed scheme well before the Budget announcement for next financial year.

(d) Setting up of SME Exchange

One of the critical constraints on the growth of MSMEs is its inability to raise equity funds/risk capital. Despite banks being selective and cautious in lending to them, the MSMEs have primarily relied on debt financing from banks and non-bank financial institutions. This is mainly because the Indian equity markets have been averse to funding smaller and early stage businesses. At present, the sources of equity funds/risk capital for the MSMEs are very limited.

One of the main reasons for this is the absence of a Stock Exchange for MSMEs or a separate platform of an existing stock exchange for the MSMEs. These enterprises are, therefore, unable to access capital market. An exchange designed for the needs of the Indian SMEs will have several advantages. Firstly, a dedicated SME Exchange shall lead to diversification of sources of finance for the SMEs by paving the path for raising risk capital. Another aspect of a growth in equity culture through this platform for SMEs is greater shareholder activism. The public scrutiny of SMEs is expected to raise productivity of the MSMEs by improving their governance processes and practices. An SME exchange will also build the bridge between SMEs and the private equity and venture capital by providing an exit route.

Status

The Securities Exchange Board of India (SEBI) Board in its meeting held on 25th October 2007 had agreed to creation of a separate Exchange for the SMEs. Accordingly, in

May 2008 a discussion paper was brought out on this issue and based on the feedback the SEBI had issued a framework for recognition and supervision of Stock Exchanges/Platforms of Stock Exchanges for SMEs in November 2008. This framework provided details regarding the eligibility criteria for setting up of new stock exchange/platform of an existing stock exchange for the SMEs, trading, clearing and settlement. Subsequent to the issue of framework and invitation to set up an exchange, SEBI has received Expression of Interest from some organisations to set up a platform for SMEs. These proposals are being examined by SEBI with respect to the norms that need to be relaxed further for setting up SME exchanges.

e. Implementation of the recommendations contained in the Report of the Working Group on Rehabilitation of sick SMEs

In recognition of the problems being faced by the MSME sector, particularly with respect to rehabilitation of potentially viable sick units, the RBI had constituted a Working Group on 'Rehabilitation of Sick SMEs' under the chairmanship of Dr. K.C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank in June 2007. The Working Group submitted its report to the RBI in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector.

Status

The RBI has issued a circular dated 4th May 2009 to all scheduled commercial banks (**Annexure VI**) enclosing therewith recommendations made by the Working Group that needs to be considered by them. The banks have been advised to consider speedy implementation of the recommendations made by the Working Group with regard to timely and adequate flow of credit to the MSE sector. Further, the RBI has also advised the banks to undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors:

(i) Loan policy governing extension of credit facilities;

(ii) Restructuring/rehabilitation policy for revival of potentially viable sick units/ enterprises; and

(iii) Non-discretionary One Time Settlement (OTS) scheme for recovery of non-performing loans.

In addition to the above, the recommendations contained in the report of the Working Group relating to the Central Government were forwarded by the RBI to the Ministry of MSME. After examination of the aforesaid recommendations, the Ministry of MSME has taken up these recommendations with the Ministries/Departments concerned (viz. Department of Financial Services, Department of Revenue, Department of Science and Technology and Ministry of Labour & Employment) for appropriate action. The recommendations relating to the State Governments were forwarded by the RBI to the State Level Bankers' Committee (SLBC) Convenor Banks for taking up the issue in the SLBC meetings.

However, the RBI has not fully addressed the following recommendations contained in the report of the Working Group: (a) Change in the definition of sick MSEs, time-bound decision on viability, streamlining of procedure for declaring a unit as unviable and giving opportunity to units to present their case if found unviable to bring in greater transparency in the matter of rehabilitation; and (b) A more liberalized OTS Scheme, which may inter alia provide for settlement at a discount to the principal outstanding on the date of NPA and promoters made eligible for obtaining finance after settlement of the dues under OTS. In addition, there is also a need to consider setting up of various Funds, as recommended by the Working Group in its report, to facilitate the growth of this sector.

Chapter VII
Report of the Sub-Group on Marketing

SECTION I: BACKGROUND

A Task Force under the chairmanship of Principal Secretary to the Prime Minister has been constituted to address the issues of micro, small and medium enterprises (MSME) sector (copy enclosed). The Task Force in its first meeting held on 25th September 2009 decided to constitute seven Sub-Groups on credit, marketing, labour, exit policy, infrastructure/technology/skill development, taxation and special packages for North East and Jammu & Kashmir. The composition and scope of work of the Sub-Group on Marketing is enclosed at **Annexure I**.

The first meeting of the Sub-Group was held on 12th October 2009 under the chairmanship of Secretary (MSME) to deliberate on the issues/problems faced by the micro and small enterprises (MSEs) in marketing. The Sub-Group also looked at the best practices adopted for supporting MSEs in select countries. Based on the deliberation held in the meeting of the Sub-Group, a draft report was circulated to all the Members of the Sub-Group for their feedback. The Sub-Group in its meeting held on 23rd October 2009 considered the feedback/suggestions received from the Members of the Sub-Group and finalized its report.

The Sub Group would like to express its appreciation to all the Members of the Sub-Group for actively participating in the deliberations and providing valuable suggestions on areas of focus.

SECTION II: ISSUES AND STATUS

The Micro, Small and Medium Enterprises (MSMEs) constitute one of the most employment-intensive segments of the Indian economy. As per quick estimates of the 4th All-India Census of MSMEs for the reference year 2006-07, the number of MSMEs in the country is estimated at 2.6 crore, providing employment to about 6 crore persons. The Micro and Small Enterprises (MSEs), including the khadi, village and coir industries, constitute an overwhelming majority of this sector, contributing significantly to the gross domestic product, manufacturing output and exports. Even with tough competition from mass produced imports, this vibrant sector has consistently registered a high rate of growth in terms of production and employment generation as compared to the rest of the industrial sectors.

Marketing is one of the critical areas where MSEs face problems. In the global arena, they do not have the strategic tools and the means for their business development, unlike the medium and large enterprises. Constant changes in the market dynamics due to technological changes and globalization has had a profound impact on the competitiveness of the MSEs. The MSEs also face problems in operations in the smaller markets due to ingress of branded products backed by strong advertising campaign.

Some of the major issues relating to marketing are as under:

- Problems in supply to Government Departments/Agencies;
- Procurement of raw material at the right cost;
- Problems of storage, display and designing/packaging for MSEs products; and
- Access to international markets

The present status on each of the aforesaid issues is enclosed at **Annexure II**.

In the past, Committees/Study Groups have examined various issues impacting the growth of MSE sector, including issues relating to marketing. Some of the major recommendations made by these Committees/Study Groups are:

- Setting up of Marketing Development Assistance Fund;
- Formulation of a Market Development Assistance Scheme for MSEs;
- Need to undertake/encourage brand building of MSEs;
- Organisation of Vendor Development Programme and Buyer-Seller Meets for MSEs in targeted markets;
- Consortia approach should be encouraged;
- Product design should be focus of attention;
- Export Promotion Councils should maintain data separately for exports originating from MSE sector.

Some of the initiatives taken by the Ministry of MSME to facilitate the marketing efforts of the MSE sector are as under:

- Marketing Development Assistance (MDA) Scheme is under implementation. Under the Scheme, assistance is provided to individuals for participation in overseas fairs/exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad.

- Various organisations under the Ministry of MSME are organizing exhibitions/fairs, vendor development programmes and buyer-seller meets across the country.
- The National Manufacturing Competitiveness Programme (NMCP) includes three schemes for providing marketing support, namely, (i) Marketing Support/Assistance to MSMEs (Bar Code); (ii) Marketing Assistance and Technology Upgradation Scheme for MSMEs; and (iii) Design Clinic Scheme for design expertise to MSMEs Manufacturing sector.

SECTION III: RECOMMENDATIONS

In order to help the Micro, Small & Medium Enterprises (MSMEs) in marketing their products in the domestic as well as international markets, the Sub-Group makes the following recommendations:

(i) Notification and Implementation of Public Procurement Policy for Micro & Small Enterprises (MSEs)

Section 11 of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 includes a provision on procurement preference policy for facilitating procurement of goods and services produced and provided by Micro and Small Enterprises by the Ministries and Department of Central and State Governments, it aided institutions and Public Sector Enterprises.

A policy for public procurement has been prepared in consultation with various stakeholders of the micro and small enterprises. The objective of the policy is to promote MSEs by enhancing their competitiveness through (i) increased participation by MSEs in Government purchases (ii) encouraging linkages between MSEs and large enterprises; and (iii) increased share of supplies of MSEs to Government Ministries/Departments, their aided institutions and PSUs. The Policy envisions a goal of achieving procurement from MSEs of a minimum of 20 per cent of the total value of goods/ services procured by the Central Government Ministries/Departments/ Aided Institutions/ Public Sector Undertakings etc. However, the proposed Policy does not contemplate any price preference to MSEs. Details of the policy have already been firmed up which is enclosed at **Annexure IV**.

The Sub-Group recommends that notification and implementation of this policy be expedited.

(ii) Strengthening of National Small Industries Corporation (NSIC) as an Apex organization for coordination of marketing support programmes in the country for MSMEs

Building MSMEs' competencies and marketing competitiveness is crucial for their expansion and sustainable growth. Recognizing the importance of private sector which contains a huge number of MSME units as an engine of economic growth, there is a need to build All India Marketing Assistance Network through physical and electronic means. This can be achieved by building and coordinating the efforts of various institutions at state, regional and cluster levels and also by involving MSME Associations in the country to undertake various marketing functions. The Sub-Group feels that NSIC is the appropriate organisation to discharge such mandate which may, inter-alia, include the following:

a) Consortia formation and brand building:

Micro, Small & Medium Enterprises (MSMEs) face problems to procure and execute large orders, which inhibit their growth as well as graduation. To help MSMEs to overcome this problem, formation of consortia of units manufacturing the same products, under a common brand would be encouraged. This would help MSMEs to explore the market and secure orders for bulk quantities. On receipt of orders, the same would be distributed amongst the MSMEs in tune with their manufacturing capacity. For execution of the orders received, the requisite raw materials would also be provided. The consortia members would also be assisted through discounting of their supply bills to the Government Departments and CPSUs to mitigate the problem of working capital.

Presently, NSIC is assisting MSMEs through consortia formation, participation in tenders on behalf of the consortia members, distribution of the orders among the members based on their production capacity, to the tune of Rs.40-50 crore. This needs to be considerably scaled up so as to cater to larger number of MSMEs located in various clusters. As the consortia members would be requiring uninterrupted supply of the adequate raw material and sufficient amount of working capital for timely execution of the orders, NSIC would require additional funds to serve MSMEs on a large scale.

b) E-marketing through specialized MSME portals:

E-marketing has emerged as one of the important marketing tools, through which the companies can reach wider clientele in a fraction of time and cost compared to the traditional methods of marketing. Awareness about the benefits of e-marketing need to be created amongst the MSMEs and their organisations/cluster groups/associations should be provided assistance for creating e-marketing portals. The Sub-Group, therefore, recommends that the MSME organisations/cluster groups/associations be assisted to develop their e-marketing portals through various schemes/programmes of the Ministry like Cluster Development Programme and Scheme on the Promotion of ICT in Indian Manufacturing Sector.

c) Assistance in product designing and packaging:

Product designing and packaging plays a very vital role in the marketing of products in order to be in tune with international standards. The training programmes on packaging for MSEs are being organized by MSME Development Institutes. However, this activity needs to be strengthened further. In addition, the Ministry of MSME has recently finalized a Design Clinic Scheme. Under the Scheme, it is proposed to create awareness regarding the design improvement to various consumer products manufactured by MSMEs. The professional designers will interact with the MSME entrepreneurs and will also take up design projects in different sectors, e.g., textile, toys, handicrafts, electrical appliances, gems and jewellery, engineering products, etc. The scheme should be implemented at the earliest.

d) Domestic/international exhibitions in India:

Participation in domestic/international exhibitions and fairs provides MSMEs an exposure to national and international markets. The Sub-Group recommends that: (i) NSIC should organize 6 sector-specific International level trade fairs in metropolitan cities (Delhi, Chennai, Bangalore, Kolkata, Hyderabad and Mumbai) each year, wherein MSMEs may be provided built-up space at concessional rates to transact B2B business; (ii) Setting up of permanent Display Halls/Exhibition Centres at the major industrial centres having concentration of MSMEs may be encouraged; and (iii) State Government/agencies may be encouraged to organize exhibitions/fairs exclusively for MSMEs.

e) Assistance in publicity and advertisement of MSME products:

Advertisement is one of the main tools of marketing, through which information about the products is disseminated amongst its users. While large industries/enterprises have sufficient resources for Advertisement and Publicity, MSMEs have scarcity of resources which restricts them for making publicity/ advertisement of their products.

To overcome this problem, the Sub-Group recommends that MSMEs may be provided one-time assistance for preparation of publicity material (like film, brochure, catalogue, etc.) and for advertisement in print and electronic media. NSIC may also involve State agencies, Cluster organizations and MSME Associations, which are already engaged in providing various services to the MSMEs. NSIC may also assist in creation of specialized Marketing

Institutions with the help of these agencies/ organisations for improving the delivery of marketing services to the MSMEs.

(iii) Distribution of Industrial Raw Materials to MSME units

(a) MSEs have been subject to sharp fluctuation in market prices of critical items like iron & steel, aluminium, copper, zinc, plastic granules, bitumen, packaging paper, etc. and also their continued availability. The Sub-Group recommends that: (i) Specific allocation of above items of raw material should be made by the PSUs for distribution to MSEs to ease the problem of availability of raw material. Advance payments for such procurement would be done by the distributing agencies, viz., NSIC and State Corporations; and (ii) RBI may consider cost-effective hedging options for MSEs to enable them to protect themselves from wide exchange rate variations.

(b) State Small Industries Development Corporations (SSIDCs)/State Industries Development Corporations (SIDCs) could play an important role in the distribution of raw material to MSEs at competitive prices. There is, therefore, a need to revitalize the SSIDCs/SIDCs to undertake distribution of raw material for the MSEs in an effective manner. The Sub-Group recommends that financial assistance may be provided for strengthening of their infrastructure, capacity building of existing manpower through training and preparation of business plan on professional lines.

(iv) Providing Marketing Intelligence

In the current era of globalized economy, MSMEs need market information about changing patterns of fashions/tastes in the domestic and international markets besides, information about the trends in imports and potential for exports. These are vital inputs for making MSMEs aware about their marketing strategies. The Sub-Group, therefore, recommends that a specialized cell for collecting market intelligence with respect to domestic as well as international markets be set up in NSIC. This cell should coordinate on regular basis with the Ministry of Commerce, Indian Trade Promotion Organisation, Indian Embassies, Export Promotion Councils and other such relevant organisations/agencies for compiling the market information and making available the same to the MSMEs.

(v) Establishment of Marketing Development Fund

A Working Group constituted by the Reserve Bank of India on 'Rehabilitation of Sick SMEs' under the chairmanship of Dr. K.C. Chakrabarty (Ex-CMD, Punjab National Bank) in its report has recommended that to encourage MSMEs to market their products, it would be desirable to set up a Marketing Development Fund which could, inter-alia, be used for providing financial assistance in setting up distribution and marketing infrastructure/outlets. This fund could also be utilized for providing resources to Institutions/Organizations organizing exhibitions, etc., at various levels.

The Sub-Group, therefore, recommends that the said Marketing Development Fund of the size of Rs.1000 crore be set up in the Ministry of MSME. The Fund will be operated through Ministry/NSIC and would be utilized for the following purposes:

(i)	To meet fund requirement for consortia marketing, as recommended in para (ii) (a)	Rs.200 crore
(ii)	To meet the fund requirement for grants and expenditure on implementation of recommendations made in sub-para (ii) (b) to (ii) (e)	Rs.200 crore
(iii)	Strengthening of State Small Industries Development Corporations (SSIDCs)/State Industrial Development Corporations (SIDCs)	Rs.300 crore
(iv)	Expansion of Raw Material Distribution network of NSIC	Rs.300 crore

(vi) Equity Support to NSIC

National Small Industries Corporation (NSIC) has been facilitating MSMEs in procurement of various raw materials like Iron & Steel, Aluminum, Copper, Zinc, Paraffin Wax, Purified Telephathalic Acid, by entering into arrangements with bulk manufacturers. During the year 2008-09, NSIC has assisted MSMEs through Raw Material Distribution valuing Rs.3300 crore, which is further expected to increase to Rs.4000 crore during the current financial year. The Corporation has been increasing its reach by opening offices/godowns at new location and expanding its business operation to serve a larger number of MSMEs. Further, new industrial raw materials are being added in the present fold of raw material distribution by the Corporation. Accordingly, the Raw Material Distribution is also expected to increase to Rs.5000 crore and Rs.6000 crore during the year 2010-11 and 2011-12.

Presently, to meet the demands of the raw material business, the Corporation has been availing credit facilities from the banks. Total borrowings of the Corporation as on 31.3.2009 was Rs.281.68 crore, which is likely to increase to Rs.550 crore by 31.3.2011. Accordingly, the Debt Equity Ratio of the Corporation, which was 3.21:1 as on 31.03.2009, would further increase to 5.66:1 by 31.3.2011. To meet the growing business demand of Raw Materials

Distribution valuing approx. Rs.5000 crore in 2010-11, the Corporation would be requiring financial resources of at least Rs.1000 crore. The limited resource base (i.e., Net worth of Rs.90 crore) restricts the Corporation from raising additional resources from the market thereby hampering its scale of operations, primarily the raw material distribution. Hence, the Sub-Group recommends that equity base of NSIC may be strengthened by injecting one time equity support of Rs.300 crore from the Government. This would provide adequate leverage to NSIC to further enhance borrowings from the banks, expand its business operations and marketing network throughout the country.

*****

Annexure I

Composition and Scope of Work of the Sub-Group on Marketing

Composition

(i) Secretary (MSME)	Chairman
(ii) CMD, NSIC	Member
(ii) Representative of Finance Ministry	Member
(iii) Representative of Planning Commission	Member
(iv) Shri Sudershan Sareen, AICOSMIA	Member
(v) Shri Nalin Kohli, ASMKI	Member

Scope of Work

(a) To examine the problems faced by the MSEs in marketing of their products;

(b) To study the best practices adopted for assisting the MSEs in select countries;

(c) To recommend a procurement policy for the MSEs in India; and

(d) To recommend measures to facilitate marketing - both domestic and international- of MSE goods and services.

Annexure II

Issues relating to Marketing and Status thereon

(a) Problems in supply to Government Departments/Agencies

The Government Departments/PSUs are the largest buyers of the variety of the products of MSEs but the share of purchases by the Government Departments/ agencies is very less. Although no firm figures are available, some estimates indicate an annual Government (including PSUs) procurement in India of over Rs.1,70,000 crore of which the share of MSEs is around 4-5% only.

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 market development, export promotion, etc. For instance, in the USA, the Small Business Administration assigns annual growth for procurement by Federal Departments, in consultation with them, for ensuring compliance of the legislated minimum procurement of 23 per cent from small business. Some of the best practices adopted by different countries in supporting the MSEs in their marketing endeavour is enclosed at **Annexure III**.

In line with the international practices, there is a need for Government support in the form of a Public Procurement Policy to provide MSEs the opportunity to obtain a share of Government procurement with a view to increase the market share of these enterprises.

Status

Presently, the Government of India extends support in marketing efforts of MSEs through initiatives such as a non-statutory purchase and price preference policy, financial assistance for participation in international fairs/exhibitions, organization of Buyer-Seller Meets and Vendor Development Programmes. Under the existing procurement policy, the Central Government extends the following facilities to the manufacturing MSEs in procurement by its Ministries/Departments/CPSUs, etc.:

(i) Reservation of 358 items for exclusive purchase from the manufacturing MSEs in procurement by its Ministries/Departments/CPSUs, etc.

(ii) Offering the following facilities to MSEs that are registered with the National Small Industries Corporation (NSIC) under_its Single Point Registration Scheme (SPRS):

(iii) Issue of Tender sets free of cost,

(iv) Exemption from payment of Earnest Money,

(v) Waiver of security deposit up to the monetary limit for which the unit is registered; and

(vi) Offering price preference up to 15% to MSEs over the quotation of large-scale units.

During several reviews and deliberations by the Department-Related Parliamentary Standing Committee on Industry, the Consultative Committee of the Ministry of MSME, the National Board of MSME and other fora, several shortcomings have been articulated in the content and the implementation of the existing policy. Some of these include non-statutory nature of the present policy, non-coverage of the service MSEs, no penal clauses for violation, non-reporting of the data relating to annual purchases, imposition of certain restrictions such as minimum turnover criteria in the tenders, etc. Due to the aforesaid reasons, MSE associations and entrepreneurs have been demanding a comprehensive procurement preference policy covering all these issues so that the MSEs could be benefited. They also demand that such policy should be statutory in nature so as to make it mandatory for Central Government Ministries/ Departments/ CPSUs, etc., to follow its provisions.

Section 11 of MSMED Act, 2006 provides for notifying preference policies in respect of procurement of goods and services, produced and provided by micro and small enterprises, by its Ministries or departments, as the case may be, or its aided institutions and public sector enterprises. To take on board the views of all the stakeholders, widespread consultations were held with the representatives of a large number of Industries Associations, Ministries/Departments of the Government of India, their aided Institutions and CPSUs. Taking into account the issues raised and the positions of the stakeholders, a draft note for the Cabinet on public procurement policy for MSEs was circulated by the Ministry of MSME to all Ministries/ Departments concerned. Based on the comments/views received, a public procurement policy for MSEs has been finalized by the Ministry of MSME. A copy of the same is enclosed at **Annexure IV**. The proposed policy does not contemplate any price preference for MSEs.

(b) Procurement of raw material at the right cost

The raw material constitutes a major portion in the costing of the MSE products and they face difficulty in procurement of the right material at the right cost. The MSEs who secure supply orders suffer loss due to price escalation in the basic raw material during the stipulated supply schedule. Further, in the present era of globalization, unpredictable exchange rate variations in the currencies also have a direct bearing on the cost of raw material. This is the major constraint in marketing as product to be manufactured must be priced at competitive price in the current market scenario. Institutional support is, therefore, necessary to enable the MSEs in obtaining requisite raw material at the right price and without day-to-day fluctuations thereof.

Status

The State Small Industries Development Corporations (SSIDCs) were established under the Companies Act, 1956 as State Government Undertakings to act cater to the needs of the MSE sector in the respective States/Union Territories. The SSIDCs were mandated to undertake a variety of activities for the benefit of the MSE sector including, inter alia, procurement and distribution of scarce raw materials and providing assistance for marketing of products. However, the services provided by the SSIDCs in terms of procurement and distribution of raw materials have witnessed a decline due to various reasons.

(c) Problems of storage, display and designing/packaging for MSEs products

MSEs face problems of storage, display and designs for their products. Non availability of selling outlets for their products is a serious constraint. In addition, MSEs also face problem of inadequate infrastructure for marketing of their products from interior/remote parts of the country.

Status

To facilitate the MSEs in their marketing endeavour, the various organisations under the Ministry of MSME organize exhibitions/fairs, vendor development programmes and buyer-seller meets across the country providing an opportunity to them for displaying their products and capabilities.

In addition, the National Manufacturing Competitiveness Programme (NMCP) includes schemes for providing marketing support. These are as under:

(i) **Design Clinic Scheme for design expertise to MSMEs manufacturing sector:** Under the Scheme, it is proposed to create awareness regarding the design improvement to various consumer products manufactured by MSMEs. The professional designers will interact with the MSME entrepreneurs and will also take up design projects in different sectors, e.g., textile, toys, handicrafts, electrical appliances, gems and jewellery, engineering products, etc. These projects will provide design suggestions in order to increase the value of the products, increase the visual quality and improve the ability to market the products. It is proposed to cover about 200 clusters through National Institute of Design, Ahmedabad with the assistance of professional designers and other design institutions in the country.

(ii) **Marketing Assistance and Technology Upgradation Scheme for MSMEs:** The objective of this scheme is to identify and encourage those clusters of MSMEs, which have quality production and export potential and assist them to achieve competitiveness in the national and international markets. The broad activities planned under the scheme include technology upgradation in packaging, development of modern marketing techniques, competition studies, setting of marketing hubs, etc. It is proposed to set up 8 marketing hubs in the MSME-Development Institutes located in big cities of the country that have good presence of prospective clusters. The function envisaged for these marketing hubs is to provide facilities for B2B meetings among MSMEs and with others, wholesale and retail marketing of MSME products, exploring export opportunities for MSME products and to attract new customers and enhance the marketing reach of the MSMEs. The SFC Memorandum for the Scheme has been circulated to the Ministries/Departments concerned.

(d) Access to international markets

In the present globalisation era, exports are an important strategic option to achieve continued business growth but MSEs remain under-represented in the international economy. On the other hand, the MSEs are affected by the presence of cheaper foreign goods in the market which lure their customers.

Status

Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad. The Scheme also offers assistance for (a) sector specific market study by MSE Associations/Export Promotion Councils/Federation of Indian Export Organisation; (b) Initiating/contesting anti-dumping cases by MSE Associations; and (c) reimbursement of 75 per cent of the one time registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

Annexure III

Best practices adopted for assisting the MSEs in select countries

1. Set Aside Policies

- In USA, statutory annual goal for small business procurement by federal agencies is 23% of prime contracts. In addition, the following sub-goals have also been established:
    - 5% of prime and sub-contracts for small disadvantaged businesses;
    - 5% of prime and sub-contracts for women-owned small businesses;
    - 3% of prime contracts for HUBZone small businesses;
    - 3% of prime and sub-contracts for service-disabled veteran-owned small businesses.
- In Malaysia, 30% of the procurement activity is reserved for small and medium enterprises (SMEs) who have been involved in the vendor development program. Once the SMEs have established some procurement activity then new SMEs are introduced to the vendor development programme.
- In Brazil, a new law in force since January 2007 establishes criteria that are meant to increase participation of smaller businesses in public procurement.
- Other examples of regulations that require a set percentage of contracts in particular industries must go to SMEs are prevalent in Australia, Thailand and China.
- In Canada, in contracts for which aboriginal populations are the primary recipients, procurement is to be restricted to qualified aboriginal suppliers.
- In the United Kingdom, the Special Contract Arrangements require contracting authorities to give special consideration to buying goods and services from suppliers which employ severely disabled people.
- In Malaysia, in order to encourage greater participation of the bumiputeras (indigenous Malays), tenders from bumiputera companies receive preferential treatment in government contracts.
- 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.

2. Other Policies

(a) EUROPE(Germany, Italy)

The current package of directives on public procurement is designed to reduce the administrative burden and costs related to tendering, make procurement systems more transparent and easier for SMEs (in particular) to access, and to encourage the use of information technology systems (e-procurement) to simplify the process. To optimise the use of the possibilities given by the directives by the Member States and respectively their public buyers, within the framework of the "Small Business Act" for Europe, the European Commission proposed a Code of best practices in opening public procurements to SMEs, taken both from Member States and elsewhere. The Code therefore helps public authorities to develop 'strategies', 'programmes' or 'action plans' with the specific aim of facilitating SMEs' access to public contracts. It also encourages Member States to learn from each other as they implement the new rules under the public procurement directives.

i. Access to markets

A Single Market for goods and services is one of the main drivers of Europe's economy. It relies largely on the opportunities available for businesses to market goods and to provide or access services in the EU. It is the EU's central mission to secure increased market integration and to remove obstacles to the free movement of goods, services and capital and to the freedom of establishment.

ii. Opening public procurement to SMEs

The European Council has underlined the importance of public procurement for SMEs' economic performance, calling for SME access to public procurement markets to be improved.

iii. Supporting the internationalization of SMEs

In view of the low level of internationalization of European SMEs, the Commission launched a project on "Supporting the internationalization of SMEs" to understand the barriers that impede greater SME involvement on international operations and the drivers that foster the process. With the help of an expert group, the project examined national and regional policies to support the internationalization of SMEs both inside the Single Market and outside the EU with a goal to provide recommendations on how public policies could support SMEs' efforts to achieve international growth and have a more international orientation.

iv. Raw Materials

To secure and improve access to raw materials for the EU, the following policies are adopted.

- ensure access to raw materials from international markets under the same conditions as other industrial competitors;
- set the right framework conditions within the EU in order to foster sustainable supply from European sources; and
- boost overall resource efficiency and promote recycling to reduce the EU's consumption of primary raw materials and decrease the relative import dependence.

(b) <u>JAPAN</u>

Japanese government has established support centers that provide so-called “One-Stop” assistance services in terms of both funds and non-material areas such as Marketing, human resources, information, and technologies in an attentive manner, to meet the diverse needs of SMEs on each of the national, prefectural and local levels. The support centers integrate and set up networks of local public entities and various existing private SME support organizations to offer information and advice on policy measures, as well as assisting with business and technological problems of SMEs in one place, by making the most of the skills and abilities of professionals in the private sector.

About half of the Japanese government procurement market is occupied by public construction, one quarter of it by goods, and the other quarter by services. Based on the Law Regarding Setting Aside Contracts of Public Procurement for SMEs (1966), every governmental agency must annually set the target ratio of contracts with small and medium-sized enterprises. In FY2002, the proportion of contracts with SMEs in the Japanese government procurement market was about 46 percent.

The basic regulation for Japanese government procurement is the Law of Account (LoA), and details of regulations are provided by related government ordinances (such as the Ordinance Regarding Budget, Settlement and Account; the Temporary Ordinance Regarding Budget, Settlement and Account; and the Ordinance Providing Special Cases for Procedures of Government Procurement of Goods and Services) and related Ministry of Finance ordinances, such as the Ordinance for Handling Contract Business and the Ordinance Providing Special Cases for Procedures of Government.

(d) APEC

The elements of marketing policy in APEC are government procurement, export promotion and integration of SMEs into the global supply chain of MNCs.

(i) In terms of government procurement, three of the ten APEC member economies (Australia, Canada and Korea**)** mainly consider it as a measure of SME innovation policy. The Australian government procurement process is transparent and open, and not to discriminate against. In the case of Korea, public institutions are required to purchase SMEs' technological products that have been approved for performance by the government, thereby promoting technology development of SMEs. Unlike two member economies, the Canadian government has not directly promoted procurement for SMEs and instead stimulated it by having SMEs seek local subcontracting contracts.

(ii) The export promotion policy for SMEs could be divided into financing, information and consulting, and brokerage supports. The focus of export promotion in China and Chinese Taipei is on financing supports such as loan guarantee and grants. The focus in Korea and Japan is on information and consulting services that enable SMEs to participate in the global market. In the Philippine, the main focus of export promotion is on brokerage supports that link SME exporters and foreign buyers.

(iii) Finally, as a way of marketing, the inclusion of SMEs in the supply chain of MNCs and their indirect involvement in exporting activity can lead to the significant diffusion of technology and more efficient business models, thereby raising the international competitiveness of SMEs in the global market. The representative member economy is Malaysia. Malaysia has the strategic focus of SMEs' innovation policies in integrating domestic SMEs into global production networks mainly through MNCs. Thus the selected best practice also emphasizes the technological linkage and technological collaboration of domestic SMEs with MNCs.

(e) South Africa

The National Government of South Africa since 1994 has embarked on a number of interventions on addressing the problems of marketing of SMEs in South Africa. Some of these interventions are: (i) The Preferential Procurement Policy Framework Act (ii) Framework for Supply Chain Management December 2003 (iii) Accelerated & Shared Growth Initiative for South Africa (ASGI-SA). The Preferential Procurement Policy of the

National Government is being implemented at various Provincial Governments level. The development of the preferential procurement policy marks the consolidation of a number of Provincial Tender Board initiatives to reform procurement and to address the historical imbalances in economic participation. The policy at provincial Government level has been drawn up within the context of the initiatives taken by National Treasury and subsequently in accordance with the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and its regulations promulgated on 10th August 2001. In essence the enabling legislation provides for procurement preferences to be based on a variety of factors, such as race, gender, differently abled, factor-intensity of the industry, training programmes, labour conditions, environmental impact, firm size, location, intra-industry links and economic multiplier effects.

Annexure IV

Public Procurement Policy for Micro and Small Enterprises (MSEs)

1. Background

1.1 The Micro, Small and Medium Enterprises (MSMEs) have been accorded a pivotal role in the industrial resurgence of India. Since the early 1950s, India has adopted a conscious policy for the promotion and development of MSMEs (that was then known as Tiny and Small Scale Industries), in view of their vital role in generation of employment, dispersal of economy and better utilisation of resources. The continuous support provided to the sector has resulted in the development of a large reservoir of first generation entrepreneurs and has facilitated the sector to acquire a place of prominence in the socio-economic development of the country.

1.2 As per quick estimates of the 4th All-India Census of MSMEs for the reference year 2006-07, the number of MSMEs in the country is estimated at 2.6 crore, providing employment to about 6 crore persons. It is estimated that this sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The Micro and Small Enterprises (MSEs), including the khadi, village and coir industries, constitute an overwhelming majority of this sector contributing significantly to the gross domestic product, manufacturing output and exports. Even with tough competition from mass produced imports, this sector has consistently registered a high rate of growth in terms of production and employment generation as compared to the rest of the industrial sectors.

2. Need for the Policy

2.1 For achieving the objective of inclusive growth, creation of large employment opportunities is of significant importance. The declining employment trend in the organized sector has resulted in agriculture sector continuing to provide employment to almost two-third of the Indian population, which needs to be provided gainful employment in the industrial and service sectors of the economy. The MSE sector has the advantage of generating significant employment opportunities at low capital costs and thus provides one of the most viable avenues for absorbing the large surplus population engaged in the agriculture sector.

2.2 Studies indicate that the MSEs are at a disadvantage vis-à-vis medium and large enterprises as they do not have satisfactory access to timely and adequate credit. They also lack resources for constant innovation/improvement in product designing, packaging and marketing. They are unable to spare sufficient resources for brand creation/ development and hence remain relatively unknown. One of the policy instruments hitherto used to protect and promote the sector has been reservation of products for exclusive manufacture in the MSE sector. Keeping in view the present liberalized environment, gradual de-reservation of items was initiated and now only 21 items are reserved for the sector. While this policy has helped the segment in enlarging the scale of operations and paved the way for entry of large enterprises in the manufacture of these products in keeping with the global standards, it would be important to simultaneously take steps to provide adequate support to these enterprises to enable them to continue to be competitive.

2.3 To overcome the inherent disadvantages, 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 market development, export promotion, etc. For instance, in the USA, the Small Business Administration assigns annual growth for procurement by Federal Departments, in consultation with them, for ensuring compliance of the legislated minimum procurement of 23 per cent from small business. There is a need for Government support in the form of a Public Procurement Policy to provide MSEs the opportunity to obtain a share of Government procurement with a view to increase the market share of these enterprises. Although no firm figures are available, some estimates indicate an annual Government (including PSUs) procurement in India of over Rs.1,70,000 crore of which the share of MSEs is around 4-5% only.

3. <u>Objectives and Goal of the Policy</u>

3.1 The MSEs have a critical role to play in not only achieving the objective of faster and inclusive growth but also in expanding production in a regionally balanced manner and in generating widely dispersed employment. The objective of the policy is to promote MSEs by enhancing their competitiveness through - (i) Increased participation by MSEs in Government purchases; (ii) Encouraging linkages between MSEs and large enterprises; and (iii) Increased share of supplies of MSEs to Government Ministries/Departments, their aided institutions and PSUs.

3.2 The Policy envisions a goal of achieving procurement from MSEs of a minimum 20 per cent of the total value of goods/services procured by the Central Government Ministries/Departments/Aided Institutions/Public Sector Undertakings, etc.

4. Core Principles underlying the Policy

4.1 The Policy rests upon the core principles of maintaining the competitiveness of suppliers, adhering to sound procurement practices and orders for supply of goods/services be executed in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

5. Elements of the Policy

5.1 Every Central Government Ministries/Departments/Aided Institutions/ CPSUs, etc., shall set an annual goal for procurement from the MSE sector at the beginning of the year, with the objective of achieving an overall procurement goal of minimum 20 per cent of the total annual purchases of the products or services produced or rendered by MSEs from the latter in a period of three years. At the end of 3 years, the overall procurement goal of minimum 20% will be made mandatory and Departments not achieving it will be required to seek exemption from a Committee set up for this purpose. The Ministries/Departments/PSUs, etc. will take necessary steps to develop appropriate vendors by organizing Vendor Development Programmes/Buyer-Seller Meets and entering into Rate Contract with MSEs for a specified period in respect of the periodic requirements. The Departments will also prepare Annual Procurement Plan for purchases from MSEs and upload the same on their official website so that MSEs may get advance information about the requirement of procurement agencies. In addition, the participating MSEs in a tender will also be allowed to supply a portion of the requirement at the lowest quoted price in a situation where the lowest quoted price is from someone other than MSEs. To reduce transaction cost of doing business, the MSEs will be facilitated by:

- Providing MSEs tender sets free of cost;
- Exempting MSEs from payment of earnest money;
- Adopting e-procurement to bring in transparency in the tendering process;
- Ensuring timely payments of orders executed by the MSEs; etc.

5.2 In cases where the size of tenders are large and cannot be executed through MSEs, the Ministries/Departments/CPSUs, etc. may award the tenders to large enterprises with a condition that they would sub-contract a specific percentage to the MSEs. The sub-contracts awarded to the MSEs through the aforesaid stipulation would be reckoned as procurements made from the MSEs by the Ministry/ Department/CPSU concerned.

5.3 The data on Government procurements from MSEs is vital for strengthening of the Policy. Towards this, every Central Government Ministry/Department/Aided

Institution/Public Sector undertaking, etc., will report the goals set with respect to procurement to be met from MSEs and the achievement made thereto in their respective Annual Reports. The annual reporting will facilitate in a better understanding of the support being provided by different Ministries/Departments/ Aided Institutions/Public Sector Undertakings, etc., to MSEs.

5.4 To enable a wider dispersal of enterprises in the country, particularly in the rural areas, the Central Government Ministry/Department/Aided Institution/Public Sector undertaking, etc., will continue to procure 358 items from MSEs, which have been reserved for exclusive purchase from them. This will help in the promotion and growth of MSEs, including khadi and village industries, which play a critical role in fostering inclusive growth in the country.

6. Review Mechanism

6.1 A Committee will be constituted under the chairmanship of Secretary (MSME) and comprising of representatives from Central Ministries/Departments and organisations concerned to exempt Departments, on a case to case basis, from the 20% target. The Committee will also review the Policy including the list of 358 items reserved for exclusive purchase from MSEs from time to time.

*****

Chapter VIII
Report of the Sub-Group on Infrastructure/Technology/Skill Development

SECTION I: BACKGROUND

A Task Force under the chairmanship of Principal Secretary to the Prime Minister has been constituted to address the issues of micro, small and medium enterprises (MSME) sector. The Task Force in its first meeting held on 25th September 2009 decided to constitute seven Sub-Groups on credit, marketing, labour, exit policy, infrastructure/technology/skill development, taxation and special packages for North East and Jammu & Kashmir. The composition and scope of work of the Sub-Group on Infrastructure, Technology and Skill Development is enclosed at **Annexure I**.

The first meeting of the Sub-Group was held on 12th October 2009 to deliberate on the issues/problems faced by MSEs relating to Infrastructure, Technology and Skill Development. Based on the deliberations held in the meeting of the Sub-Group, a draft report was circulated to all the Members of the Sub-Group for their feedback. The Sub-Group in its meeting held on 23rd October 2009 considered the feedback/suggestions received from the Members of the Sub-Group and finalised its report.

The Sub Group would like to express its appreciation to all the Members of the Sub-Group for actively participating in the deliberations and providing valuable suggestions/feedback.

SECTION II: ISSUES AND STATUS

As per the quick estimates of 4th All-India Census of MSMEs, the number of MSMEs is estimated to be about 26 million, which are spread across the country, and provide employment to an estimated 60 million persons. It is well known that MSEs in India have been contributing very significantly to the industrial production, economic growth and employment in the economy. However, to sustain growth and also to face the global competition, it is essential that the availability of infrastructure, technology and skilled manpower keeps pace with the growth targets. The main issues connected with these factors, in so far as the MSE sector is concerned, can be summarised as follows:

Infrastructure

- SMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganised manner in pere urban or rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable, leading to very high transaction costs.

- With the growth of the industrial sector, including MSEs (which are an integral part of the value chain), adequate areas for extension of MSEs are simply not available. This has resulted in crowding of MSE operations in existing areas, often in conflict with environmental and urban regulations.

Technology

- MSE sector in India, with some exceptions, is characterised by low technology levels, which acts as a handicap in the emerging global market.
- As a result of the above, sustainability of a large number of MSEs will be in question in the face of competition from imported goods. Also MSE alliances with domestic large companies are fragile, since the large companies can themselves build alliances with overseas suppliers.
- Despite efforts, institutional linkages of research & development institutions and industry (including MSEs) have not developed.
- Past policies on FDI have not resulted in substantial technology gains percolating in the country.

Skill Development

- Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower possessing the right skills for manufacturing, service, marketing, etc.
- Although SME sector employs substantial manpower, the turnover rate is very high (retentions are low).
- State level institutions such as District Industries Centres (DICs), which could play an important role in capacity building, have been unable to transform themselves from regulating bodies to facilitating agencies. Their current infrastructure is very sub-optimally utilised.

In the past, Committees/Study Groups have examined various issues impacting the growth of MSE sector, including issues relating to infrastructure, technology and skill development. The gist of action taken on the recommendations of the earlier Committees relating to infrastructure, technology and skill development is enclosed at **Annexure II**.

Some of the major suggestions received from the MSE Associations for addressing the concerns relating to infrastructure, technology and skill development are as under:

- Allocating targeted investment in creating affordable industrial areas with integrated facilities for MSMEs on principles of cost recovery;
- At least 45% of the land in new industrial areas should be reserved for MSEs;
- Support collective SME initiative for distribution of electricity in industrial areas and clusters;
- Incentives for installing captive power plant/power generators in the form of capital subsidy/interest subsidy;
- Fostering linkages between MSEs and research & development institutes;
- Setting up of Technology Bank for MSEs;
- Setting up of Technology Development Centres at regional level to disseminate information and to showcase latest technological interventions;
- Formulation of an entrepreneurial policy to stimulate and develop entrepreneurial activity based on an integrated framework.

SECTION III: RECOMMENDATIONS

Based on the examination of the reports of the earlier Committees and the suggestions made by the MSE Associations, the Sub-Group makes the following recommendations:

Infrastructure

(i) A national programme for renewal of industrial infrastructure may be undertaken [on the lines of Jawaharlal Nehru National Urban Renewal Mission (JNNURM)] to upgrade infrastructure for existing industrial estates, such as roads, drainage, sewage, power distribution (within industrial areas), water supply distribution, etc. Presently, there are two Central Government programmes addressing similar objectives – namely Industrial Infrastructure Upgradation Scheme (IIUS) scheme of D/o Industrial Policy and Promotion and Integrated Infrastructural Development (IID) scheme of Ministry of MSME. Given the different scales at which IIUS and IID schemes operate, a practical distinction could be drawn between industrial estates (based on area), which may qualify for assistance under IIUS/IID. The two programmes would require additional funding support to assume the character of a National Mission. The funding under these schemes should be linked to certain reforms/measures to be taken by the State Governments/local bodies. These reforms/measures may include:

- As a long-term measure, the Industrial Estates should be entrusted with the municipal functions including levy of taxes, responsibility to maintain the infrastructure within the Industrial Estates, etc.;
- The State Governments would undertake to provide dedicated power supply to the Industrial Estates. Alternatively, funding for common captive power generation in Industrial Estates would be encouraged through subsidies given to the SPV managing such facility;
- The State Governments will formulate a policy for incentivising private sector for setting up of new Industrial Estates;
- Local bodies will earmark funds for Industrial Estates within their budgets; etc.

For this purpose, a tripartite agreement could be executed between the State Government, local body and the Special Purpose Vehicle (SPV), which would be a body constituted by the occupants of the Industrial Estates.

(ii) A number of new industrial parks/areas are 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% of available land for MSEs in such areas, given the existing and envisaged role of MSEs in the production chain.

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

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

(v) Need to encourage setting up/earmarking of at least one industrial estate in each block for micro and small enterprises.

Technology

(i) There is a need to refine the current FDI policy in vogue to bring up capacity, capability and technology development of the SMEs. In respect of all large projects involving FDI, ancillary development should be made a condition.

(ii) Government has announced the offset policy for the Defence procurement. It is essential to set up a mechanism in the Defence Ministry 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 should be associated in this exercise regularly.

(iii) The Offset Policy for other departments under consideration, such as Railways, should also give priority for passing on the benefits under the off-set policies to the small and medium enterprises in the country. The mechanism for review should include a representative of the MSME.

(iv) The Sub-Group agreed with 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. These programmes, which are at their initial stages, should be further strengthened and the required flexibility in operationalising such initiatives should be encouraged.

(v) The adoption of ICT (Information and Communication Technology) for MSMEs should be encouraged on highest priority to enable SMEs to compete in global market.

(vi) A coordinating body (to function as a Technology Bank) should 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;

(vii) There is a need to develop a symbiotic relationship between the MSME clusters and the Technical Institutions by linking each cluster with a Technical Institution. Such an arrangement with the Technical Institution will help in solving the technical and design related problems of the MSMEs. All stakeholders should extend financial support to engineering/technical institutes for undertaking research for technological upgradation in MSMEs. To encourage such research and development, there is a need to allow 150% deduction for contribution made towards funding of R&D work in the engineering/technical institutes under section 10 (21) of Income Tax Act, as also recommended by the Working Group on ‘Rehabilitation of Sick SMEs’.

(viii) The Department of Science and Technology provides funds to the Engineering/Technical institutes for setting up of Business Incubators (BIs), which assist entrepreneurs in further development of their new/innovative ideas. It is recommended that funding to about 1,000 engineering/technical institutes located across the country may be provided for setting up of Business Incubators.

(ix) 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, as this is one of the core activities of the organisation. For funding innovations in rural areas, CAPART should come out with specific schemes.

(x) A Technology Development Fund of Rs.1,000 crore be set up for supporting MSMEs to undertake technology upgradation, acquisition, adaptation and innovation to eable them to move up the value chain and effectively meet the challenges of a competitive environment. Towards this endeavour, there is a need to lift the ban on setting up of new institutions and more number of product-specific technology centres (e.g., toys) should be set up in different parts of the country for effectively facing the challenges posed by imported goods. Accordingly, it is proposed that this Fund may be used for the following purposes:

- Assisting the MSME's who are willing to enter into collaboration with companies/institutions having latest technology for transfer of design, technology, training, etc.;
- To strengthen the existing infrastructure of product-specific technology development centres;
- To set up new product-specific technology development centres in different parts of the country in collaboration with industry organisations. Besides disseminating information among the MSMEs, these centre may assist MSMEs in developing prototypes, training, etc. ; and
- To fund institutions/innovators to solve technology related problems of micro and small enterprises in rural areas.

Skill Development

(i) To meet the targets of 500 million skilled work force by 2022 (as envisaged under the National Skill Development Policy), the coverage under the existing skill development programmes need to be increased significantly. However, this would require massive investments in terms of setting up of infrastructure for imparting requisite skill development training. To minimise the cost for creation of infrastructure, the State Governments may consider making available their infrastructure (like school/college buildings, etc.) for running skill development courses by public/private agencies on mutually agreed terms.

(ii) There is a need to integrate skill development with the secondary, intermediate and university level education. Appropriate course curricula should be designed and developed by a central skill development organisation and included in the curricula of the education system all over the country.

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

(iv) Infrastructure of specialized skilled development institutions in Government sector should be suitably scaled up.

(v) Setting up of skilled development institutions in private sector should be encouraged through various programmes/schemes of the Ministry.

(vi) Existing Skill Development Centres (both public and private) should give special thrust on training of trainers to have 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.

(vii) The Ministry of MSME should expand the coverage under its existing entrepreneurship and skill development programmes by strengthening of the infrastructure and by adopting innovative models.

(viii) For ensuring that training courses run by the private skill development centres are viable, the Ministry of MSME may evolve a system for partly compensating the cost of training by providing 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

(ix) To establish strong relationship between the students of ITIs, polytechnics, engineering and other institutes, the Apprenticeship Act should be enlarged so that MSEs are encouraged to provide on-the-job training.

(x) The local Panchayati Raj Institutions should be involved in imparting the required training to the artisans and village industry workforce. The curricula and training modules could be designed and made available to them by the Central or State level organizations. These curricula should be continuously revised based upon feedback from the artisans in the villages.

(xi) Awareness and facilities for innovative/new avocations based on the requirements of industry in domestic as well as international markets should be created for encouraging youth in undertaking such activities.

District Industries Centres (DICs)

- The role of District Industries Centres (DICs) should be that of a facilitator providing Business Development Services to both prospective and existing entrepreneurs. The activities to be undertaken by DICs may, inter alia, include:
  - Providing comprehensive information to the MSMEs on all matters including policies/schemes of Central/State Governments, Banks/Financial Institutions, etc.;
  - Preparing shelf of viable project profiles for different activities having good concentration in the District on a periodic basis, in consultation with the banks/financial institutions;
  - Facilitating linkages of MSMEs with the financing institutions;
  - Providing marketing support to the MSMEs by organising exhibitions/ buyer-seller meets;
  - Facilitating revival/rehabilitation of sick MSMEs by engaging professionals/ experts for preparation of project reports;
  - Facilitating entrepreneurship and skill development.
- The Central Government may provide funds to the DICs for upgrading the existing infrastructure and capacity building of existing manpower.

Special attention to problems of Unorganised/Micro Sector

The National Commission on Enterprises in the Unorganised Sector (NCEUS) was set up by the Government in September 2004 as an Advisory Body and a watchdog for the unorganized/micro sector. The NCEUS has estimated the size of the unorganized non-farm sector enterprises at 58 million during 2006-07, providing employment to 104 million workers. Of these, 94% are with an investment of less than Rs.5 lakh. The size of the sector is estimated to increase up to 71 million by 2011-12 and the additional employment to be provided during 11th Plan would be 22 million. Despite its large size, the credit to this sector has shown a declining trend. As per RBI data, the share of credit to the micro enterprises (predominantly unorganized sector enterprises) in the net bank credit of the public sector banks has declined from 7.8% in 2000 (Rs.24,742 crore) to 4.9% in 2009 (Rs.83,945 crore). Similarly, the NCEUS has drawn attention to various other problems being faced by the unorganised/micro sector relating to technology upgradation, marketing, skill development, etc. The NCEUS has since been wound up.

The Ministry of MSME has been receiving several representations from the MSE Associations for setting up of a permanent body like NCEUS. The Sub-Group recommends setting up of a permanent body on the lines of NCEUS to provide promotional and developmental support and to advocate policy formulation for the unorganised/ micro sector. Alternatively, it is suggested that a separate wing in the National Manufacturing Competitiveness Council (NMCC) may be set up to attend to the problems of the unorganised/micro sector, especially those engaged in manufacturing activities.

Annexure I

Composition and Scope of Work of the Sub-Group on Infrastructure, Technology and Skill Development

Composition

(i) Secretary (MSME)	Chairman
(ii) AS&DC (MSME)	Member
(iii) Secretaries/Directors (Industries) of Government of Tamil Nadu, Orissa, Gujarat, Uttar Pradesh and Kerala	Members
(iv) Mrs. Rama Devi, ALEAP	Member
(v) Shri Anil Gupta, IIA	Member

Scope of Work

(a) To examine the bottlenecks relating to infrastructure, technology and availability of skilled manpower confronting the MSE sector;

(b) To suggest measures for providing improved access to infrastructural facilities, technology and skill development; and

(c) To suggest measures to mainstream/utilize the infrastructure and human resources of the State Governments (e.g., DICs, etc.).

<u>Annexure II</u>

<u>Action taken on the recommendations of various Committees/Study Groups</u>

1. **Report of the Expert Committee on Small Enterprises**: An Expert Committee on small enterprises was constituted in December, 1995 by the Ministry of Small Scale Industries and Agro and Rural Industries, Government of India, under the Chairmanship of Shri Abid Hussain (former Member, Planning Commission). The Committee submitted its report in January 1997. The recommendations related to infrastructure / technology / Skill Development and action taken thereon is as under:

S.No.	Recommendations	Status
1.	A flexible broad based District Enterprise Promotion Agency (DEPA) be set up to replace District Industries Centres (DICs).	District Industries Centres are agencies operated by the State Governments. However, there is a need to redefine the roles of the DICs as facilitators rather than regulators. The DICs should be the hubs for providing information, support, training the workforce/ prospective entrepreneurs and revival of sick units. Redefining the role of DICs has been included in the recommendations of the Sub-Group.
2.	Clusters should become the units / focus of Government Support Programmes. The institutional mechanism and the assistance measures should revolve round the clusters.	Scheme of Ministry of MSME on technology upgradation (UPTECH) has been made broad based and renamed as ‘Micro & Small Enterprises – Cluster Development Programme’. Another cluster based scheme (SFURTI) is also being implemented. More than 550 clusters have been taken up for interventions by the Ministry of MSME under these two schemes. Ministry of Textiles, Health, Food Processing Industry, etc. have also launched cluster development programmes.
3.	Providing assistance at concessional rate of interest for technology development and modernization by SSI.	Government of India has in the year 2000 launched Credit Linked Capital Subsidy Scheme for Technology Upgradation, which now provides a capital subsidy of 15% on loans upto Rs. 1 crore for technology development and modernization by MSEs. This makes funds available on concessional rates for MSEs for technology upgradation. This scheme is in addition to the TDMF Scheme of SIDBI, the TUF of the Ministry of Textiles.

2. **The Study Group on Development of Small Scale Enterprises** under the Chairmanship of Dr. S.P. Gupta, Member, Planning Commission was set up by the Planning

Commission. The study group submitted the report in March 2001. The recommendations related to infrastructure/technology/Skill Development and action taken thereon is as under:

S.No.	Recommendations	Status
1.	A fund of Rs. 2000 crore for infrastructure development to assist SSI sector.	The Ministry of MSME is implementing Integrated Infrastructure Development (IID) Scheme for meeting the infrastructural development requirements of MSE sector. A central grant of Rs 140.39 crore out of commitment of Rs. 205.05 crore has so far been released for 104 infrastructure development projects since launch of the scheme in 1994. IID Scheme has two sub components i.e. for development of infrastructure in new IID Centres and for upgradation of infrastructure in existing industrial states. Under the scheme, 93 new IID Centre have been sanctioned till 31.08.2009 since inception of the scheme. Out of 93 Centres, 50 new IID Centres have been completed.
2.	Incubation Infrastructure Development Fund of Rs. 1000 crore to encourage the technocrat entrepreneurs in hi-tech industries.	National Small Industries Corporation is implementing Training-cum-Incubation Centre under Public Private Partnership (PPP) in 10 different trades. Ministry of MSME has launched another scheme for incubation (Support for Entrepreneurial And Managerial Development through Incubators). The Scheme provides early stage funding for nurturing innovative business ideas (new indigenous technology, processes, products, procedure etc.) which could be commercialized in a year. A total of 100 Business Incubators (BIs) are expected to be set up during 2008-09 to 2011-12, with 25 BIs being supported in selected technical institutions every year over the entire duration of the four years.
3.	Encourage FDI in SSIs for better technology transfer within permitted ceiling of equity participation.	The limit of equity participation (both for foreign as well as for domestic) has been enhanced to 100%.
4.	Training should cover both entrepreneurs as well as workers	Ministry of Labour developed 3 monographs on workers' training in consultation with the Ministry of MSME for greater involvement of SSI sector.
5.	Various institutes providing training for small scale entrepreneurs should be brought under the umbrella of National Entrepreneurship	A National Entrepreneurship Development Board Scheme was launched by the Ministry of MSME.

	Development Board (NEDB). Syllabus of various training courses / modules should be regularly updated.	
6.	Five new Process-cum-Product Development Centres (PPDCs) may be set up during 10th Five Year Plan.	The setting up of new PPDCs was considered in the 10th Five Year Plan but only modernization of tool rooms / workshops / RTCs / PPDCs has been recommended. Therefore, setting up of new PPDCs were not taken up.
7.	Accelerated depreciation should be provided to SSI units for Plant & Machinery installed for technology upgradation.	An announcement to this effect was made in the Union Budget 2002.
8.	Setting up of Technology Bank for collection and dissemination of information about technology sources.	Technology Bureau of Small Enterprises -- joint venture of SIDBI, SBI, OBC, IOB and Indian Bank is functioning as a Technology Bank for Micro Small and Medium Enterprises (MSMEs).
9.	Technology Upgradation and Modernization Fund of Rs. 5000 crore with an interest subsidy of 5%.	Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation in MSE sector launched. The scheme provides capital subsidy of 15% for loans upto Rs.1 crore.
10.	5% Custom duty on capital goods with import obligation and 5% interest subsidy as admissible for technology upgradation.	15% capital subsidy in lieu of 5% interest subsidy is already admissible under the CLCSS of M/o MSME.
11.	Massive Programme to modernize export oriented industrial clusters	Under Micro and Small Enterprises Cluster Development Programme and SFURTI Programme, M/o MSME has already taken initiatives in around 550 clusters. Cluster Development initiatives have also been undertaken with the assistance of UNIDO for holistic upgradation of the clusters.
12.	Incubation facilities to be created in technical institutions to harness innovative talent of entrepreneurs.	The Secretaries of Ministries / Departments related to sunrise industries were requested to consider setting up incubation centres in their respective areas. Consequently, D/o Science & Technology and D/o Bio-Technology have set up incubation centres at various locations. M/o MSME has also launched a scheme for incubation.

3. **Report of the Prime Minister’s Group on “Measures for Ensuring Sustained Growth of Indian Manufacturing Sector”:** A group was constituted under the Chairmanship of Shri V. Krishnamurthy, Chairman, National Manufacturing Competitiveness Council (NMCC) to look into issues affecting the manufacturing sector and to make

recommendations for ensuring its sustained growth. The report was submitted in September 2008. The major recommendations are:

a) To formulate India Specific Manufacturing Policy including measures needed to enhance growth rate of manufacturing from 12 to 14%, promoting competitiveness, reform process, domestic value addition, promoting clean technologies, promotion of employment intensive industries, promotion of hi-technology industries, FDI policy, macro economic policies, future role of public sector, role for SSIs, suggestions for improvement in the regulatory system, coordination with State Governments and mechanism required for smooth and continuous implementation of the policy.
b) Policy Package to ensure that the outfall of monetary actions (exchange rate variation etc.) are moderated
c) Enunciated a clear policy to provide incentives for acquisition of advance technologies
d) Priority treatment for 5 strategic manufacturing sectors viz. Aerospace, Shipping, IT and Electronic hardware, capital goods and solar energy.
e) Creation of Technology Acquisition Fund for SMEs
f) Re-examine the present policy of permitting 100% subsidiaries of foreign companies in manufacturing sector.
g) Review current FDI policy from point of view of transfer of technology
h) To identify technologies needed for technological development and strategic point of view.
i) To identify specific areas of technology in which FDI should be attracted.
j) Put in place a clear policy for upgrading technological capabilities
k) Revisit the current mechanism of domestic R&D as strong industry science linkages are needed.
l) Strengthen science based institutions for higher learning
m) Support entrepreneurship through institutional environment
n) Create appropriate conditions to encourage innovations
o) Enunciate a comprehensive technology policy emphasizing cooperation among National universities, research organizations as well as private sector.
p) Identify and support certain high cost domestic R&D efforts

q) Investment heavily in research in future technology such as nano manufacturing, solar and hydrogen technologies, etc.

The report is presently under examination.

4. The Government announced formulation of National Manufacturing Competitiveness Programme in 2005 with an objective to support the Small and Medium Enterprises (SMEs) in their endeavor to become competitive and adjust to the competitive pressure caused by liberalization and moderation of tariff rates. The National Manufacturing Competitiveness Council (NMCC) has finalized a five-year **National Manufacturing Competitiveness Programme**. Ten schemes have been drawn up for MSMEs, which are as under:

S.No.	Name of the Scheme
1	Marketing Support/Assistance to MSMEs(Bar Code)
2	Support for Entrepreneurial and Managerial Development of SMEs through Incubators
3	Enabling Manufacturing Sector to be competitive through Quality Management Standard & Quality Tech. Tools (QMS/QTT)
4	Building Awareness on Intellectual Property Rights (IPR) for MSME
5	Lean Manufacturing Competitiveness Scheme for MSMEs
6	Mini Tool Rooms proposed to be set up by Ministry of MSME (MTR)
7	Design Clinic Scheme for design expertise to MSMEs Manufacturing sector (DESIGN)
8	Marketing Assistance & Technology Up-gradation Scheme for MSMEs.
9	Technology and Quality Upgradation Support to MSMEs
10	Promotion of ICT in Indian Manufacturing Sector (ICT)

Out of the ten schemes, the first six are already operational. The remaining 4 schemes are under various stages of approval.

Chapter VIII
Report of the Sub-Group on Exit Policy

A Sub-Group on Exit Policy for MSMEs has been constituted, the composition and scope of work of which are enclosed at Annexure A.

Issues

The Micro, Small & Medium enterprises represent entrepreneurial effort at individual level, and are often driven by innovation and creativity. Having limited access to capital and staying power, they are particularly vulnerable to fluctuation in the business environment. Even minor business disruptions can cause firms with otherwise bright and innovative ideas to lose their bearings and be driven to insolvency. Therefore there is a need to deal with the insolvency of MSMEs in a manner that would enable viable enterprises weather temporary credit disruptions, while allowing unviable entities to close down speedily, liberating various economic resources –financial or human for alternative deployment in the economy. This requires a comprehensive and sensitive treatment of the problem of insolvency in the MSME sector

The micro, small and medium enterprises (MSME) sector constitutes an important segment of our national economy. The number of enterprises is estimated to be about 26 million, providing employment to an estimated 60 million persons. The MSME sector is estimated to contribute to about 45% of the total manufactured output and nearly 40% to India's exports.

An overwhelming majority of small businesses in India are either proprietorships or partnerships. According to the 4th Census of Micro Small and Medium Enterprises, this group constitutes more than 94% of all such units in India. Only 3% of the MSMEs are incorporated as Companies.

The MSME sector remains in a state of dynamic flux- with a large number of start-ups counterbalanced by a substantial number of exits. This is typical of entrepreneurial search for not only business viability but of activities that provide the most suitable outlet to talent. Therefore efficient exit is as important to this sector as easy entry.

Unlike limited liability entities, where the liability of the shareholder is limited to the extent of the contribution made or due from him, in proprietorships or partnerships there is no separation of personal and business liability. When a business fails, not only do the assets of the business but the entrepreneur’s personal assets also get attached to pay off business dues.

Further, all guarantors which are drawn from the critical social safety net of the small entrepreneur, get personally involved and in the eventuality of failure they also get implicated and the whole safety net crumbles.

Insolvency of corporate entities such as companies and LLPs is governed by the Companies Act, 1956, the Sick Industrial Companies (Special Powers) Act,1985 (SICA), SARFAESI Act 2002, the Limited Liability Partnerships Act 2008 etc. in these enactments avenues have been provided for revival and rehabilitation of companies or restructuring of the financial assets involved. Speedy recourse to secured lending is provided under the Recovery of Debts by Banks and Financial Institutions Act 1992. The corporate entities thus not only have a diversified legislative framework but this framework has continuously been reformed and developed. The latest instance being the winding Up Rules for LLP which have been placed in the parliament(for the mandatory period of 30 days) prior to notification and the comprehensive insolvency code included in the Companies Bill 2009 recently introduced in the Parliament. Insolvency in in proprietorship or partnership firms, on the other hand, is governed by the Provincial Insolvency Act 1920, which has largely remained static. Here the focus is not revival followed by structured exit in case of failure, but of recovery of outstanding dues through a court driven process. The relevant courts under the Act are District Courts which take their own time adjudicating the petitions and are apt to enforce the processes of seizing debtor estates, appointing receivers and punitive remedies against the debtor including imprisonment rather than enabling any revival or turnaround. Indeed adjudicatory order on an insolvency petition under this Act lays the entrepreneur open to action including arrest and detention in a civil prison as if business failure were a criminal Act. The provisions for arrangements under this act are also aimed at composition of debt due rather than rehabilitation. During the interim period when the insolvency petition is pending for disposal, there is no absolute stay against the proceedings initiated under different Acts such as for recovery of statutory dues. An insolvent obtaining credit of more than 50 rupees from any person with out informing him that he is an undischarged insolvent lays himself open to imprisonment of up to six months. All the while when the entrepreneur struggles to revive the unit, he is confronted with considerable social stigma and could be sued and penalized under several regulations. If he is unable to settle or otherwise compound the debt, he continues to be declared insolvent, significantly impairing his capacity to ever raise finance (or even seek employment in most cases) again.

Administrative mechanisms for revival exist for businesses availing bank loans, but only a very small percent of MSEs use bank finance and then too, these measures have not been very effective. When a business is in distress it has the option of trying for re-structuring of its debt; or enters a One Time Settlement (OTS) with the bank. RBI has also constituted Committees to review rehabilitation of SME units through State Level Inter Institutional Committees (SLIIC) comprising of banks, financial institutions, state government reps and industry associations.

These measures do not provide protection from statutory dues or other creditor action. For revival a distressed unit requires a 'holding off' or a "standstill" period where all creditor action is 'stayed' so that the unit and its stakeholders can focus on revival. Such revival has to be based on a statutory mechanism which is binding on all concerned stakeholders and agencies. Even as purely debt management measures, these mechanisms have not been very effective. No time frame is set either for rehabilitation or OTS while at this juncture time is of great essence; banks do not find most cases viable because proposals for revival are appraised by interested stakeholders (lending banks) leading to conflict of interest; entrepreneurs lack the skills and knowledge, or the financial resources required to prepare and execute viable plans. When cases are not found viable, banks take legal recourse for recovery of their dues through DRT and SARFESI Acts.

The experience of SLIIC mechanism has not been satisfactory, particularly because over a period of time it has become a statistical review committee rather than a committee which examines critically and enables rehabilitation. There is no scope for direct borrower interface with the monitoring process.

Some State governments have introduced their own schemes for revival of sick MSEs which provide for a single mechanism to deal with all creditors with support through government funding. Under the Small Scale Revival Scheme 2006 of the Government of Andhra Pradesh, potentially viable proposals are forwarded by the financing banks/institutions to the State Level Special Cells for concessional sanctions. The concessions provided by financing institutions and the Government departments are financed through a revival and rehabilitation Fund earmarked in the Budget. A State Level Committee headed by the Commissioner of Industries has been set up for processing and extending relief and concessions as also to formally approve the recommendations of the Banks/Financial Institutions. The Fund is also kept at his disposal. The details of the scheme are enclosed at Annexure B.

This scheme too has not been successful as the lending banks being ‘appraisers’ and financiers focus on their own recoveries and not on revival.

International Practice:

In many countries reform has taken place that allows insolvency of businesses to be dealt with in a comprehensive manner that enables revival or rescue before liquidation and winding up. Insolvency is treated as a commercial phenomenon requiring to be dealt with in accordance with commercial principles in a framework of fairness and equity. There is an independent institutionalized process of providing a grace period for businesses to deal with distress. This is intended to enable a revival plan if the business is inherently viable, puts all creditors on hold pending revival, gets business out of holding period if it revives or takes action on winding up if the business is unrevivable. The entire process is completed in a time bound period of 12 – 24 months. Both personal as well as business insolvency are dealt with on the basis of similar principles with ease of filing for bankruptcy and securing of certain protection from creditor action once this is done. The system prevalent in the US is enclosed at Annexure C.

<u>Recommendations</u>:

<u>In Process</u>:

1. Recently the Limited Liability Partnership Act 2008 (LLP) has been enacted which provides for a flexible governance structure to be determined by the partners themselves by mutual agreement, easy compliance requirements in comparison to companies, combined with limitation of liability to the extent of the partners contribution. LLPS are also vested with separate corporate identity under the statute distinct from that of their partners and as such are subject to regulation by the central government under the Constitution. Under the Act, provision has been made for enabling schemes of revival as well as liquidation and winding up through rules to be notified as subordinate legislation. The necessary rules based on the best international practices as brought by UNCITRAL have already been prepared and laid before the parliament for the mandatory period of 30 days after which they can be notified. The General rules already enacted under the LLP Act include provision for revival as a component of arrangements relating to LLPs. The entire framework is expected to be in place by January 2010. The LLP Act 2008, therefore, allows MSMEs an easy access to corporatisation and its attendant benefits of revival and exit.

2. The Ministry of Corporate Affairs has also introduced the companies Bill 2009 in the Parliament where it has been taken up by the Parliamentary Standing Committee for

examination. The Companies Bill includes a provision for a one person company, a concept already in existence in many countries. This allows a single person, as a shareholder to set up a company with limited liability. This company would be subject to various compliance requirements under the Companies Act which would however be comparatively lighter since this entity with only one shareholder, need not implement and comply with detailed procedural requirements necessary to ensure participation by shareholders and for protection of their interests. This form provides a useful corporate alternative to the proprietor ship firm.

3. These are recent initiatives and would provide alternate corporate options to entrepreneurs. M/MSME and MCA may organize awareness campaigns across the country.

4. There is also a need to incentivise the non-corporate entities to convert to these forms. A graded corporate tax structure can be introduced with base rates lower than the income tax slab rates.

5. It may also be ensured that the registration and transaction costs for adopting the LLP or SPC mode are kept low.

Proposed:

Short term: Administrative Mechanism

1. For immediate relief to MSME units, an administrative mechanism may be put in place at the state and district level, to consider rehabilitation of units found to be unviable and hence rejected by the banks/financial institutions. The States may be required to formulate schemes on the pattern of Andhra Pradesh scheme, which lays down a rehabilitation package comprising of reliefs and concessions in taxes, energy, land charges and interest rebate to banks/ financial institutions.

The scheme may be applicable to units permanently registered with Department of Industries. State level Committees may be set up with parallel formations at the district level. The State Level Committees may be headed by Commissioner of Industries and comprise of representative of concerned State Government Departments, banks, RBI and MSME-DI. Alternatively, the SLIIC can be strengthened with additional members from the State Government Departments. The committee will formally approve the recommendations of the district level committees as also process and extend reliefs and concessions. The district level committees will be convened by GM, DIC. The DICs will form the Secretariat for these committees and all applications will be received and monitored by them. A panel of Technical Officers/ Chartered Accountants will be drawn by the DICs who would help the entrepreneurs in preparing their rehabilitation plan.

When a proposal is rejected by the Banks/ financial institutions, the entrepreneur may approach GM, DIC who will scrutinize the proposal in the light of the state scheme and help prepare a rehabilitation package to put before the District Level Committee. The District Level Committee may either recommend to the State Level Committee or reject it. The entire process will be completed within two months and during this period the bank dues will be put on ‘hold’.

2. The central Government may set up a rehabilitation fund under the Ministry of MSME with a corpus of Rs.1000 crore, to provide bridge finance towards promoters’ contribution in the approved package. The MoMSME may formulate an appropriate scheme to operate the fund.

3. Statutory dues: there should be an equal standstill period for statutory dues. State Governments may securitize these by one time payment at a discount to various bodies and agencies such as state electricity utilities etc. and step into the shoes of such bodies with status of an unsecured creditor to the enterprise.

Long term measures: Personal Insolvency Code

Unlike corporate entities which are governed by the Companies Act, 1956 or the LLP Act 2008 – both central legislation, non-corporate entities are state subjects. The Provincial Insolvency Act 1920 enacted prior to independence has been retained as legislation amenable to state amendments. Thus any overhaul or changes in these acts would require consultation with states.

A revised and reformed insolvency code may have to be enacted to enable be set up for proprietorship and partnership firms, with 4 critical elements:

- A specialized quasi-judicial body, to appraise viability and set up time bound revival/ closure plans.
- Enabling provisions for a holding period for revival.
- Segregation of business assets from personal assets based on reasonable norms.
- Speedy winding up in case the business is determined as non-revivable.

The Ministry of MSME/ Ministry of Law may bring out a model Act for the states on the above lines and encourage the states to adopt the same through a suitable scheme of incentives.

Annexure A

Sub-Group on Exit Policy

Composition

(i)	Secretary, Ministry of Corporate Affairs	Chairman
(ii)	AS&DC (MSME)	Member
(iii)	Shri Anil Bhardwaj, FISME	Member
(iv)	Shri Vijay Kalantri, AIAI	Member

Shri Arun Maira, Member, Planning Commission would associate himself with the Sub-Group subject to his convenience.

Scope of Work:

(a) To examine the existing mechanism available to MSEs in respect of insolvency/ bankruptcy and exit;

(b) To study the best international practices in this context; and

(c) To recommend an institutional mechanism that provides for a stay on creditor action for a reasonable time to allow distressed company to revive before the court orders liquidation.

Annexure B

Andhra Pradesh Small Scale Revival Scheme 2006 – Revised Guidelines

The Scheme focuses on sick units that are considered potentially viable by the financing banks/institutions for feasibility of revival and rehabilitation. The State Level Special Cells considers the recommendations of the financial institutions for sanction of rehabilitation/revival packages as per guidelines. The scheme with a package involves part compensation of a few sacrifices by the financing institutions and the Government involved. For compensating sacrifices, the State Government has set up a revival and rehabilitation Fund [named as A.P. Small Scale Sick Industries Revival and Rehabilitation Fund (APSSSIRR Fund)] with an earmarked Fund in the Budget. The applicability of the scheme is to industrial units/ancillary units (except Rice Mills) permanently registered as micro and small enterprise (MSE) with Department of Industries. The relief and concessions provided under the Scheme are as under:

(i) Grant of permission to mortgage surplus land by exemption under section 20 of the Urban Land Ceiling Act in favour of banks/financial institutions;

(ii) Pro-active action by the Labour Department for amicable settlement of disputes between management and representatives of labour;

(iii)6% interest subsidy to all identified/eligible sick units, subject to a maximum of Rs.2 lakh per year, for a maximum period of 3 years;

(iv)Deferment of arrears of payments of purchase tax, sales tax and interest towards non-payment of sales tax for 3 years from the date of grant of revival package; and

(v) Subsidy in dues of energy charges to the extent of 15% of interest charged from out of the percentage of the total interest charged, subject to a maximum of Rs.5 lakh or Rs.3 lakh (depending on the option availed for repayment of dues).

A State Level Committee headed by the Commissioner of Industries has been set up for processing and extending relief and concessions as also to formally approve the recommendations of the Banks/Financial Institutions. After approval by the State Level Rehabilitation Committee, APTRANSCO/DISCOM submits a report to the Commissioner of Industries on details of connection made, charges to be reimbursed by the Government and to be paid by the beneficiary. Based on the report, the Commissioner of Industries reimburses the eligible interest to APTRANSCO from the "APSSSIRR Fund" kept at his disposal. The Commissioner of Industries also draws the eligible interest subsidy from "APSSSIRR Fund" and pays the same to the Bank/ Financial Institution concerned.

Annexure C

Bankruptcy Procedures of USA

Chapter 11 is a chapter of the United States Bankruptcy Code, which permits reorganization under the bankruptcy laws of the United States. Chapter 11 bankruptcy is available to every business, whether organized as a corporation or sole proprietorship, and to individuals, although it is most prominently used by corporate entities. In contrast, Chapter 7 governs the process of a liquidation bankruptcy. When a business is unable to service its debt or pay its creditors, the business or its creditors can file with a federal bankruptcy court for protection under either Chapter 7 or Chapter 11.

In chapter 7 the business ceases operations, a trustee sells all of its assets, and then distributes the proceeds to its creditors. Any residual amount is returned to the owners of the company. In Chapter 11, in most instances the debtor remains in control of its business operations as a *debtor in possession*, and is subject to the oversight and jurisdiction of the court.

Debtors in Chapter 11 have the exclusive right to propose a plan of reorganization for a period of time (in most cases 120 days) which has to be approved by all creditors. Bankruptcy petitions filed under Chapter 11 invoke an automatic stay which requires all creditors to cease collection attempts, and makes post-petition debt collection void. If a plan cannot be confirmed, the court may either convert the case to liquidation under Chapter 7, or if in the best interests of the creditors and the estate, the case may be dismissed resulting in a return to the status quo before bankruptcy. If the case is dismissed, creditors will look to non-bankruptcy law in order to satisfy their claims.

Chapter X
Report of the Sub-Group on Labour

A Task Force under the Chairmanship of Principal Secretary to Hon'ble Prime Minister has been constituted on 02.09.2009 to consider the various issues raised by Micro, Small and Medium Enterprises (MSME) Associations, hold discussions with all stakeholders and draw up an agenda for action within 3 months. Secretary (L&E) is a Member of the Task Force.

2. In its first meeting held on 25.09.2009, the Task Force decided to constitute seven Sub-Groups on credit, marketing, labour, exit policy, infrastructure/technology/ skill development, taxation and special packages for North East and Jammu & Kashmir. The composition of the Sub-Group on Labour is as under:

(i)	Secretary (L&E)	Chairman
(ii)	Additional Secretary & Development Commissioner (MSME)	Member
(iii)	Shri Sushil Kumar Gupta, Laghu Udyog Bharati (LUB)	Member
(iv)	Shri Salil Singhal, Confederation of Indian Industries (CII)	Member

3. The scope of work assigned to Sub-Group on Labour is as under:

(i) to examine the various labour laws that has an impact on the functioning of the MSE Sector,

(ii) to suggest measures for simplification of labour laws pertaining to MSE Sector, particularly with reference to reducing the number of inspections and registers to be maintained and to reduce compliance costs.

4. The Prime Minister's Office subsequently directed to include union representatives in the Sub-Group on Labour. It was decided in the first meeting of the Sub-Group held on 14.10.2009 to include the representatives of three Central Trade Unions, namely, Bharatiya Mazdoor Sangh (BMS), Indian National Trade Union Congress (INTUC) and All India Trade Union Congress (AITUC) in the Sub Group on Labour. The Trade Unions were requested to nominate one representative each from their organizations for attending the meeting of the Sub Group on Labour. Following representatives have been nominated:

(i) Shri R.V.Subbarao, Vice President, BMS

(ii) Dr. Sanjeeva Reddy , President , INTUC

(iii)Shri H.Mahadevan, Dy. General Secretary , AITUC

5. The Sub-Group on Labour held two Meetings under the Chairmanship of Secretary (L&E) on 14.10.2009 and 22.10.2009. The Meetings were attended by the members of the Sub-Group or their representatives and officials of the Ministries of the MSME and Labour & Employment. Notes / Reports submitted by the Members have been made either a part of the Agenda Notes or separately circulated. The Minutes of the meetings are placed at Appendix I and II respectively.

6. In brief, the representatives of Industry Associations felt that considering limited additional absorption capacity of labour force in agriculture, the mantle of promoting employment falls on manufacturing sector, especially on SMEs. Hence, a facilitating environment needs to be created by enacting a separate comprehensive labour law for SME Sector, which has been recommended by Second National Commission on Labour (SNCL). While doing so, the definition of SME Sector as mentioned in the MSMED Act, 2006 can be adopted. While the intention of present labour laws is good, the un-intended consequences are complication in implementation resulting in corruption and lack of accountability. Hence, a re-vamping is required even by prescribing higher limits for applicability of such laws and provision of social security for MSE employers through cross subsidy. The representatives of Trade Unions, on the other hand, stated that workers' interests should not be compromised, the existing laws and their provisions should not be diluted, wage standards should be maintained and protection should be available in terms of job and social security. While the MSEs need to be helped through marketing, technology and financial assistance, there should not be any relaxation on applicability of labour laws, otherwise it may lead to serious problems on labour front. While implementation of labour laws cannot be ensured without inspectors, the system of inspection can be improved by encouraging self-certification, prescribing reduced number of registers and returns etc. Difficulties in registration and recognition of unions, non-payment of minimum wages and not having national minimum wage and prevalence of huge number of contract labour were stated to be problem areas. The representatives of MSME pointed out that since other Sub-Groups are looking into the promotional measures for SMEs like credit , marketing etc., this Sub-Group should dwell on scope of work assigned i.e., how to simplify labour laws and reduce number of inspections , registers and compliance cost . Since Ministry of Labour & Employment has already undertaken a number of steps in this direction, these can be listed along with those which can

be taken up in future so as to lay down a road map. This was agreed to while stating that labour standards, especially in social security , occupational safety and health etc. need to be adhered to if India aspires to becoming an International player.

7. The Draft Report of the Sub-Group on Labour was circulated among all Members requesting them to send their comments so that the Report could be finalized. Accordingly, Ministry of Micro Small and Medium Enterprises (MSME) and Confederation of Indian Industries (CII) offered following comments:

Ministry of Micro Small and Medium Enterprises (MSME)

(i) Presently the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 covers 9 Acts. It has been proposed to amend the Act by increasing its coverage to 16 principal Acts. Ministry of Labour & Employment may consider expanding the scope of this Act by including more Acts particularly the Employees' State Insurance Act, 1948 and the Employees' Provident Fund and Miscellaneous Provisions Act, 1952;

(ii) The traditional inspection regime where the Government inspectors are the only ones empowered to do inspection job, needs to be reviewed. It is for consideration that a mechanism may be evolved where the burden of inspection could be shared by the Government Inspectors and other parties in a balanced manner. This has been one of the best practices prevailing internationally.

CII

Briefly stated, CII wanted mention in the Minutes of the First Meeting of a document entitled "Simplification of Labour Laws for MSMEs: Suggestions" submitted by them (it has subsequently been circulated among all Members), proposing amendments of various provisions of the Factories Act, 1948 , the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, the Employees' State Insurance Act, 1948, the Industrial Disputes Act, 1947 , the Contract Labour (Regulation and Abolition) Act, 1970 and the Industrial Employment (Standing Orders) Act, 1946. Besides, in order to reduce the burden on SMEs, it was suggested that it may be examined whether benefits of the social security provisions under the ESIC and Provident Fund are accruing to the beneficiaries especially those employed in units employing 40/50 or less workmen and making the implementation machinery more accountable.

The suggestions have been broadly taken into account while examining the relevant issues in succeeding paragraphs.

8. The status in respect of the scope of work assigned to the Sub-Group on labour is as under:

(a) Application of Labour Laws to Micro & Small Enterprises (MSE) Sector

"Labour" figures in the Concurrent List of the Constitution. Thus, both the Centre and the States can legislate in this area. There are about 44 labour related statutes enacted by the Central Government dealing with wages, social security, labour welfare, occupational safety and health, industrial relations etc. It may be noted that the coverage of an Act is defined in the Act itself. For instance, Act like the Factories Act, 1948 is applicable to the establishments employing 10 or more workers with power or 20 or more workers without power; Act like the Payment of Wages Act, 1936 is applicable to the employees drawing wages upto Rs.10,000/-per month and Act like the Minimum Wages Act, 1948 is universally applicable. So far as important Social Security Acts are concerned, the Employees' State Insurance Act, 1948 provides for health care and cash benefit payments in the case of sickness, maternity and employment injury. The Act is applicable to non-seasonal factories using power and employing 10 or more employees and non-power using factories and certain other establishments employing 20 or more employees. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 is applicable to factories and other classes of establishments engaged in specific industries and classes of establishments employing 20 or more persons. Most of the Micro and Small Enterprises get automatically exempted unless they cross the number filter or get covered by the specific Acts.

On the other hand, the Micro and Small Enterprises are defined in terms of investment made under the MSMED Act, 2006 as indicated below:

Industry	Enterprises engaged in the manufacture of productions of goods: investment in plant and machinery	Enterprises engaged in providing or rendering of services: investment in equipment.
Micro	Not exceeding Rs.25 Lakh	Not exceeding Rs.10 lakh
Small	Between Rs. 25 lakh and Rs.5 core	Between Rs.10 lakh and Rs.2 crore.
Medium	Between Rs.5 crore and Rs.10 crore	Between Rs. 2 crore and Rs.5 crore.

The Second National Commission on Labour (SNCL) had recommended enactment of the Small Enterprises (Employment Relations) Act for the establishments having less than 19 workers with a view to reduce pressure on them. One of the demands of the MSE Associations relates to formulation of a separate legislation (single and comprehensive) for MSE Sector. During deliberations, the representatives of MSE Associations also asked for adopting the definition of Micro and Small Enterprises as defined in the MSMED Act, 2006 regarding applicability of labour laws. Since the very purpose of labour laws is to protect the interests of workers, especially those who are vulnerable to exploitation, these laws need to be applied in MSEs to the extent they are covered under the respective Acts. As labour laws are also investment-scale neutral , it is not found feasible either to have a separate labour law for MSE Sector or incorporate the definition given in the MSMED Act, 2006 in the application of labour laws. Moreover, the Trade Unions are against enactment of the special Act or changing the definition.

(b) <u>Simplification of Labour Laws and Streamlining of Inspection Procedure:</u>

However, simplification of labour laws as well as streamlining of procedures and inspection system is considered as an ardent necessity to make Indian industry efficient, cost effective and internationally competitive. This is also relevant to the MSE Sector. This is treated as a part of labour reforms process which essentially means taking steps to increase production, productivity and employment opportunities in the economy while protecting overall interest of labour. Various initiatives continue to be taken as indicated below, which are also helpful to the MSE Sector.

9. Following initiatives have been taken:

(i) As recommended by the Second national Commission on Labour, the National Commission for Enterprises in the Unorganized Sector (NCEUS) and other important Committees, there is a felt need to consolidate labour laws. Accordingly, a Working Group has been constituted under the Chairmanship of Chief Labour Commissioner (Central) to examine the feasibility of (a) formulating a National Labour Code encompassing on central labour laws, (b) consolidating the labour laws into a few cognate groups such as Labour Relations, Wages, Working Conditions, Social Security, Conditions of Work etc. and (c) bring uniformity in definitions of certain key terms like ‘employer’, ‘employee’, ‘establishments’ and ‘wages’. During its deliberations so far, the Working Group has felt that it is possible to bring about uniformity in definition of the key terms among the cognate groups and is working in this direction.

Formatted: Tab stops: 0.88", List tab

(ii) The Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 presently provides for exemption by way of allowing ‘very small’ establishment (employing up to 9 workers) to maintain only one register and submit one return and ‘small establishments’ (employing 10 to 19 workers) to maintain three registers and submit one return in respect of 9 Acts. It is proposed to amend the Act by increasing the coverage to 16 Acts (List attached at Annexure). The 'small' establishments would cover those establishments employing between 10 to 40 workers as against 19 in the Principal Act, which would be required to maintain only two registers as against three at present and submit one return. Registers / records can be maintained in computer, floppy, diskette or on other electronic media and return submitted through e-mail. The passage of the Amendment Bill would benefit establishments employing upto 40 workers in maintaining registers and submitting returns electronically under 16 Labour Laws.

(iii) The Inspection procedure is being increasingly made compliant driven. In Employees' State Insurance Corporation (ESIC), inspection is carried out only in the case of defaulters and where the compliance is irregular. In Employees' Provident Fund Organization (EPFO), inspections are carried out only in respect of establishments against which there are specific complaints of evasion or non-compliance. Such inspections are ordered by senior level officers who specifically assign the task, at random, to the inspectors, so that there is no chance of any pre-decided action plan on the part of the inspectors for visiting any particular establishment.

(iv) A system of self certification for employers has been introduced by Employees' State Insurance Corporation w.e.f. 01.04.2008.

(v) Several new initiatives have been undertaken by the Employees' State Insurance Corporation (ESIC) to improve the quality of delivery of service under ESI Scheme. The important initiatives being starting Medical Education Projects and the IT Roll Out Plan.

(vi) A Smart Card titled "A Pehchan Identity Card" has been launched for Employees' State Insurance Corporation Beneficiaries. Every beneficiary will be issued two Smart Cards – one for himself and another for family in order to enable ensured persons family to have treatment at a separate locations where the family is living in case the Insured Person is working outside his place of residence. With the help of these Smart cards, the beneficiary can have the treatment in any Employees' State Insurance Corporation Hospitals through out the Country, ensuring portability of benefits.

(vii) The initiatives taken by the Employees Provident Fund Organization (EPFO) are Computerized Compliance Tracking System (CCTS) and Business Process Reengineering (BPR), a project being implemented with the help of NIC.

(B) FURTHER MEASURES WHICH CAN BE TAKEN

(i) Presently, the challan forms for depositing contributions to Employees' State Insurance Corporation and Employees Provident Fund Organization are different because the parameters and thresholds for coverage of Industry as well as workers are different under the two Acts. However, it can be explored whether the forms can be merged and one single form with separate entries for ESIC and EPFO can be prepared.

(ii) Under the present provisions, an employer is required to submit three cheques in respect of the deposits against three EPF Schemes. It can be explored whether the payment can be made through one cheque.

(iii) While, a National Floor Level Minimum Wage is prescribed, presently it is not statutory. The proposal to give statutory backing to the national Floor Level Minimum Wage through amendment in the Minimum Wages Act, 1948 could be examined.

(iv) The proposal to comprehensively amend the Factories Act, 1948 may be expedited.

(v) Steps being taken to computerize the activities of the Employees' State Insurance Corporation and the Employees' Provident Fund Organization may be expedited so that the advantages in terms of bringing down the compliance cost and reducing the inspection requirement as well as portability of benefits would accrue to SMEs and their employees.

10. The measures mentioned above which have been initiated but not yet reached the final stage and those which are to be started, need to be completed expeditiously.

Annexure

List of Acts covered under the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988

The Principal Act covers following Nine Acts in its schedule:

1. The Payment of Wages Act, 1936
2. The Weekly Holidays Act 1942
3. The Minimum Wages Act, 1948
4. The Factories Act, 1948
5. The Plantations Labour Act , 1951
6. The Working Journalists and Other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
7. The Contract Labour (Regulation and Abolition) Act, 1970
8. The Sales Promotion Employees (Conditions of Service) Act, 1976
9. The Equal Remuneration Act, 1976

Seven new Acts proposed to be added are:

1. The Motor Transport Workers Act, 1961
2. The Payment of Bonus Act, 1965
3. The Beedi and Cigar Workers (Conditions of Employment) Act, 1966
4. The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service), Act, 1979
5. The Child Labour (Prohibition & Regulation) Act, 1986
6. The Dock Workers (Safety, Health and Welfare) Act, 1986
7. The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996

Appendix I

Minutes of the first meeting of the Sub-Group on Labour constituted by High Level Task Force set-up under the Chairmanship of Principal Secretary to Prime Minister to address the issues of Micro, Small and Medium Enterprises (MSME) Sector.

1. First meeting of the Sub-Group on Labour under the chairmanship of Secretary (L&E) was held at 3.00 P.M. on 14.10.2009 in the Mini Committee Room, Shram Shakti Bhawan, New Delhi.

2. List of participants is annexed.

3. Dr. Ashok Sahu, LEA welcomed the chairman and other participants and presented a brief background of the constitution of Sub-Group on Labour and its Terms of Reference.

4. Secretary (L&E) requested the participants to offer their views and suggestions on the subject having regard to the terms and reference of the Sub-Group, viz. -

i) To examine the various labour laws that has an impact on the functioning of the MSE sector,

ii) To suggest measures for simplification of labour laws pertaining to MSE Sector, particularly with reference to reducing the number of inspections and registers to be maintained and to reduce compliance costs.

5. Shri Salil Singhal (CII) stated that the units in MSME Sector are relatively small, having a limited manpower strength which makes it difficult for them to understand the complex labour laws. The variation in definition of terms such as worker, employer, wage, establishments, etc. in different labour laws creates problem in implementing the provisions of labour laws. The plethora of labour laws with requirements of maintaining records and registers under the various laws adds to the compliance cost impinging on the viability of the units. Further, the enforcement of labour laws has much to be desired and the units in this sector are victim of harassment by inspectors on the pretext of non-compliance of labour laws. He suggested that the applicability of ESI and EPF Schemes for the workers in MSME Sector should be made voluntary and the subscription to EPF Schemes, which presently is required to be paid by way of three separate cheques in three challan forms, may be reduced to payment by a single cheque.

6. Shri Sushil Kumar Gupta (LUB) supported the views expressed by Shri Salil Singhal (CII) and added that the SME sector, being labour intensive, has a crucial role to play in solving the problem of unemployment in the country. The Sector, therefore, needs to be provided special dispensation from the Government. He observed that there is seasonality in volumes of production in MSME sector causing difficulty in maintaining of information with regard to floating workers in the sector. The workers in the MSME Sector often resist deductions towards subscription for ESI and EPF Schemes resulting in the employers bearing the share of the workers in these subscriptions. He observed that the format of challan forms in ESI and EPF schemes are different adding to the workload in filling up the forms. He suggested that a separate labour law specific to SME Sector on the lines of the draft given in

the 2nd NCL report should be enacted to address the difficulties in compliance of labour laws in SME Sector. He also suggested that arrangement for making a consolidated payment towards subscription for ESI and EPF Schemes may be made to save the burden of making separate payments towards ESI and EPF Schemes.

7. Dr. Sunita Chhibba ADC/EA (MSME) mentioned that the Ministry of MSME is opposed to the proposal of reducing the threshold limit for coverage of EPF from 20 to 10 employees. She also observed that the proposed extending of the scope of Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 from 9 to 16 Acts out of 44 Acts may not be sufficient and some more relief to the sector needs to be considered.

8. On a query from Shri Salil Singhal (CII) regarding the time likely to take for enacting the amendment in Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988, Special Secretary (L&E) mentioned that this is subject to the time taken in passing of the Bill by the Parliament.

9. Secretary (L&E) stated that the various Labour Laws are intended to cover the basic issues of social security, conditions of work, occupational safety and health, minimum wages etc. for benefit of the workers, the spirit of which cannot be compromised with regard to workers in SME sector. The SME Associations will have to provide detailed justifications for suggesting any dilution in the scale of benefits under the present Laws, duly approved by the Ministry. Enactment of a separate legislation for SME sector may not, therefore, serve a purpose as these basic issues, in any case, have to be addressed in the law. The Ministry, however, is open to suggestions for simplifying the procedures and improving the delivery mechanisms to reduce the avoidable burden on the employers.

10. Secretary (L&E) informed that the Ministry has already initiated several steps for improving the delivery systems. The functioning of ESIC and EPFO are being computerized, resultantly the payment of subscription in respect of ESI Scheme from next year onwards could be made online from the premises of the establishments. He mentioned that while it may not be feasible to conceive an arrangement to accept a single cheque towards payment of subscription for ESI and EPF Schemes, the two schemes being having separate coverage and governed under different statutes. However, designing of a common form for payments under ESIC and EPFO could be examined. Regarding the enforcement issue, he informed that the system of regular inspection under ESIC for establishments employing upto 40 workers have been done away with except for the defaulting and irregularly complying establishments. Secretary (L&E) mentioned that the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 is proposed to be amended to increase the coverage of number of Acts from 9 in the Principal Act to 16 and providing for maintaining of registers/records in computer, floppy, diskette or on other electronic media and submitting of return through e-mail. Further, the definition of 'small' establishments under the Act would be revised to cover establishments employing upto 40 workers as compared to 19 workers at present, who would also then be required to maintain only two registers as against three at present and submit one return.

11. Secretary (L&E) informed that with an objective to simplify labour laws, the Ministry has constituted a Working Group under the Chairmanship of CLC(C) to look into the

feasibility, inter-alia, of bringing uniformity in definitions of certain key terms like 'employer', 'employee', 'establishment' and 'wages' in the various Labour Laws.

12. The Sub-Group was informed that the PMO, in a subsequent reference to the Ministry has directed to incorporate representatives of the relevant Trade Unions in the Sub-Group. The Sub-Group decided that the representatives of BMS, INTUC and AITUC, having the largest membership may accordingly be invited to the next meeting of the Sub-Group.

13. It was decided that the next meeting of the Sub-Group will be convened at 3.30 PM on 22.10.2009.

The meeting ended with vote of thanks to the Chair.

List of Participants

1. Shri. P.C Chaturvedi, Secretary (L&E) ---- Chairman
2. Shri S.Krishnan, Spl. Secretary (L&E)
3. Dr. Ashok Sahu, LEA
4. Dr. Sunita Chhibba , ADC/EA (M/o MSME)
5. Shri M.P. Singh, EA (Ministry of MSME)
6. Shri K.M Gupta, EA
7. Shri Salil Singhal, CII
8. Shri Marut Sen Gupta, CII
9. Shri Manish Whorra, CII
10. Shri Sushil K. Gupta, LUB
11. K.G.A.Rai, SIDBIs
12. Shri B.S .Kalsi, Deputy CLC (C)
13. Shri Animesh Bharti, Director
14. Shri Ranbir Singh, Director
15. Praveen Mahto, AEA (Ministry of MSME)
16. Smt. Madhu Sham, Under Secretary
17. Shri Naresh Chandra Bhatia, Under Secretary
18. Shri S.K Das, RLC(C)

****

Appendix-II

Minutes of the Second Meeting of the Sub-Group on Labour constituted by High Level Task Force set-up under the Chairmanship of Principal Secretary to Prime Minister to address the issues of Micro, Small and Medium Enterprises (MSME) Sector

Second meeting of the Sub-Group on Labour under the Chairmanship of Secretary (L&E) was held at 3.30 pm on 22.10.2009 in the Main Committee Room, Shram Shakti Bhawan, New Delhi.

2. List of participants is **Annexed**.

3. Dr. Ashok Sahu, LEA welcomed the participants and gave a brief background of the constitution of Sub-Group on Labour , the task assigned and its expansion by including representatives of the central Trade Unions as directed by the Prime Minister's Office . He mentioned that the minutes of the first meeting held on 14.10.2009 had been circulated to the members of the Sub-Group and requested participants to offer their views and suggestions on the subject.

4. Shri Madhav Lal, Additional Secretary and Development Commissioner , MSME informed about the constitution of the High Level Task Force set up under the chairmanship of Principal Secretary to Prime Minister to address the issues of Micro, Small and Medium Enterprises Sector as well as the Sub-Group on Labour to make recommendations on labour issues. He mentioned that SMEs are managed by a few individuals who find requirements of compliance of Labour Laws as cumbersome. He requested the Sub-Group to make recommendations having regard to the terms of reference of the Sub-Group.

5. Shri R.K. Bhardwaj, (LUB), requested for taking a view on the issues and problems being faced by SME units in a holistic manner. He felt that piecemeal action towards addressing the problems of the sector may not yield results and a new comprehensive law covering the SME Sector needs to be framed. He drew attention to a reference in the Economic Survey that MSME Sector is likely to generate more employment as compared to the agricultural sector because of its inability to absorb incremental labour. He, therefore, requested for giving importance to the development of MSME Sector. He mentioned that the benefits are also not getting passed to the workers because of the complexity of the Labour Laws. He felt that liberalization of labour laws will result in better compliance of the laws. He observed that the provisions of Bonus Act enables payment of bonus to the workers even when there is no profit earned by the enterprise. He also emphasized the necessity of providing social security benefits to SME employers through cross subsidy.

6. Shri R.V. Subba Rao, (BMS), suggested that proposals for protection of industry cannot be considered at the cost of interest of workers and that no compromise with regard to payment of wages and provisions of social security to workers can be accepted. India ranks low in Human Development Index because of, inter-alia, insecurity of jobs and absence of a reasonable level of social security provisions in the country. The price rise further erodes real wages of the workers. He suggested that the threshold for applicability of Labour Laws should be reduced and uniformity in applicability of labour laws as

recommended by the Second National Labour Commission should be accepted. Bonus is a deferred wage and is, therefore, required to be paid by the employers. He requested that the existing provisions in the Labour Laws should not be diluted.

7. Shri Salil Singhal (CII) felt that on macro basis, it is observed that benefits of social security provisions are not reaching the workers because the law is complex and the enforcement agencies are corrupt. The law is having an unintended effect of becoming a source of generating income by the enforcement officials. ESI services are not reaching the workers and EPF subscriptions though deposited are not received back by the workers. The floating workers in particular are the worst suffers. The plethora of registering requirements makes the delivery of social security benefits difficult by the SME units as the SME employer, handling the work from peon to promoter, hardly has time to devote to social security provisions. He added that delivery of social security benefits will be further hampered if the number filter for applicability of labour laws is further lowered. He also suggested for carrying out an analysis of the number of workers in units employing up to 50 workers having availed the social security benefits and laying down strict provisions with regard to accountability of enforcement officials.

8. Dr. G. Sanjeeva Reddy (INTUC) mentioned that the workers in SME Sector should not feel left out being denied benefits of social security, minimum wages, etc. He strongly opposed any special dispensation for any industry with regard to any dilution in the interest of the workers. He suggested that if there are problems in implementation of provisions of social security, the solution lies in overcoming the problem and not by throwing away the provisions. He felt that when registers are maintained for compliance of income-tax, sales tax laws etc., there is no reason why the registers cannot be maintained for benefits of the workers. He suggested that in the absence of any justification for a separate law for MSME Sector, any such proposal will be opposed. The difficulties in implementation of law can be discussed and a self-certification system for compliance by employers can be agreed to. He stated that the SME Sector is supported but not at the cost of sufferings of the workers. The Government may consider concessions relating to low cost loans, marketing support, technology improvements etc. for the sector but the labour law provisions should not be diluted. As regards enforcement, the visits of inspectors may be regulated and severe punishment for non-implementation of laws should be prescribed.

9. Shri H. Mahadevan, (AITUC), thanked PMO for including trade unions in the Sub-Group. He observed that simplification of labour laws as mentioned in the TOR of the Sub-Group does not mean exemption from labour laws. He mentioned that there are many cases where inspection is not required or not efficient and inspectors are corrupt but that requires improving the system and not doing away with the system altogether. The main problems presently being faced in the industry are that trade unions are not being allowed to register, minimum wages not being paid, non-fixation of National Minimum Wage and the benefits provided to the contract labour that constitute a large chunk of the workers, being below that those of regular workers. The trade unions support the SME sector but do not agree with the general contention of the employers that the labour law is bad and the inspectors are the villain. He supported the proposals for reduction in inspection, examining feasibility of combining ESI and EPF deposit challan form and reduction in maintaining of registers. He suggested for making recognition of trade union compulsory, uniformity in definitions of certain common terms in various labour laws, simplification in procedures and reduction in threshold in coverage of Employees Provident Fund. He felt that the

establishments should maintain the registers incorporating details of workers and that the bonus should be treated as the deferred wage.

10. Shri Madhav Lal, Additional Secretary and Development Commissioner, MSME, mentioned that establishments in MSME sector are facing number of issues, labour being one of them. The various sub-groups are working concurrently to make recommendations to address the issues. He suggested that the Sub-Group on labour may focus largely upon simplification and implementation aspects, given the time frame. He requested the members of the Sub-Group to provide specific suggestions for simplification and improving the implementation of labour laws.

11. Shri S.K. Srivastava, AS (L&E) stated that based on the deliberations held, the two main issues adversely affecting the units in MSME Sector appear to relate to deficiencies in implementation and the requirement of simplification of labour laws. He mentioned that India is an international player being part of ILO where labour standards are increasingly getting importance. India presently does not find place favourably in certain labour aspects, one of which relates to the social security. Employees' State Insurance Corporation and Employees' Provident Fund Organization are taking steps for improvement in implementation of the provisions under the respective Acts. He stated steps being taken in Employees' State Insurance Corporation and Employees Provident Fund Organization for effective and efficient implementation of provisions will be intimated. The action being taken in these organizations will address the issues in particular with regard to portability of workers and immediate settlement of claims. He requested for accepting the proposal for reduction in the threshold limit in applicability of The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 to 10 workers since 90% of the workers fall in the category of units employing less than 10 workers and is thus denied of the benefit of the Social Security coverage.

The meeting ended with vote of thanks to the Chair.

List of Participants

1. Shri. P.C Chaturvedi, Secretary (L&E) ---- Chairman
2. Shri S.K. Srivastava Addl. Secretary (L&E)
3. Shri Madhav Lal, Addl. Secy. and D.C (MSME)
4. Dr. Ashok Sahu, LEA
5. Dr. Harcharan Singh, DDG
6. Shri K.M Gupta, EA
7. Dr. Sunita Chhibba, ADC/EA (Ministry of MSME)
8. Shri M.P. Singh, EA (Ministry of MSME)
9. Shri S.K.Mukhopadhyay, CLC(C)
10. Shri R.V. Subba Rao, BMS
11. Dr. G.Sanjeva Reddy, INTUC
12. Shri H.Mahadevan. AITUC
13. Shri R.K. Bhardwaj, LUB
14. Shri Salil Singhal, CII
15. Shri Marut Sen Gupta, CII
16. Shri Manish Whorra, CII
17. Smt. Amarjeet Kaur, DDG (E)
18. Shri. A.K. Kesai, DDG
19. Shri Ranbir Singh, Director
20. Shri S.K. Verma, Director
21. Shri Naresh Chandar Bhatia, Under Secretary
22. Shri J.P. Meena, Section Officer

****

Chapter XI
Report of the Sub-Group on Taxation

1. Introduction

A Task Force has been constituted under the chairmanship of Principal Secretary to the Prime Minister to address the issues of Micro, Small and Medium Enterprises. In its meeting held on 25.9.09, it was decided to set up seven Sub Groups to look into the specific issues raised by MSME Associations. One of the Sub Groups is on Taxation.

2. Composition of the Sub Group

Secretary, Department of Revenue	Chairman
AS&DC (MSME)	Member
Shri S.S.Raathi, FASSII	Member
Shri Joginder Kumar, FOTSII	Member

3. Scope of work

(a) To consider various suggestions made by the MSE Associations relating to general excise exemptions, service tax, etc.

(b) To identify and analyse the problems faced by the MSEs in complying with these tax laws,

(c) To suggest measures for simplifications of various tax laws, including unifications, for reducing the compliance costs; and

(d) To suggest measures that can make taxation system encourage entrepreneurship and fresh investment in MSMEs.

The Sub Group met on 12.10.09 and 23.10.09 under the chairmanship of Secretary (Revenue). Shri Salil Singhal, CII, also attended the meetings as a special invitee.

4. Issues for consideration

The contribution of the MSME Sector to the Indian economy is well known. In the present scenario of globalisation, however, the MSME sector is open to serious challenges, including from imported goods. To maintain the competitiveness of this sector, the MSME Associations have been seeking fiscal concessions from time to time to help the sector. In the course of normal pre-budget consultations, some of the concerns of MSMEs have been accommodated. However, a number of issues continue to be raised.

The Sub Group deliberated upon the issues relating to taxation raised by the MSME Associations. These are separately discussed under Indirect taxes and Direct taxes as under:

4.1 INDIRECT TAXES

A major initiative on the indirect taxation front is that the Government is likely to introduce Goods & Services Tax (GST) w.e.f April 2010. Department of Revenue informed that Goods & Services Tax (GST) would subsume various indirect taxes levied by the Union and State governments on goods and services and would lead to simplification and unifications of the various tax laws. The unified tax laws in the form of GST would reduce the compliance cost to a great extent.

Various issues raised by the MSME Associations are out lined below:

(a) Central Excise

(i) Enhancement of the limit of General Excise Exemption (GEE)

(ii) Increase in the turnover eligibility limit for GEE

(iii) Abolition of education cess and higher education on excise duty

(b) Service tax

(i) Bringing the rates of service tax at par with the central excise rates

(ii) Raising the Service tax exemption limit

(iii) Adding some more services in the specified list of services in rule 6(5) of the CENVAT Credit rules 2004

(iv) Charging service tax on any specified value of the Annual Maintenance Contracts

(c) Procedural issues

A number of issues relating to procedures were also raised by the MSME Associations.

It was argued by the MSME Associations that the enhancement of limit of exemptions will help offset the inflation in input costs and would also help them to maintain their competitive advantage in a globalised environment.

The Sub Group went into the issues raised by the MSME Associations. The Sub Group was informed by Department of Revenue that the Empowered Committee of the State Finance Ministers are likely to release a white paper shortly, outlining the entire scheme on GST in near future. This would be followed by inter ministerial meetings and meetings with the trade Associations. That would be the appropriate stage for taking up issues relating to indirect tax structure applicable to MSMEs.

The Sub Group noted that the awareness about the provisions of GST is lacking among MSMEs. It was suggested that after the release of the white paper on the structure of GST, the MSME Associations may be informed of the same through interactive workshops.

The Sub Group also deliberated upon the issues raised by MSME Associations relating the procedural aspects causing hardships to the MSMEs. These may require further detailing and consideration.

4.2 DIRECT TAXES:

A major initiative of the Government on the Direct taxes front has been the release of the draft Direct Taxes Code in August, 2009. Department of Revenue has put the details of the Direct Taxes Code in the public domain through the website of Ministry of Finance and has sought the comments of public and stakeholders.

The direct tax policy as reflected in the Direct Taxes Code is an attempt to introduce a tax regime with moderate rates of tax, simple procedures and minimal exemptions or tax based incentives. The policy is to provide a stable tax regime with reduced litigation and minimal scope for discretion.

The issues raised by MSME Associations on direct tax, broadly, relate to increase in exemption limits, revision in tax rate and procedural aspects, which have been outlined below:

1. Lower rate of Corporate Tax on MSEs
2. Abolition of Firm Tax
3. Deduction under section 80IB should be re-introduced from the date of setting up the unit
4. Expenses incurred on hospitalization to be set off against income
5. Enhancement of depreciation rates for machinery
6. Amendment of laws relation to tax on DEPB
7. Enhancements of exemption limit of Income Tax
8. Increase in limit for Tax Audit
9. Curtailment in the number of returns and payment schedule
10. E-TDS charges be borne by the government
11. Prescribe statutory time limit for the assessing officer to pass order u/s 201 in the case of TDS matters
12. Assessing officer be made accountable for unnecessary delays; fix time limit for refund
13. Appeal cases to be disposed of within a stipulated time period

14. Interest charged from assesses
15. Penalty order be passed only after the decision of Appellate Tribunal
16. Application for rectification of mistake be deemed to have been allowed, if remained un-disposed after 6 months
17. Provision for single yearly TDS return

The issues raised by MSME Associations have to be viewed in the light of the tax policy of moderate taxes and elimination of sector specific exemptions as reflected in the Direct Taxes Code.

5. <u>Recommendations</u>

In view of the position indicated above, the following course of action is recommended at the present juncture:

5.1 INDIRECT TAXES

- It was suggested that after release of the white paper on the structure of GST, the MSME Associations may be informed of the same through interactive workshops.
- The Sub Group suggests that the issues relating to the procedural aspects causing hardships to MSMEs be considered by Department of Revenue in consultation with CII and other MSME Associations in November 2009.
- It would not be feasible to accept the demands of MSME Associations for raising exemption limits of Central excise at this juncture as the taxation mechanism will undergo a complete change under ensuing GST regime.

5.2 DIRECT TAXES

- The Department of Revenue will examine the suggestion regarding raising the limit for tax audit.
- The other issues regarding tax rate slabs, tax incentives etc. have to be viewed in the context of moderate tax regime with minimal exemptions and no profit linked incentives as reflected in the Direct Taxes Code. Such sector specific tax concessions would therefore not be feasible at this juncture as the proposed tax regime operates on the basis of moderate tax rates across the board and elimination of specific exemption so as to remove tax biases.
- MSME Associations will take steps to guide their members in the facility of e-filing of IT returns through interactive workshops.

Chapter XI

Report of the Sub-Group on Matters relating to Special Package for North East States and Jammu and Kashmir

Executive Summary

The problems faced by the States of North-East and Jammu & Kashmir are of similar in nature - disturbances, inadequate local demands for manufacturing products/ services, unemployment, lack of infrastructure (particularly connectivity through road, rail, air, water and telecommunication). This has resulted in slow development of these regions. Recognizing their special requirements and the need for significant levels of government investment, the Government announced the North East Industrial Policy (NEIP) on 24.12.1997 (since revised w.e.f. 01.04.2007) and the Industrial Policy for J&K in June 2002. The measures included under these packages mainly aimed at promoting and enhancing the pace of industrialization in these regions. However, owing to several amendments made by the Government in these packages from time to time, several suggestions for changes in the packages have been received from these States. In addition, other suggestions relating to enhancing the credit flow to the industrial sectors, rehabilitation/revival of sick industries, etc., has also been received.

The aforesaid issues/suggestions were discussed in detail by the Sub-Group with different stakeholders in the meetings held on 15th October 2009 and 21st October 2009. Based on the deliberations held, the Sub-Group recommends the following:

(a) North-East Region

1. The following strategy for development of MSMEs is recommended:

- The development focus should shift on thrust areas with promising prospects, such as, handicrafts, horticulture (including bamboo and bamboo application), textiles, live stock development, leather industry and food processing industry.
- The cluster development approach should be pursued more vigorously in the identified sectors for enhancing the productivity and competitiveness as well as capacity building of MSMEs and their collectives in the region.
- More exhibitions (domestic/international) should be organized to expand the markets of NER products and market linkages (including setting up of marketing complexes) be encouraged under the existing schemes of various Departments.
- For developing synergies among the various schemes: (i) A Committee comprising of representatives of different Central Ministries/ Department may be constituted

at the State level; and (ii) District Industries Centres (DICs) may be strengthened by providing funding by the Central Government.

- The infrastructure of IIE, Guwahati should be strengthened and its branches be opened in all the NE States. Further, training programmes conducted by MSME-DIs should be scaled up significantly and skill development programmes in the region should be made residential.
- At least one industrial estate in each block should be set up/earmarked of for MSMEs to facilitate setting up of new MSMEs in the region.

2. For revival/restructuring of sick/potentially viable MSEs in the NER, a mechanism similar to Andhra Pradesh Small Scale Sick Industries Revival and Rehabilitation Fund (APSSSIRRF) Scheme may be adopted. In case of non-revivable units affected by disturbances, the principal amounts could be settled through appropriate means and the banks should give them second loans for new projects.

3. The recommendations of the Usha Thorat Committee Report on the Financial Sector Plan for NER, which are yet to be implemented or need further upscaling, action may be undertaken expeditiously. In addition: (i) Banks may provide MSE loans in the NER at an interest rate of 10 per cent; and (ii) The one-time guarantee fee and annual service fee for loans covered under the Credit Guarantee Scheme should be waived.

4. The Sub-group recommends that IBA should encourage banks/FIs to promote micro finance culture and the capacity building in NER.

5. As far as implementation of the Special Package of incentives is concerned, the sub group noted that utilization of the subsidy was extremely uneven. In J&K whereas 96% of the subsidies were used by industries located in the two districts of Jammu and Khatua, only 4% could be absorbed in the valley and nil in Ladakh. In the NER as well till date, registration for subsidy under NEIIPP by industrial units has been highly inequitable, with Assam (300) as the major beneficiary followed by Meghalaya (31), Tripura (25), Arunaachal Pradesh (6) and Manipur (3). Thus there is no equitable distribution geographically and neither did it help leverage the specific strengths of the regions as envisaged. Even sector-wise subsidies such as transport subsidy are oriented more towards industries that need bulk carriage such as cement and ash. The sub-group recommends that a study team may there for be undertaken to identify the areas where there are gaps.

To overcome the iniquitous disbursal of subsidy under the incentive packages, the sub group noted that some handholding is necessary and to this end recommended that a Group of

Ministers may be constituted to recast the special package for NER which could look into aspects such as: (i) devising some method to ensure that the States or regions which are not partaking at all from the incentive packages are encouraged to do so. Perhaps a state based quota or prorata disbursal could be looked into; (ii) the respective nodal agencies could also pay a more facilitative role by branching out to these States/distant regions to enhance the offtake; (iii) Alternatively, instead of NEDFi the disbursal of subsidies could be assigned to the District Industries Centres (which are proposed to be strengthened) may be examined; (iv) a district based approach in the disbursement of subsidies could be adopted based on identification of districts which need help, to achieve the desired objective; and (v) possibility of providing differential subsidy to the sectors identified as thrust sectors and backward regions under the incentive package, could be looked into.

6(a). Further to overcome the asymmetrical distribution of subsidies within a State there is a need to provide more incentive to the MSME units in the backward districts. Therefore, pending the constitution of the Group of Ministers, the following are recommended for such units: (i) Examine feasibility of providing power subsidy up to 50% on the basis of power consumption bills paid by the industrial units to the State Electricity Boards (and not to captive power plants); and (ii) Examine feasibility of providing labour wage subsidy support, subject to certain restrictions.

6(b). The benefits under package may also be allowed for subsequent expansion in the case of MSMEs, across all districts, with an upper ceiling of investment in plant and machinery/equipment up to Rs.10 crore (manufacturing)/Rs.5 crore (services).

7. With regards to release of balance funds for the Growth Centres in NER, the cases of those centers which are still functional may be pursued. This would require additional funds of Rs.33.35 crore. This additional fund requirement may be met from the Micro and Small Enterprise-Cluster Development Programme of Ministry of MSME.

8. On the issue of implementation of GST, a Committee comprising of the Finance Secretaries of all the NE States and the Ministry of Finance, Government of India, may be set up to look into the issue of transition of the Special category States at the time of implementation of GST.

(b) Jammu & Kashmir

1. As far as extension of NEIIPP, 2007 to J&K is concerned, the sub-group recommends that this may be done partially for the MSME sector. For the MSME units in J&K the upper limit of Capital Investment Subsidy on 'Plant and Machinery' may be

enhanced from Rs.30.00 lakhs to Rs.1.50 crore and subsidy may be granted on first and every subsequent expansion, subject to the cumulative grant not exceeding the cap of Rs1.5 crore, till their total investment in plant & machinery is Rs.10 crore (for manufacturing sector) and Rs 5crore (for service sector) as per MSME norms.

2. 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.' The Group recommends that 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.

3. 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 consist of minimum bank loans of 50% and up to 70% of the package, interest free margin money up to 20% and promoter's contribution of minimum 10% and up to 30%. The interest free margin money may be provided by the State Government/Central Government. A Rs.100 crore fund may be set up for this purpose, if possible, to the Prime Minister's Reconstruction Package.

4. The J&K Government should resume dialogue with SIDBI regarding recommencement of refinance and infuse fresh capital into the Corporation of around Rs.210 crore towards replenishment of capital and around Rs.79 crore for clearing the over dues of SIDBI. Alternatively, it could bring Rs.127 crore to make the net worth positive and SIDBI may reschedule the entire Rs.77 crore, if a credible revival package backed by the State Government guarantee is forwarded to SIDBI. If the above is not possible, the State Government may settle the refinance of SIDBI as per the OTS proposal already furnished. The extent of funds from the PM's Reconstruction Package for the purpose of revival of JKSFC may be examined.

5. JKDFC may be activated and mandated to undertake activities of financing. Further, CGTMSE may consider the proposal of JKDFC and if found acceptable, may expedite the process of clearance to the CGTMSE membership.

6. With regards to release of balance funds of Rs.5.75 crores for the Growth Centre of Lassipora in J&K, it may be released provided it is functional. The Ministry of MSME may examine the possibility of subsuming it under their scheme of cluster development.

7. All concerned Departments of State and Central Government may co-ordinate on various promotional and developmental activities like EDPs, skill upgradation trainings, rural industrial programmes, preparation of project profiles, etc.

CHAPTER – 1

Introduction

A Task Force has been constituted under the chairmanship of Principal Secretary to the Prime Minister to address the issues of micro, small and medium enterprises (MSMEs). In its meeting held on 25.9.09, it was decided to set up seven Sub-groups to look into the specific issues raised by MSME Associations.

The composition and scope of the work of Sub-group on matters relating to Special Package for North-East States and Jammu & Kashmir are as under:

Composition of the Sub-group

~~(a)~~(i)	Secretary, DIPP	Chairman
~~(b)~~(i)	AS&DC (MSME)	Member
~~(c)~~(ii)	Secretary Industry (J&K)	Member
~~(d)~~(iii)	Commissioner Industry (Assam)	Member
~~(e)~~(iv)	Shri R. S. Joshi, FINER	Member
~~(f)~~(v)	Shri Shakeel Qalander, Industry Association (J&K)	Member

Formatted: Indent: Left: 0", First line: 0.5", Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.75" + Indent at: 0.75"

Scope of Work

(a) To examine the issues raised by the various Associations in the implementation of special packages announced for North-East States and Jammu & Kashmir ; and

Formatted: Indent: Left: 0.5", Hanging: 0.5", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

(b) To suggest changes in these packages with a view to provide an impetus to the industrial growth in the North East States and Jammu & Kashmir.

The Sub-group on special packages for the MSME sector in the states of North Eastern Region and Jammu & Kashmir was seized with issues as diverse as requirement of funds, availability of timely credit, revival of sick units, replacement of obsolete technology, modifications in the scheme of incentive packages to make them more investor friendly, etc. The Sub-group met twice on 15th October 2009 and 21st October 2009 under the Chairmanship of Secretary (DIPP) in Udyog Bhawan, New Delhi and deliberated on the issues raised. The issues/recommendations of the Sub-group for NER and J&K are given in Chapter 2 and Chapter 3 respectively.

CHAPTER – 2

Issues and Recommendations relating to NER

Background

North Eastern Region comprises of seven sister States and the State of Sikkim. As per the quick estimates of 4^{th} Census for MSMEs, the total number of MSMEs in the NER is about 9 lakh, providing employment of around 18 lakh persons. According to a study sponsored by the North Eastern Development Finance Corporation Ltd (NEDFI, 2002), the North East accounts for 19.18% of the total number of handicrafts units in India and 21.71% of the artisans. The region also has a huge potential for the development of food processing and knowledge-based small industries.

Problems of Region

Despite being rich in natural resources with fertile land, rich biodiversity, water resources and hydrocarbon deposits, development in the North Eastern Region has lagged behind the rest of the country due to historical reasons. The challenge of development of the NER arising from its unique situation has been accepted as a national mission. There are number of problems faced by NER like disturbances, inadequate local demands for manufacturing products / services, unemployment, and lack of infrastructure. Connectivity through road, rail, air, water, and telecommunication has been also affecting these states resulting in slow development of the region.

Government of India's measures

Recognizing the special requirements of the region and the need for significant levels of government investment, Government of India has been making all out efforts for creating an enabling environment in these North Eastern States. The NE States have been accorded Special Category Status with central Plan assistance being extended on liberal terms. In order to further enhance public investment in the region, the Central Ministries, except those which are specifically exempted, are required to make lump-sum allocation of at least 10% of their GBS for the NER. The North Eastern Council (NEC) has been set up, which acts as an advisory body in respect of socio-economic development and balanced development of the region. North Eastern Development Finance Corporation Ltd. (NEDFi) was set up with its registered office at Guwahati, Assam, for the development of industries, infrastructure, animal husbandry, agri-horticulture plantation, medicinal plantation, sericulture plantation, aquaculture, poultry and dairy in the NER. Further, the Ministry of Development of North

Eastern Region (DONER) was created in 2004 to accelerate the pace of socio-economic development of the region.

Credit Flow to NER

Availability of credit is one of the critical weaknesses in the development of economic activity. Various indicators for NER show that despite improvement in banking facilities, the level of financial outreach is low. The penetration of banking in NER, particularly in the rural areas, has been very low. Credit growth, deposit growth and credit to small borrower in NER show a lower growth than all India average.

~~(a)~~• The CD ratio of NER is very low i.e. 35.8 as on March 2009 as compared to national average of 72.6.

Formatted: Indent: Left: 0.5", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

~~(b)~~• As on March 31, 2008, the total credit by all scheduled commercial banks in North Eastern States stood at Rs. 19,729 crore.

~~(c)~~• Similarly the total deposits in NER stood at Rs. 48,477 crore, which is only 1.4% of total deposit in the country of all scheduled commercial banks as on March 31, 2008.

~~(d)~~• The Outstanding Credit growth and deposit growth in NER of all scheduled commercial banks as on March 31, 2008 was around 21% as against all India growth of around 25%.

~~(e)~~• Similarly, the outstanding credit to small borrowers grew by 15% as against all India growth of 19% during FY 2008.

~~(f)~~• As per the recent Trend & Progress report of RBI, average population per bank branch is highest in NER i.e. 21 as against lowest level of 11 in southern region.

The main impediments for banking and financial development are topography of the region, sparse population settlements, infrastructural bottlenecks, smaller size of the market, lack of entrepreneurship, law and order conditions in some parts of NER, land tenure system especially in hilly areas, lack of sustainable development strategy (based on stand alone grants rather than being market oriented), low network of branches, lack of simple, customized and flexible financial products to suit the needs of the local population, poor loan recovery experience, lack of awareness of banking services and inadequate payment systems.

In its effort to strengthen the process of financial inclusion, government has been emphasizing with financial sector for undertaking concerted steps towards instilling sustainability and replicating successful models in other parts of country also in NER. The Usha Thorat Committee Report on Financial Sector Plan for NER examined in great details the issues pertaining to credit flow to NER, financial inclusion and other issues. The Committee has made a number of recommendations; some important ones along with their compliances are given in **Annexure.** Further, a study carried out by Indian Institute of Bank Management (IIBM), Guwahati has shown that demand for Micro Credit alone is around Rs.2600 crore in the Region. However, micro credit linkages of the banks with SHGs leave much scope for improvement. There is a need to upscale the operations through SHGs, especially for providing working capital and investment credit.

<u>Existing Incentives/Packages</u>

In order to promote industrialization in NER, DIPP announced the North East Industrial Policy (NEIP) on 24.12.1997 for a period of 10 years. NEIP, 1997 has since been revised and replaced by a more investor friendly North East Industrial and Investment Promotion Policy (NEIIPP) 2007 for a period of 10 years w.e.f.01.04.2007 keeping in view the specificities and aspirations of the Region. NEIIPP, 2007 has been extended to Sikkim also. Salient features of the packages applicable in the NER are as under:

(a) Capital Investment Subsidy under the packages is granted for the North East Region @ 30% of the investment in Plant and Machinery up to 1.5 crore. Beyond that ceiling it is to be approved by the Empowered Committee and the Cabinet.

(b) Interest Subsidy: Interest subsidy @ 3% on working capital loan is granted to units in this region.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, … + Start at: 2 + Alignment: Left + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75"

(c) Comprehensive Insurance: Reimbursement of 100% Insurance Premium is granted on capital investment.

(d) The package is applicable to the manufacturing, select service sector, biotechnology and Power Generating units (upto 10 MW).

(e) Policy is location neutral, applicable to units set up anywhere in the Region.

(f) The package also provides incentives for excise duty exemption and income tax exemption.

(g) These incentives are available to all new units as well as the units existing on the date of commencement of the scheme upon their substantial expansion defined under the Schemes. In addition, units which have undertaken effective steps before the announcement of the scheme are also treated as new units and are eligible for incentives on commencement of commercial production after the announcement of the Scheme. However, these benefits are only one time benefits.

Besides the above packages, transport subsidy scheme is also applicable @ 90% of the transportation cost on movement of raw material and finished goods from the location of the industrial unit and the nearest designated rail head and vice versa. In addition transport subsidy is also provided @ 50% for inter-State movement of finished goods within NER. The benefits are available to a unit for a period of five years from the date of commencement of commercial production.

Issues

Suggestions for changes in special packages with a view to providing an impetus to the industrial growth in the NE States, as received from the MSME Associations, are as under:

(i) Restore Central excise refund benefits by withdrawing Central Excise notifications Nos.16/2008 to 23/2008 that had restricted the earlier provision of granting full refund of central excise to industrial units of NE region;

(ii) Incentives received by industrial units (like Refund of central excise, transport subsidy and refund on Insurance premium, etc. under the NEIIPP 2007) continue to be taxed by the IT Department, treating these concessions/incentives as other incomes. These incentives should be treated as tax free income as per the spirit of the policy;

(iii) Instead of abolition of Minimum Alternative Tax (MAT), the MAT rates were increased in the Union Budget 2009-10 from 10% to 15%, which not only have caused great hardship to existing units but also has sent wrong signals to prospective investors. Continuation of MAT is against the very spirit of NEIIPP, 2007 and should be abolished immediately;

(iv) As industrial/service sector units are exempted from Income Tax under the NEIIP 2007, similar exemptions should be given to eligible units of the NE Region from the levy of Service Tax;

(v) Adequate budgetary provision should be made for incentives to be paid by Central Government to the industries in NE region so that genuine claimants do not suffer for inadequate budgetary allocation/delayed disbursements.

(vi) Currently the NEIIPP, 2007 provides for various incentives for independent power plants up to 10MW only. It was stated that this is too small a size for a viable power plant in the NE especially due to the constraints of Transmission network for evacuation of power. Therefore, the incentives should be made applicable to power plants up to 50MW.

(vii) As per the existing policy for the industrial projects only the value of Plan and Machinery is taken into consideration for calculating 30% Capital Investment Subsidy. It was requested that apart from Plant and Machinery, the value of buildings connected with the manufacturing process should also be considered for calculating Capital Investment Subsidy as is being done in the case of Service Sector and Power Plant.

(viii) Currently, the Transport Subsidy is available to a unit for a period of 5 years. It was stated that the industrial units take 3 to 5 years to attain their full capacity utilization and as such cannot utilize the full benefit of the Transport Subsidy Scheme. Hence, (a) Transport subsidy should be made available for 10 years at par with all other subsidies such as Excise Duty exemption, Income tax exemption, interest subsidy scheme, etc.; (b) Transport subsidy is available @ 50% on the transportation of Finished Goods for inter-State movement of goods within NER, it should also be @ 90% as is being given in the case of raw materials; and (c) A clarification may be issued that Transport Subsidy on the transport of finished goods is available upto the final destination (subject to Siliguri as the cut off point) and not restricted to the railway station nearest to the destination.

(ix) As per the various provisions of the present Policy, the benefits of NEIIPP 2007 are available only to existing units for a period of 10 years from the date of commencement of commercial production after their substantial expansion. But new units which also undertake substantial expansion are not eligible for incentives for a period of 10 years as is being granted to the existing units. The new units while doing the expansion also bring in additional investment which further generates employment. Thus, for new units also the benefits should be available for 10 years from the date of commencement of commercial production after substantial expansion.

(x) With specific reference to the micro, small and medium enterprises, Government of Assam proposed a power subsidy and wage linked subsidy for enterprises in this sector. It was stated that, owing to specificities of the MSME units, most of these possibly procure their raw material and sell their goods locally and, therefore, do not qualify for subsidy under the transport subsidy scheme or due to their small investments, do not find it cost beneficial to avail the incentives under the Capital Investment Subsidy scheme. In order to promote such MSMEs, they should be provided Power subsidy upto 50% on the basis of power consumption bills paid by the industrial units to the State Electricity Boards and not to captive power plants. It was suggested that Labour Wage subsidy support may also be provided upto 40% of wage component to cover 12% EPF and additional 28% of the labour wage for labour for which company is paying EPF.

(xi) Under the Growth Center Scheme, the Central Government was providing an assistance of Rs.15 crore to each of the 10 Growth Centers NER. The Scheme has been discontinued since 1.4.2009. A request has been made for release of balance funds in respect of 5 growth centers in NER amounting to Rs.33.35 crore.

(xii) The Usha Thorat Committee on 'Financial Sector Plan for the NE Region' has submitted a very good report for the banking sector in the North East Region and it needs to be ensured that the Committee recommendations are implemented in true spirit. Similarly, the recommendations made in the Special Summit on 'Banking and Credit Issues for the NE Region' on 4th October, 2008 at Vigyan Bhavan, New Delhi by the Ministry of Development of North East Region (DONER) should be implemented for improving the CD Ratio in the region.

Recommendations

~~(i)~~1. The Sub-group noted that the policies pursed by the Government (including the incentives) so far both at the Central and State level in the NER have been by and large sector neutral - sometimes raising concerns about sustainability of units once these incentives are not available. The Sub-group, therefore, suggests the following strategy:

Formatted: Indent: Left: 0", First line: 0.5", Numbered + Level: 1 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.75" + Indent at: 0.75", Tab stops: 0", List tab + Not at 0.75"

~~(b)~~(i) **Shift of Focus to Thrust Areas**: The Sub-Group recommends that development focus should clearly shift on thrust areas with promising prospects, such as, handicrafts, horticulture (including bamboo and bamboo application), textiles, live stock development, leather industry and food processing industry.

~~(c)~~(ii) **Cluster Development approach**: Cluster Development offers a holistic and integrated approach to the promotion and development of MSME sector. The Cluster Development Programme of the Ministry of MSME envisages measures for capacity building, skill development, technology upgradation of the enterprises, improved credit delivery, marketing support, setting up of common facility centres, etc., based on diagnostic studies carried out in consultation with the stakeholders themselves. To provide more focused attention in the NER, a Regional Resource Centre (RCC) has been set up at Indian Institute of Entrepreneurship (IIE), Guwahati, with 7 sub-centres in all the NE States. The RCC would cater to the need of entire NER with respect to cluster development, training, mapping of clusters, advisory services, etc. Till date, about 22 clusters have been taken up for intervention under the scheme in NE States, covering different products like jute craft, silk, carpet and mask making, food processing, handloom, jewellery, cane and bamboo, etc. The Sub-Group recommends that the cluster development approach should be pursued more vigorously in the identified sectors for enhancing the productivity and competitiveness as well as capacity building of MSMEs and their collectives in the region.

~~(d)~~(iii) **Marketing Support**: One of the major difficulties being faced by the Entrepreneurs/Artisans from the NER is in the area of marketing of their products due to their distant location as well as lack of proper transportation/ communication facilities. The local people are unable to market their products in other parts of the country where they may have a better market. The National Small Industries Corporation (NSIC) organizes exhibitions for exclusive display of products and handicrafts from North East Region in Delhi and other parts of the country. By participating in such exhibitions, the entrepreneurs/artisans from NER get exposure to the domestic market. Further, in order to give them exposure to the International markets, NSIC takes the products of NER to exhibitions abroad which helps them in making an impact on Global market. The Sub-Group recommends that (i) More exhibitions, both at domestic and international level, should be organized to expand the markets of NER products; and (ii) Market linkages (including setting up of marketing complexes) should be encouraged under the existing schemes of various Ministries/Departments like Rural Development, Panchayati Raj, MSME, Industrial Policy and Promotion, etc.

~~(e)~~(iv) **Synergies among various schemes of different Government Departments**: Several Government Departments/organisations are implementing schemes/ programmes for overall promotion of the region. There is a need to develop synergies among the various schemes of different Departments/organisations to spread the benefits on a wider scale. In this context, the Sub-Group recommends (i) A Committee comprising of representatives of different Central Ministries/ Department may be constituted at the State level. This Committee should meet on regular basis to provide a focused attention to the promotion and development of MSMEs in different parts of the State; and (ii) District Industries Centres (DICs) may be strengthened by providing funding by the Central Government.

~~(f)~~(v) **Skill Development**: The skill and training infrastructure in the NE States must be strengthened. New institutions must be encouraged to impart requisite skills to the local unemployed youth. The Ministry of MSME has MSME-Development Institutes (DIs) at Gangtok (Sikkim); Guwahati (Assam); Imphal (Manipur); Agartala (Tripura) and also branch MSME-DIs at Aizwal (Mizoram); Dimapur (Nagaland); Itanagar (Arunachal Pradesh); Diphu (Assam); Silchar (Assam); Tezpur (Assam); Shillong (Meghalaya) and Tura (Meghalaya).

There is also Indian Institute of Entrepreneurship (IIE) and a Tool Room & Training Centre at Guwahati and a Mini Tool Room & Training Centre at Dimapur, Nagaland. These institutes are engaged in providing entrepreneurship and skill development training to the prospective entrepreneurs in the region. The Sub-Group recommends that: (i) IIE, Guwahati should be strengthened and its branches be opened in all the NE States; (ii) Training programmes conducted by MSME-DIs should be scaled up significantly to cover larger number of unemployed youths in the region; and (iii) Skill Development programmes in the region should be made residential to overcome the difficulties faced by the prospective entrepreneurs in commuting large distances, particularly women.

~~(g)~~(vi) **Setting up of Industrial Estates:** Owing to the unique land mortgage system prevalent in large part of the NER, availability of land is one of the major issues faced the prospective entrepreneurs in setting up of MSMEs. The Sub-Group recommends setting up/earmarking of at least one industrial estate in each block for MSMEs to facilitate setting up of new MSMEs in the region.

2. The Sub-group examined the issue of revival / restructuring of sick / potentially viable MSEs in the NER. In this context, the Sub-group noted that the Sub-Group on Exit Policy has analysed the Andhra Pradesh Small Scale Sick Industries Revival and Rehabilitation Fund (APSSSIRRF) Scheme, which is set up out of the budgetary support by the Government of Andhra Pradesh. The Sub-Group recommends that a similar mechanism may be adopted for the NER. In case of non-revivable units affected by disturbances, the Sub-group recommends that the principal amounts could be settled through appropriate means, such as, expeditious sale of fixed assets, etc. and the banks should give them second loans for new projects subject to the project being viable.

3. The Sub-group reviewed the various recommendations of the Usha Thorat Committee Report on the Financial Sector Plan for NER, such as, preparation of bankable projects by SIDBI and NEDFi, setting up of RUDSETIs, providing marketing support, upscaling of RIPs of SIDBI, extra concessions under the Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and opening of Counseling Centres in NER States. The Sub-group noted that most of these recommendations have been implemented by the concerned agencies as given in **Annexure**. In cases where the recommendations are yet to be implemented or need further upscaling, the Sub-group recommends that the same may be undertaken expeditiously. In addition, the Sub-Group recommends that: (i) Banks may provide MSE loans in the NER at an interest rate of 10 per

cent; and (ii) The one-time guarantee fee and annual service fee for loans covered under the Credit Guarantee Scheme in NER should be waived.

4. The Sub-group is of the opinion that micro finance has a great role for promoting financial inclusion in NER. In this context, the Sub-group took note of SIDBI's initiatives in encouraging the leading and well-performing MFIs from the developed Southern States to expand their operations in the North-Eastern parts of the country. The Sub-group recommends that IBA should encourage banks/FIs to promote micro finance culture and the capacity building in NER.

5. As far as implementation of the Special Package of incentives is concerned, the sub group noted that utilization of the subsidy was extremely uneven. In J&K whereas 96% of the subsidies were used by industries located in the two districts of Jammu and Khatua, only 4% could be absorbed in the valley and nil in Ladakh. In the NER as well till date, registration for subsidy under NEIIPP by industrial units has been highly inequitable, with Assam (300) as the major beneficiary followed by Meghalaya (31), Tripura (25), Arunaachal Pradesh (6) and Manipur (3). Thus there is no equitable distribution geographically and neither did it help leverage the specific strengths of the regions as envisaged. Even sector-wise subsidies such as transport subsidy are oriented more towards industries that need bulk carriage such as cement and ash. The sub-group recommends that a study team may there for be undertaken to identify the areas where there are gaps.

To overcome the iniquitous disbursal of subsidy under the incentive packages, the sub group noted that some handholding is necessary and to this end recommended that a Group of Ministers may be constituted to recast the special package for NER which could look into aspects such as: (i) devising some method to ensure that the States or regions which are not partaking at all from the incentive packages are encouraged to do so. Perhaps a state based quota or prorate disbursal could be looked into; (ii) the respective nodal agencies could also pay a more facilitative role by branching out to these States/distant regions to enhance the offtake; (iii) Alternatively, instead of NEDFi the disbursal of subsidies could be assigned to the District Industries Centres (which are proposed to be strengthened) may be examined; (iv) a district based approach in the disbursement of subsidies could be adopted based on identification of districts which need help, to achieve the desired objective; and (v) possibility of providing differential subsidy to the sectors identified as thrust sectors and backward regions under the incentive package, could be looked into.

6(a). Further to overcome the asymmetrical distribution of subsidies within a State there is a need to provide more incentive to the MSME units in the backward districts. Therefore, pending the constitution of the Group of Ministers, the following are recommended for such units: (i) Examine feasibility of providing power subsidy up to 50% on the basis of power consumption bills paid by the industrial units to the State Electricity Boards (and not to captive power plants); and (ii) Examine feasibility of providing labour wage subsidy support, subject to certain restrictions.

6(b). For encouraging setting up of more number of MSMEs in the region, the Sub-Group recommends that the benefits under package may also be allowed for subsequent expansion in the case of MSMEs, across all districts, with an upper ceiling of investment in plant and machinery/equipment up to Rs.10 crore (manufacturing)/Rs.5 crore (services).

7. The Sub-Group also recommends that adequate budgetary provision should be made for incentives to be paid by Central Government to the MSMEs in NE region so that genuine claimants do not suffer for inadequate budgetary allocation/delayed disbursements.

8. With regards to release of balance funds for the Growth Centres in NER, the Sub-group recommends that the cases of those centers which are still functional may be pursued. This would require additional funds of Rs.33.35 crore. The cases where there is no activity may not be processed.

9. The Sub-group went into the issue of implementation of GST. The Sub-group was informed by Department of Revenue that the Government is in process of introducing Goods & Services Tax (GST) from April, 2010 and Direct Tax Code (DTC) in 2011. This will unify all existing statutes of indirect and direct taxes of the Centre and the States. The GST and DTC regulations will have their own provisions for providing exemptions from taxes replacing the existing limits / ceiling available in the extant statutes. The Sub-group notes that the awareness about the provisions of GST is lacking among MSMEs, which are apprehensive about the treatment they would get on introduction of GST.

The Sub-group emphasizes on the need for a more informed debate between the stakeholders in order to allay all misapprehensions about the proposed regime among the industry owners and investors including MSMEs. Further, the Sub-group recommends that a Committee comprising of the Finance Secretaries of all the NE States and the Ministry of Finance, Government of India, may be set up to look into the issue of transition of the Special category States at the time of implementation of GST.

CHAPTER – 3

Issues and Recommendations relating to Jammu & Kashmir

Background

Jammu and Kashmir's (J&K) economy is predominantly dependent on agriculture and allied activities. Though small, the manufacturing and services sector is growing rapidly, especially in the Jammu division. As per the quick estimates of 4th Census for MSMEs, the total number of MSMEs in the J&K is about 2.61 lakh, providing employment of around 4.35 lakh persons.

Problems

Long-term development of J&K is a formidable challenge in many ways. The state has to reconstruct an economy ravaged by two decades of militancy and terrorism and at the same time deliver quickly on growth and poverty reduction. Then J&K has some unique economic disadvantages arising out of remoteness and poor connectivity, hilly and often inhospitable terrain, vulnerability to natural disasters, a weak resource base, poor infrastructure, sparse population density, shallow markets, etc. The economic disadvantages indicated above have substantial implications for the approach to be adopted. First, the internal market is too small to take advantage of economies of scale in production. The alternative of scaling up production to viable levels by exporting to markets outside the state is infeasible because of poor connectivity. Second, unit costs of service delivery are high because of high costs of inputs as also low population densities. Third, the private sector participation in the development process has been low, because of low supply and demand linkages and their inhibitions on account of restrictive legislations. Consequently, the burden of generating economic activity has had to be borne almost exclusively by the public sector. Fourth, the virtual absence of the private sector has meant a low tax base. Fifth, the beneficial impact of public expenditure has been lost to a considerable extent - such benefits have tended to spill over beyond the state as much of the contractors' payments are transferred and purchases are made beyond the state – a phenomenon referred to as the 'missing multiplier'.

Government of India's measures

The Government of India has been keen to economically integrate Jammu and Kashmir with the rest of India. In an attempt to improve the infrastructure in the state, the government has commenced work on the ambitious Kashmir Railway project which is being constructed by Konkan Railway Corporation and IRCON at a cost of more than US$2.5 billion. In order to give a boost to the industrial growth of the state, the Government provided an industrial package in June 2002. Similarly, the J&K State Government announced an Industrial Policy in 2004 giving a number of benefits to the industries in the state.

Credit Flow

Availability of credit is one of the critical weaknesses in the development of economic activity despite the good penetration of bank branches. The credit growth is very low in the state; however credit to small borrower has shown good growth during FY 2008.

~~(g)~~• The CD ratio of J&K is very low, i.e., 46.3 as on March 2009 as compared to national average of 72.6.

Formatted: Indent: Left: 0.5", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

~~(h)~~• As on March 31, 2008, the total credit by all scheduled commercial banks in Jammu and Kashmir stood at Rs. 14,159 crore.

~~(i)~~• Outstanding Credit growth is very low in the state i.e. only 2.71% of all scheduled commercial banks as on March 31, 2008 as against all India growth of around 25%. However, credit to Small borrower has shown the good growth of 24% in same period as against 19% growth in all India level

~~(j)~~• Outstanding deposits in J&K for the same period have grown by 14% as against all India growth of 25%.

Existing Incentives/Packages

In order to promote industrialization in J&K, DIPP announced the Industrial Policy J&K in June 2002. Salient features of the packages applicable in the State of J&K are as under:

~~(i)~~**(a)** Capital Investment Subsidy under the packages is granted for the J&K @ 15% of the investment in Plant and Machinery upto Rs.30 lakh. Beyond that ceiling it is to be approved by the Empowered Committee and the Cabinet.

Formatted: Indent: Left: 0", First line: 0.5", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: 1", List tab + Not at 1.25"

~~(ii)~~**(b)** Interest Subsidy: Interest subsidy @ 3% on working capital loan is granted to units in both these regions.

~~(iii)~~**(c)** Comprehensive Insurance: Reimbursement of 100% Insurance Premium is granted on capital investment.

~~(iv)~~**(d)** The package for J&K is applicable to the manufacturing sector only.

~~(v)~~**(e)** Policy for J&K specifies thrust industries which can be located anywhere in the State and other industries set up in specified khasra number.

~~(vi)~~**(f)** The package also provides incentives for excise duty exemption and income tax exemption which are the mandate of Department of Revenue.

~~(vii)~~**(g)** These incentives are available to all new units as well as the units existing on the date of commencement of the scheme upon their substantial expansion defined under the Schemes. However, these benefits are only one time benefits.

Besides the above packages, transport subsidy scheme is also applicable to J&K @ 90% of the transportation cost on movement of raw material and finished goods from the location of the industrial unit and the nearest designated rail head and vice versa. The benefits are available to a unit for a period of five years from the date of commencement of commercial production.

Issues

(i) **Changes and modifications desired in Central Package of Incentives:** Presently, the package is restricted to new industrial units or the units which were in existence on the date of introduction of the Scheme and undergo "substantial expansion". The incentives under the package are available only to units set up in "specified khasras". The incentives are, however, not available to the units which had taken "effective steps" for substantial expansion prior to 14th June, 2002. Following corrective measures have been sought:

- That the applicability of package be extended to all industrial units both new and old without any rider of "substantial expansion" or "effective steps";
- That the specific location bar be waived and units located in any location of the state of J&K be extended the incentives provided under the package on the pattern of the state of NER/Himachal Pradesh with no Khasra riders;
- That the incentives available under the Capital Investment Subsidy (CIS) be extended to all industrial units having commenced their commercial production after 14.6.2002 without any bar against those which took effective steps prior to the said date;
- That the central package of incentives after necessary amendments need to be made applicable for 15 years till year 2022;
- That the package should also be made applicable to other sectors in J&K as in NER under NEIIPP; and
- The definition of substantial expansion should be expanded to include besides increase in installed capacity and increase in regular employment, increase in

Formatted: Indent: Left: 0.5", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5" investment in plant and machinery by 25 % (like NEIIPP, 2007) and incentives should be available on first and every subsequent expansion.

- Restoration of Central Excise concession and removing the restriction of value addition introduced w.e.f. 01.04.2008.
- 100% income-tax exemption should be given and excise duty refund granted under exemption. It should be for 10 years instead of 5 years, in physical terms there is no benefit for the first five years the depression of assets equals the tax holiday. Actual incentive starts after 5 years only.
- Refund of Central Excise duty be treated as part of the manufacturing profit and eligible for tax holiday.
- GS amalgamating the Central Excise Duty and VAT is going to be in place by 2010. Commensurate mechanism needs to be put up in place to continue with present incentives.
- In case where CENVAT paid on raw material and intermediate product going into production of finished produce is higher than the excise duty payable on finished products, refund of such overflow of CENVAT credit be given.

(ii) **Extension of NEIIPP, 2007 to J&K State:**

Capital Investment Subsidy : (i) Enhancement in the CIS from 15% to 30% on plant and machinery with a cap of Rs.1.5 crores be made available to the units in J&K State as has been done in the case of North Eastern region; and (ii) 30% CIS on factory building be also considered to be made available to these units.

Interest Subsidy: **(i)** Interest subsidy on working capital be enhanced from 3% to 5% and made available to the units till expiry of the scheme; and (ii) 5% interest subsidy on term loan be also considered.

Comprehensive Insurance Premium Refund: Owing to the absence of modalities of the comprehensive insurance scheme, no disbursement in favour of any unit till date has taken place. It has been proposed that the premium paid by the enterprises in J&K State on the composite insurance policy covering fixed as well as tangible assets be reimbursed to them under the scheme. It was informed by J&K that the guidelines have now been framed.

(iii) Transport Subsidy: (i) Transport subsidy be made available to the units from source to the premises of unit till desired expiry of the scheme; and (ii) It should be also made available on finished goods produced by the units in J&K State up to Delhi in order to increase their competitiveness.

(iv) **<u>J&K DFC</u>**: **(i)** The Corporation is required to be authorized for providing venture capital up to 30% of the project cost to MSMEs in order to promote industry across the State; **(ii)** The Corporation also needs to be made member of Credit Guarantee Fund Trust (CGFT) and Small Farmers Agri Business Consortium (SFAC) in order to provide collateral free and venture capital assistance to desired entrepreneurs; and **(iii)** The Corporation should also provide fresh financial infusion to the units under revival/rehabilitation and up-gradation.

(v) **<u>Revival of potential industries such as handicrafts, horticulture, textiles, live stock development, leather industry and food processing industry</u>**: With specific reference to handicraft sector, J&K informed that the carpet industry was in dire need for replacement of 40,000 obsolete carpets looms with new looms developed especially for this purpose, called "Nouwan". The cost was Rs.120 crore and the Central Government was requested to subsidize 75%. In addition, J&K also sought Rs.5 crore for one year for exploring non traditional markets for their handloom & handicraft sector by way of participation in international exhibitions.

(vi) J&K also demanded that the existing/old units are facing issues of obsolete technology, low productivity, high energy consumption, frequent breakdown. They are facing competition from new units which enjoy the incentives under the packages and are not entitled to the current incentives until and unless they go in for substantial expansion. J&K has therefore sought a technology upgradation fund for these units on soft terms of one crore or 50% of the total capital invested, whichever is lower @ 1% interest for 10 years. In addition they should be given incentives under the packages.

(vii) **<u>Revival and rehabilitation of sick units in J&K:</u>** J&K will provide a list of enterprises requiring re-structuring. In case of revivable units, State Government's scheme provides for soft loan of 30% which should be financed by Central Government as Grants-in-Aid. In case of non-revivable units, interest waiver may be given by the Banks and accounts may be settled at principal only where there are NPAs.

(viii) **Revival of J&K State Financial Corporations**: SIDBI need to assess fund required for revival of State Financial Corporations (SFCs) and formulate a package for implementation.

<u>Recommendations</u>

1. The Sub-group reviewed the extant Industrial Policy, 2002, which was primarily an extension of North East Industrial Policy (NEIP) for NER, 1997. The present policy continues to be in operation till 2012. In the meantime, NEIIPP, 2007 was introduced

for NER up to 2017. As far as extension of NEIIPP, 2007 to J&K is concerned, the sub-group recommends that this may be done partially for the MSME sector:

(a) For the MSME units in J&K the upper limit of Capital Investment Subsidy on ‘Plant and Machinery’ may be enhanced from Rs.30.00 lakhs to Rs.1.50 crore and subsidy may be granted on first and every subsequent expansion ,subject to the cumulative grant not exceeding the cap of Rs1.5 crore ,till their total investment in plant & machinery is Rs.10 crore,(for manufacturing sector) and Rs 5crore (for service sector) as per MSME norms.

(b) 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.’ The Group recommends that 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.

(c) On the issue of applicability of Comprehensive Insurance Scheme to tangible assets apart from fixed assets, the Sub-group noted that this provision is same for NER & J&K. However, it recommends that DIPP may examine this issue in the light of the background why it was conceived as such originally.

2. In J&K, industrial activities have been disrupted due to the militancy, directly or indirectly, by way of occupancy of the industrial estates by the security forces. The State Government has compiled the list of 410 such affected units which closed down their operations and became sick. The Sub-group also took note of the industrial sickness in J&K, caused by factors other than the militancy. In order to provide a comprehensive measure for revival and rehabilitation of sick industrial units in J&K, the Sub-group recommends the following measures:

With regard to 410 sick units, it may be noted that each bank / FI has its own policy of rehabilitation/revival of sick units as per its Board’s direction/RBI guidelines and thus, it is only those banks/FIs who can arrive at the total requirement of funds for revival of these sick units. As officers of Government of J&K had indicated that they had already made an assessment and arrived at a list of units which could become viable after restructuring, it was indicated that the list prepared by them may be sent to the concerned banks/FIs for arriving at rehabilitation/restructuring packages with maximum possible concessions. These proposals need to be considered by the State Level Committee under the Chairmanship of Secretary of Industry, along with the members from Reserve Bank of India, SLBC Convener Bank, SIDBI and NABARD. The Committee would examine the viability of these sick units and the restructuring/ rehabilitation packages of the Banks/FIs and recommend for various concessions.

a. The Sub-group suggests, the financing pattern of the restructuring/ rehabilitation packages may inlude 70% as loan component from banks, 20% would be the interest free margin money component from the Government and the balance 10% would be promoter's own contribution**.** The interest free margin money may be provided by the Central Government. A Rs.100 crore fund may be set up for this purpose out of the Prime Minister's Reconstruction Package. A suitable scheme may be devised by DIPP in this regard.

b. The issue regarding rehabilitation/revival of sick units in the State other than those directly affected by militancy does not differ substantially from units in other parts of the country. In this regard, the Sub-group recommends that a similar mechanism to that of Andhra Pradesh Small Scale Revival Scheme-2006 (APSSRS) may be adopted.

3. In the historical development of the industrial sector in Jammu & Kashmir (J&K), the role and contribution of JKSFC has been significant. JKSFC has been availing refinance from SIDBI since 1990. However, with the industrial deceleration in the State due to militancy and other reasons, the financial health of JKSFC has also deteriorated over the years which led to the chronic default in the payment of dues to SIDBI by the Corporation. The Sub-group took note of the fact that the account of JKSFC has been classified as NPA in the books of SIDBI. The current outstanding is Rs.55.49 crore and the over dues amount to Rs.78.46 crore (Principal - Rs.42.46 crore, Interest - Rs.36.01 crore, as on October 31, 2009). Further the minimum guarantee dividend of Rs.14.41 crore payable to IDBI by the Govt. of J&K as per SFCs Act, 1951 (prior to amendment in September, 2000) will now be payable to SIDBI (as per agreement with IDBI. As a measure of helping the Corporation, SIDBI has been granting a number of packages of reliefs and concessions to the Corporation since May 1998, the latest being the One Time Settlement package granted on August 9, 2007. The OTS package envisaged payment of principal outstanding of Rs.56.63 crore (of which Rs.26.93 crore is guaranteed by the Govt. of Jammu and Kashmir), waiver of entire interest over dues and non-levy of any interest during the OTS period. This package involves SIDBI's sacrifice of Rs.24.36 crore (interest accrued upto June 30, 2007).

The Sub-group recommends that the J&K Government should resume dialogue with SIDBI regarding recommencement of refinance and infuse fresh capital into the Corporation of around Rs.210 crore towards replenishment of capital and around Rs.79 crore for clearing the over dues of SIDBI. This will make the net worth of the SFC positive with no default.

Alternatively, it could bring Rs.127 crore to make the net worth positive and SIDBI may reschedule the entire Rs.77 crore, if a credible revival package backed by the State Government guarantee is forwarded to SIDBI. If the above is not possible, the State Government may settle the refinance of SIDBI as per the OTS proposal already furnished. To what extent provision from PM's Reconstruction Package can be given for the purpose of revival of JKSFC may be examined.

4. The Sub-group noted that parallel to the proposal for revival of JKSFC, the other Corporation in the State, i.e., JKDFC may be activated and mandated to undertake activities of financing. Further, the Sub-group recommends that CGTMSE may consider the proposal of JKDFC on its compliance to relevant rules and regulations and if found acceptable, may expedite the process of clearance to the CGTMSE membership.

5. With regards to release of balance funds of Rs.5.75 crore for the Growth Centres of Lassipora in J&K, the Sub-group recommended release of funds in case it is functional.

6. Industrial development in J&K depends not only on the availability of credit but also on many other non-credit needs of the MSMEs like their capacity building through EDPs, skill upgradation, technology modernization, marketing facilities, etc. In this context, the Sub-group recommends that all concerned Departments of State and Central Government may co-ordinate on various promotional and developmental activities like EDPs, skill upgradation trainings, rural industrial programmes, preparation of project profiles, etc.

Annexure

Recommendations of the Usha Thorat Committee Report on
<u>Financial Sector Plan for North East Region</u>

No.	Recommendations	Action
(i)	Small Industries Development Bank of India (SIDBI) in association with major banks in the region may set up a dedicated MSE Debt Fund to provide co-finance of upto 25 per cent of project cost to first time entrepreneurs, where a bank is willing to provide the required funds. The fund may have experts from the region and outside as members.	SIDBI has set up MSE Debt Fund with a corpus of Rs.10 Cr. The Zonal/ Regional Offices of Public Sector Banks at Kolkata and Guwahati, as also Lead Banks for all the eight States of NER, have been requested to cover all eligible proposals under the Fund. Local Regional Office of Reserve Bank of India has also been requested to urge upon the public sector banks to avail the benefit of corpus.
(ii)	SIDBI and North Eastern Development Financial Institution (NEDFi) may prepare bankable projects in the SME sector and disseminate the same as these could be used by potential entrepreneurs. Such schemes should also cover the handloom and handicraft sectors.	Project Profiles for 100 micro sector projects (including select handloom / handicraft sectors) having potential in NER were prepared and were released by the then Finance Minister of India Shri P. Chidambaram in October 2008. This project profiles are being given free of cost to potential entrepreneurs in NER.
(iii)	SIDBI, NEDFi and NABARD, as also major banks may sponsor Rural Development and Self-Employment Training Institutes (RUDSETIs) for training entrepreneurs in SME including industry related small business services sector.	SIDBI has been supporting various institutions, including EDII and IIE, for conducting EDPs/ Vocational Training Programmes in NER. The Ministry of Rural Development, GoI proposes to set up RUDSETI type of institute in all the districts of the country by FY 2010 which would be sponsored by Banks/FIs. In this regard, a meeting was convened by the Commissioner, Panchyat and Rural Development Department, Government of Assam, in April 2009 where various districts in Assam have been allocated to different banks for setting up RUDSETIs. While State Bank of India has set up one such institute in Baksa district of Assam, NEDFI has set up one in Nalbari district of the same state. SIDBI has decided to extend programme based

		support to sponsor banks.
(iv)	SIDBI and NEDFi may identify marketing outlets for various industries in the region and provide assistance for display and marketing of products.	SIDBI has been supporting marketing initiatives in the form of exhibitions, fairs, haats, buyer-seller meets, etc., organized by different agencies/reputed NGOs from time to time. The Bank is exploring the possibility of extending support to reputed NGOs to set up marketing infrastructure in NER. Marketing support is also given by means of term loan under Small Loan Scheme of SIDBI which is operated exclusively for NER.
(v)	SIDBI/NEDFi/NABARD may sponsor Rural Industries Programmes (RIPs) in areas having identified clusters and in areas having concentration of other non-farm economic activities for training of weavers, artisans, small entrepreneurs, etc.	RIP has been implemented in 22 districts of the North-Eastern states including Sikkim (6 in Assam, 2 in Meghalaya, 2 in Manipur, 3 in Mizoram, 3 in Tripura, 2 in Arunachal Pradesh, 2 in Nagaland and 2 in Sikkim). 1683 units have so far been grounded as a result of the intervention.
(vi)	Normally, the risk cover under Credit Guarantee Scheme (CGS) of CGTMSE Scheme is available to the extent of 75 per cent subject to a maximum of Rs. 100 lakh. In NER, CGTMSE provides guarantee coverage of 85% of credit facility upto Rs. 5 lakh and 80% for credit facility above Rs. 5 lakh upto Rs. 50 lakh as against 75% of credit facility in case of general guarantee cover. CGTMSE may increase this cover up to 90 per cent. Normally, a guarantee commission of 0.75 per cent (payable upfront) and an annual service charge of 0.50 percent for loans upto Rs. 5 lakh and 0.75 per cent for loans above Rs. 5 lakh to Rs. 100 lakh are payable. In NER, CGTMSE may consider charging only 50 per cent of the applicable fee (both guarantee commission and annual fee).	To encourage flow of collateral free credit to micro enterprises, SIDBI is operating a special scheme in the NER wherein credit ranging from Rs.0.50 lakh to Rs.2.00 lakh is extended directly to eligible small borrowers with guarantee cover from CGTMSE. In order to encourage collateral free credit to micro enterprises SIDBI has agreed to share the CGTMSE one-time guarantee fee and annual service charge with partner banks, wherever CGTMSE charge is shared by the bank with the borrowers, in the ratio of assistance under the MSE Fund for NER.
(vii)	Credit Information Bureau of India Limited (CIBIL) may disseminate credit record of borrowers in the	All public sector banks and SIDBI have become members of Credit Information Bureau of India Limited

	NER among the financial institutions in the region to enable the banks to have ready access to the credit history of borrowers in the region. The banks/financial institutions may supply new borrowers' records expeditiously to CIBIL so that the data base may be kept updated.	(CIBIL) and are able to access to the information pertaining to credit history of borrowers in the North East Region.
(viii)	SIDBI may open counseling wings in all State capitals for first time entrepreneurs.	SIDBI has a Branch office each in all the eight States of NER. The In-Charges of these Branch offices have been adequately trained to function as counseling centres to provide advisory support to the aspiring entrepreneurs. To further compliment the efforts, a counseling center jointly sponsored by SIDBI and United Bank of India was made operational w.e.f. March 31, 2009. The counseling center is manned by ex-senior banker. SIDBI is exploring the possibility of opening counseling centers in other States as well with the help of respective lead banks as per the extant guidelines of RBI on the subject.

Appendix I

Summary Results of Fourth All-India Census of MSMEs with reference year 2006-07

ALL-INDIA

Parameters		Distribution			Percentage distribution		
		Regd.	Unregd.	Total	Regd.	Unregd.	Total
1.	Total number of working enterprises						
	Manufacturing	1035102	6418294	7453396	66.67	26.15	28.56
	Services	517390	18130011	18647401	33.33	73.85	71.44
	Total	**1552492**	**24548305**	**26100797**	**100.00**	**100.00**	**100.00**
2.	Number of rural enterprises	704551	12808326	13512877	45.38	52.18	51.77
3.	Number of woman enterprises	215036	1704938	1919974	13.85	6.95	7.36
4.	Number of enterprises managed by woman	156753	N. A.	156753	10.10	N. A.	N. A.
5.	Number of enterprises running perennially	1482847	23521525	**25004372**	95.51	95.82	95.80
6.	Employment						
	Manufacturing	8731254	22422264	31153518	86.75	44.62	51.65
	Services	1333906	27834775	29168681	13.25	55.38	48.35
	Total	**10065160**	**50257039**	**60322199**	**100.00**	**100.00**	**100.00**
7.	Employment by male and female						
	Male	7619234	41700391	49319625	76.43	83.99	82.72
	Female	2349525	7950377	10299902	23.57	16.01	17.28
	Total	**9968759**	**49650768**	**59619527**	**100.00**	**100.00**	**100.00**
8.	Enterprises by type of social category						
	SC	119949	1937993	2057942	7.73	7.89	7.88
	ST	46983	781844	828827	3.03	3.18	3.18
	OBC	600810	9895898	10496708	38.70	40.31	40.22
	Others	784749	10672726	11457475	50.55	43.48	43.90
	Societies	0	938628	938628	0.00	3.82	3.60
	Not Responded	0	321217	321217	0.00	1.31	1.23
	Total	**1552491**	**24548306**	**26100797**	**100.00**	**100.00**	**100.00**
9.	Enterprises by type of organization						
	Proprietary	1415422	23247043	24662465	91.17	94.70	94.49
	Partnership	57832	120662	178494	3.73	0.49	0.68
	Private Company	41373	95478	136851	2.66	0.39	0.52
	Public Ltd. Company	8216	65209	73425	0.53	0.27	0.28
	Co-operatives	4623	128912	133535	0.30	0.53	0.51
	Others	25016	891011	916027	1.61	3.63	3.51
	Total	**1552482**	**24548315**	**26100797**	**100.00**	**100.00**	**100.00**
10	Enterprises by main source of power						
	No power needed	383846	18579661	18963507	24.72	75.69	72.65
	Coal	24571	628106	652677	1.58	2.56	2.50
	Oil	54012	643415	697427	3.48	2.62	2.67
	LPG/CNG	6550	384401	390951	0.42	1.57	1.50
	Electricity	1031407	3845520	4876927	66.44	15.67	18.68
	Others	52106	467202	519308	3.36	1.90	1.99
	Total	**1552492**	**24548305**	**26100797**	**100.00**	**100.00**	**100.00**

Registered MSME Sector

ALL-INDIA

	Characteristics	Registered	% Share
1	Number of working enterprises	1552490	70.19%
	Number of enterprises found permanently closed	480946	21.74%
	Number of enterprises found non-traceable	178522	8.07%
	Total Number of enterprises surveyed	**2211958**	**100%**
2	Number of Working Enterprises		
	Manufacturing	1035102	66.67%
	Services	517388	33.33%
	Total	**1552490**	**100%**
3	Employment (Person)		
	Manufacturing	8731253	86.75%
	Services	1333907	13.25%
	Total	**10065160**	**100%**
4	Per unit employment (Person)		
	Manufacturing	8.44	
	Services	2.58	
	Total	**6.48**	
5	Original value of Plant & Machinery/Equipment (Rs. Crore)		
	Manufacturing	110310.31	90.94%
	Services	10987.97	9.06%
	Total	**121298.28**	**100%**
6	Per unit original value of Plant & Machinery/Equipment (Rs. Lakh)		
	Manufacturing	10.66	
	Services	2.12	
	Total	**7.81**	
7	Market value of Fixed Investment (Rs. Crore)		
	Manufacturing	440493.68	87.97%
	Services	60264.68	12.03%
	Total	**500758.36**	**100%**
8	Per unit market value of Fixed Investment (Rs. Lakh)		
	Manufacturing	42.56	
	Services	11.65	
	Total	**32.26**	
9	Value of Net Worth (Rs. Crore)		
	Manufacturing	415554.75	93.06%
	Services	30996.47	6.94%
	Total	**446551.22**	**100%**
10	Per unit value of Net Worth (Rs. Lakh)		
	Manufacturing	40.15	
	Services	5.99	
	Total	**28.76**	
11	Total Gross Output (Rs. Crore)		
	Manufacturing	668866.63	94.29%
	Services	40531.00	5.71%
	Total	**709397.63**	**100%**
12	Per unit Gross Output (Rs. Lakh)		
	Manufacturing	64.62	
	Services	7.83	
	Total	**45.69**	
13	Number of units taken loan from Institutional Sources or Others	185378	
14	Amount of loan taken (Rs. Crore)	66125.47	
15	Number of units having loan Outstanding	108238	
16	Amount of loan Outstanding (Rs. Crore)	43606.11	

Appendix II

PRIME MINISTER'S OFFICE

South Block,
New Delhi 110 101

Sub : Setting up of a Task Force to address issues of the MSME Sector.

The Prime Minister has approved the constitution of a High Level Task Force under the chairmanship of the Principal Secretary to PM to consider various issues raised by the MSME Associations, hold discussions with all stakeholders and draw up an agenda for action within 3 months.

2. The Composition of Task Force will be as follows:

(i)	Principal Secretary to PM	: Chairman
(ii)	Shri Arun Maira, Member, Planning Commission	: Member
(iii)	Secretary, Ministry of Finance	: Member
(iv)	Secretary Ministry of Labour	: Member
(v)	Secretary, MSME	: Member - Convener
(vi)	Dy. Governor, RBI	: Member
(vii)	CMD, SIDBI	: Member

Nominated Members:

(viii) Shri D.E. Ramakrishnan,
President,
Industrial and Financial Reconstruction Association
for Small and Tiny Enterprises (IFRASTE)

(ix) Shri Anil Gupta,
President
Indian Industries Association (IIA)

(x) Shri R.S. Joshi,
Chairman,
Federation of Industries and Commerce of
North Eastern Region (FINER)
(representing North-East region

(xi) Ms. K. Ramadevi,
President
Association of Lady Enterpreneurs of
Andhra Pradesh (ALEAP)
(representing Women Organisations)

:2:

3. The Chairman will be free to invite any other person associated/concerned with the MSME to any meeting of the Task Force.

4. The Task Force would be serviced by Ministry of Micro, Small and Medium Enterprises.

Sanjay Mitra
(Sanjay Mitra)
Joint Secretary to PM

Secretary, Ministry of MSME
PMO ID No. 300/55/C/0014/2009-ES.1 Dated 2.9.2009

Appendix III

Composition and Scope of Work of the Sub-Groups constituted during the Task Force meeting held on 25.09.2009

The Principal Secretary to PM decided to form the following Sub-Groups to look into the specific issues:

(i) Sub-Group on Credit

Composition

(i) Shri Arun Maira, Member, Planning Commission	Chairman
(ii) Shri K.C. Chakrabarty, Dy. Governor, RBI	Member
(iii) Finance Secretary	Member
(iv) Secretary (MSME)	Member
(v) Chairman, State Bank of India	Member
(vi) CMD, SIDBI	Member
(vii) Shri DE Ramakrishan, INFRASTE	Member
(viii) Shri G.P. Dalmia, Jharkhand Small & Tiny Industries Association	Member

Scope of Work

(a) To examine the issues impacting adequate and timely credit flow to the Micro and Small Enterprises (MSEs) and the Unorganised sector;

(b) To consider various suggestions made by the MSE Associations, including earmarking of a separate sub-target under the priority sector lending, setting up of a Fund for the Unorganised Sector, setting up of SME Exchange, etc.

(c) To consider the recommendations of the various Committees/Working Groups relating to credit and sickness;

(d) To recommend measures to improve the credit flow to the MSE/ Unorganised sector; and

(e) To recommend delivery mechanism for credit to MSE/unorganized sector.

(ii) **Sub-Group on Marketing**

Composition

(i) Secretary (MSME)	Chairman
(ii) CMD, NSIC	Member
(ii) Representative of Finance Ministry	Member
(iii) Representative of Planning Commission	Member
(iv) Shri Sudershan Sareen, AICOSMIA	Member
(v) Shri Nalin Kohli, ASMKI	Member

Scope of Work

(a) To examine the problems faced by the MSEs in marketing of their products;

(b) To study the best practices adopted for assisting the MSEs in select countries;

(c) To recommend a procurement policy for the MSEs in India; and

(c) To recommend measures to facilitate marketing - both domestic and international - of MSE goods and services.

(iii) **Sub-Group on Labour**

Composition

(i) Secretary, Labour & Employment	Chairman
(ii) AS&DC (MSME)	Member
(iii) Shri Sushil Kumar Gupta, Laghu Udyog Bharti	Member
(iv) Shri Salil Singhal, CII	Member

Scope of Work

(a) To examine the various labour laws that has an impact on the functioning of the MSE Sector;

(b) To suggest measures for simplification of labour laws pertaining to MSE sector, particularly with reference to reducing the number of inspections and registers to be maintained, and to reduce compliance costs.

(iv) Sub-Group on Exit Policy

Composition

(i) Secretary, Ministry of Corporate Affairs	Chairman
(ii) AS & DC (MSME)	Member
(iii) Shri Anil Bhardwaj, FISME	Member
(iv) Shri Vijay Kalantri, AIAI	Member

Shri Arun Maira, Member, Planning Commission would associate himself with the Sub-Group subject to his convenience.

Scope of Work

(a) To examine the existing mechanism available to MSEs in respect of insolvency/bankruptcy and exit;

(b) To study the best international practices in this context; and

(c) To recommend an institutional mechanism that provides for a stay on creditor action for a reasonable time to allow distressed company to revive before the court orders liquidation.

(v) **Sub-Group on Infrastructure/Technology/Skill Development**

Composition

(i) Secretary (MSME)	Chairman
(ii) AS&DC (MSME)	Member
(iii) Secretaries/Directors (Industries) of 5 states	Member
(iv) Mrs. Rama Devi, ALEAP	Member
(v) Shri Anil Gupta, IIA	Member

Scope of Work

(a) To examine the bottlenecks relating to infrastructure, technology and availability of skilled manpower confronting the MSE sector;

(b) To suggest measures for providing improved access to infrastructural facilities, technology and skill development; and

(c) To suggest measures to mainstream/utilize the infrastructure and human resources of the State Governments (e.g., DICs, etc.).

(vi) Sub-Group on Taxation Issues

Composition

(i) Secretary, Department of Revenue	Chairman
(ii) AS&DC (MSME)	Member
(iii) Shri S.S. Rathi, FASII	Member
(iv) Shri Joginder Kumar, FOTSII	Member

Scope of Work

(a) To consider various suggestions made by the MSE Associations relating to General Excise Ememptions, Service Tax, etc.;

(b) To identify and analyze the problems faced by the MSEs in complying with these tax laws;

(c) To suggest measures for simplification of various tax laws, including unification, for reducing the compliance costs; and

(d) To suggest measures that can make taxation system encourage entrepreneurship and fresh investments in MSMEs.

(vii) **Sub-Group on matters relating to Special Package for North-East States and Jammu & Kashmir**

Composition

(i) Secretary, DIPP	Chairman
(ii) AS&DC (MSME)	Member
(iii) Secretary Industry (J&K)	Member
(iv) Commissioner Industry (Assam)	Member
(v) Shri R.S. Joshi, FINER	Member
(vi) Shri Shakil Qalandar, Industry Association (J&K)	Member

Scope of Work

(a) To examine the issues raised by the various Associations in the implementation of special packages announced for North-East States and Jammu & Kashmir; and

(b) To suggest changes in these packages with a view to provide an impetus to the industrial growth in the North East States and Jammu & Kashmir.

*****

Appendix IV

Industry demands, current status and recommendations made by the Task Force

S. No.	Industry demand	Current status	Recommendations of the Task Force
	Credit		
1.	A separate sub-target of 6% of Net Bank Credit (NBC) for the micro sector under the priority sector lending.	The Ministry of MSME had taken up the issue of earmarking 6% of NBC for micro enterprises under the priority sector lending targets with the Reserve Bank of India (RBI)/Department of Financial Services. Responding to the above, the RBI informed that the domestic scheduled commercial banks have already been set various targets for lending to priority sector, i.e., overall priority sector target of 40% and sub-targets of 18% and 10% for lending to agricultural sector and weaker sections. Further, the RBI is of the view that fixation of additional targets may not serve much purpose and instead a suitable facilitating environment needs to be ensured to enable banks to extend advances to borrowers for undertaking viable activities. This issue was also considered in the meeting held under the chairmanship of Cabinet Secretary on 13th October 2009 to review the action taken on the recommendations contained in the reports of the NCEUS. It was informed that the Sub-Group on Credit under the Task Force would be addressing the issue of earmarking 6% of NBC for micro enterprises under the priority sector lending targets. As the matter is already under consideration, it was felt that the recommendations of the Task Force may be awaited.	(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). (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. (iii) 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.

2.	Setting up of a National Fund for the Unorganised Sector.	SIDBI has set up a Special Cell for providing re-finance to banks for further on-lending to micro/unorganised sector. Up to 31st October 2009, an aggregate disbursement of Rs.1,400 crore has been made to 10 banks for on-lending to micro/unorganised sector.	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.
3.	(i) On loans upto Rs.5 lakh, the interest rate needs to be same as for agricultural short-term loans (i.e. 7%). (ii) For loans over Rs.5 lakh, the interest rates need to be reduced to 2% below BPLR. (iii) Banks should reduce PLR once the Repo Rate is reduced. (iv) All Banks should have uniform PLR.	Based on the decisions taken in the meeting held under the chairmanship of Cabinet Secretary on 13th October 2009 to review the action taken on the recommendations contained in the reports of the NCEUS, the Ministry of MSME has sent the proposal relating to interest subvention for micro enterprise sector to the Planning Commission for according 'in principle' approval.	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, inter alia, look into the existing interest subvention schemes for the agriculture and housing sectors to examine the extent of replicability for the MSEs
4.	SME Exchange should be established in line with earlier OTCEI in coordination with SIDBI.	SEBI Board in its meeting held on 25th October 2007 agreed to creation of a separate Exchange for the SMEs. In May 2008, a discussion paper was brought out. Based on the feedback, the SEBI issued a framework for recognition and supervision of Stock Exchanges/Platforms of Stock Exchanges for SMEs in November 2008. Subsequently, SEBI has received Expression of Interest from some organisations which are being examined by SEBI with respect to norms that need to be relaxed for setting up SME exchanges.	Securities and Exchange Board of India (SEBI) may expedite the process of setting up of SME Exchanges in consultation with all the stakeholders.

5.	Implementation of the recommendations contained in the Report of the Working Group on Rehabilitation of sick SMEs.	The RBI has issued a circular dated 4th May 2009 to all scheduled commercial banks enclosing therewith recommendations made by the Working Group that needs to be considered by them. The banks have been advised to consider speedy implementation of the recommendations made by the Working Group with regard to timely and adequate flow of credit to the MSE sector. Further, the RBI has also advised the banks to undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors: (iv) Loan policy governing extension of credit facilities; (v) Restructuring/rehabilitation policy for revival of potentially viable sick units/ enterprises; and (vi) Non-discretionary One Time Settlement (OTS) scheme for recovery of non-performing loans. In addition to the above, the recommendations contained in the report of the Working Group relating to the Central Government were forwarded by the RBI to the Ministry of MSME. After examination of the aforesaid recommendations, the Ministry of MSME has taken up these recommendations with the Ministries/Departments concerned (viz. Department of Financial Services, Department of Revenue, Department of Science and Technology and Ministry of Labour & Employment) for appropriate action. The	(i) 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. (ii) 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. (iii) 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. (iv) 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. (v) 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.

		recommendations relating to the State Governments were forwarded by the RBI to the State Level Bankers' Committee (SLBC) Convenor Banks for taking up the issue in the SLBC meetings. However, the RBI has not fully addressed the following recommendations contained in the report of the Working Group: (a) Change in the definition of sick MSEs, time-bound decision on viability, streamlining of procedure for declaring a unit as unviable and giving opportunity to units to present their case if found unviable to bring in greater transparency in the matter of rehabilitation; and (b) A more liberalized OTS Scheme, which may inter alia provide for settlement at a discount to the principal outstanding on the date of NPA and promoters made eligible for obtaining finance after settlement of the dues under OTS. In addition, there is also a need to consider setting up of various Funds, as recommended by the Working Group in its report, to facilitate the growth of this sector.	(vi) Banks may be encouraged to use scoring model so as to have speedy disposal of loan applications of micro and small enterprises. vii. 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. (viii) All the banks may adopt Banking Code for MSEs to bring about uniformity in operations. DFS may examine this issue through RBI. (ix) 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. (x) 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. (xi) 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. (xii) 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. (xiv) 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. (xv) 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 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. (xvi) 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. (xvii) 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.
6.	Representatives of MSE Associations should be nominated on Board of Directors of Nationalised Banks in consultation with Ministry of MSME.	This issue was considered by the Sub-Group but not found feasible.	----

	Marketing		
7.	(i) Mandatory for the Government and semi-Government agency to make minimum 30% of their total procurement from MSEs. (ii) Price Preference should be increased from 10% to 20%. (iii) Waive tender fee and earnest money deposit for Government tenders for MSMEs.	Under the existing dispensation, the Government guidelines provide for support in marketing of MSE products through a variety of measures such as price preference, reservation of products for exclusive purchase from MSEs, issue of tender sets free of cost, exemption from payment of earnest money, etc. In practice, however, most of these facilities are not being provided to the MSEs by the Government Departments/ CPSUs, etc. The Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, which came into effect from 2nd October 2006, includes a provision on 'procurement preference policy' for facilitating procurement of goods and services produced and provided by MSEs by the Ministries and Departments of Central/State Governments, its aided institutions and Public Sector Enterprises under Section 11. Towards formulating a procurement policy for the MSEs as provided under the Act, several rounds of consultations with all the stakeholders, including Central/State Governments, CPSUs, etc. have been held. Based on this, a draft Cabinet Note containing a Public Procurement Policy for MSEs has been formulated by the Ministry of MSME. The policy envisages that Central Ministries/Departments/PSUs, etc. reach a target of 20% procurements from the MSEs in a period of 3 years, and that they indicate in their annual reports the purchases made from MSEs.	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.

8.	Procurement of raw material at the right cost.	MSMEs 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 been bridging the gap of distributing these raw materials which is substantially helping the MSMEs in making their operations competitive.	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.
9.	(i) Marketing hubs and facilitation centres for MSEs should be set up. (ii) Set up separate Rs.5000 crore Market Development Fund for marketing of products of MSMEs.	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. In addition, the National Manufacturing Competitiveness Programme (NMCP) includes schemes for providing marketing support.	(i) 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. (ii) 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. (iii) 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. (iv) 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.

10.	(i) Facilitate delegation visits of MSE Associations abroad. (ii) Waive service tax, VAT and other levies for Trade Exhibitions, Buyer-Seller Meets, Conferences, Marketing Services, etc.	Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad. The scheme also offers assistance for (a) sector specific market study by MSE Associations/Export Promotion Councils/Federation of Indian Export Organisation; (b) Initiating/contesting anti-dumping cases by MSE Associations; and (c) reimbursement of 75 per cent of the one time registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.	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.
	Labour		
11.	(i) Formulate a separate labour legislation (single and comprehensive) for MSE sector. (ii) Appoint an independent Expert Committee to examine all employee related laws and propose changes that MSMEs can comply with, as also prevent harassment by the Inspector Raj.	There are about 44 labour related statutes enacted by the Central Government dealing with wages, social security, labour welfare, occupational safety and health, industrial relations etc. The coverage of an Act is defined in the Act itself. Most of the MSEs get automatically exempted unless they cross the number filter or get covered by the specific Acts. As labour laws are also investment-scale neutral, M/o Labour & Employment has not found feasible either to have a separate labour law for MSE Sector or incorporate the definition given in the MSMED Act, 2006 in the application of labour laws.	The Ministries of Labour and Employment and the MSME may jointly examine the feasibility and desirability of a separate legislation (single and comprehensive) for MSE Sector.

12.	(i) Revoke the proposal to reduce the threshold limit for coverage of Employees Provident Fund (EPF) from 20 to 10 employees. (ii) Exempt MSEs employing upto 30 workers in power operated industries and 50 workers in industries not using power from the purview of Labour Laws, ESI Act, Provident Fund Act, etc. (iii) A limitation rule may be evolved for the labour laws related to MSEs to reduce the burden of enormous paper work and maintenance of too many records. Like in other Departments, ESIC and EPFO should not insist for records from the MSE for more than 5 years. (iv) There should be One Department, One Registration and One Payment for MSEs relating to labour welfare measures.	With regard to simplification of Labour Laws and Streamlining of Inspection Procedure, various initiatives have been taken which are as under: (viii)A Working Group has been constituted under the Chairmanship of Chief Labour Commissioner (Central) to examine the feasibility of (a) formulating a National Labour Code encompassing on central labour laws, (b) consolidating the labour laws into a few cognate groups such as Labour Relations, Wages, Working Conditions, Social Security, Conditions of Work etc. and (c) bring uniformity in definitions of certain key terms like 'employer', 'employee', 'establishments' and 'wages'. (ix) The Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 presently provides for exemption by way of allowing 'very small' establishment (employing up to 9 workers) to maintain only one register and submit one return and 'small establishments' (employing 10 to 19 workers) to maintain three registers and submit one return in respect of 9 Acts. It is proposed to amend the Act by increasing the coverage to 16 Acts. The 'small' establishments would cover those establishments employing between 10 to 40 workers as against 19 in the Principal Act, which would be required to maintain only two registers as against three at present and submit one return. Registers / records can be	(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. (ii) The ESIC and EPF Acts may be examined by the Ministry of Labour & Employment in consultation with stakeholderswith 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. (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. (iv) The Task Force noted that computerization of the activities of ESIC and EPFO is in process. The same needs to be expedited. (v) The amendments in the Factories Act, 1948 may be undertaken in consultation with the Ministry of MSME and MSME Associations.

		maintained in computer, floppy, diskette or on other electronic media and return submitted through e-mail. The passage of the Amendment Bill would benefit establishments employing upto 40 workers in maintaining registers and submitting returns electronically under 16 Labour Laws. (x) The Inspection procedure is being increasingly made compliant driven. In Employees' State Insurance Corporation (ESIC), inspection is carried out only in the case of defaulters and where the compliance is irregular. In Employees' Provident Fund Organization (EPFO), inspections are carried out only in respect of establishments against which there are specific complaints of evasion or non-compliance. Such inspections are ordered by senior level officers who specifically assign the task, at random, to the inspectors, so that there is no chance of any pre-decided action plan on the part of the inspectors for visiting any particular establishment. (xi) A system of self certification for employers has been introduced by Employees' State Insurance Corporation w.e.f. 01.04.2008. (xii) Several new initiatives have been undertaken by the Employees' State Insurance Corporation (ESIC) to improve the quality of delivery of service under ESI Scheme. The important initiatives being starting Medical Education Projects and the IT Roll Out Plan. (xiii)A Smart Card titled "A Pehchan Identity Card" has been launched for Employees' State	

Formatted: Tab stops: Not at 1.25"

		Insurance Corporation Beneficiaries. Every beneficiary will be issued two Smart Cards – one for himself and another for family in order to enable ensured persons family to have treatment at a separate locations where the family is living in case the Insured Person is working outside his place of residence. With the help of these Smart cards, the beneficiary can have the treatment in any Employees' State Insurance Corporation Hospitals through out the Country, ensuring portability of benefits. The initiatives taken by the Employees Provident Fund Organization (EPFO) are Computerized Compliance Tracking System (CCTS) and Business Process Reengineering (BPR), a project being implemented with the help of NIC.	
	Exit Policy		
13.	(i) The two Insolvency Acts should be substantially amended or replaced by a new, single and comprehensive law, and a comprehensive bankruptcy law mechanism covering non-corporate entities be enacted. (ii) There is a need to institute specialized bankruptcy and insolvency courts (fast- track) and a cadre of specialists providing a 'single window' to address all related issues: restructuring, liquidation, bankruptcy and insolvency.	Insolvency in proprietorship or partnership firms is governed by the Provincial Insolvency Act 1920, which has largely remained static. Here the focus is not on revival followed by structured exit in case of failure, but of recovery of outstanding dues through a court driven process. An administrative mechanism for revival exists for businesses availing bank loans, but they do not provide protection from statutory dues or other creditor action. These measures are also not time bound	(i) 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. (ii) The Limited Liability Partnership Act 2008 (LLP) provides for enabling schemes of revival as well as liquidation and winding up. The Ministry of Corporate

	(iii) Other Central and State statutes affecting recovery procedures and clauses of imprisonment be suitably revisited and an Authority/ Registrar/ Central Registry System be constituted where all the orders declaring a person as insolvent may be filed.		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.
14.	(i) A time-bound restructuring mechanism for small scale sector may be devised, learning from the shortcomings of BIFR and providing effective protection against imprisonment during the restructuring exercise. (ii) Till the time the aforesaid measures are implemented, to provide appropriate interim relief, the following steps be considered: (a) SLIIC mechanism of RBI may be made more effective; (b) review of the RBI guidelines on OTS and restructuring; (c) while proceeding for recovery, States should make necessary changes in rules restraining district officials to award jail sentences only in 'rarest of rare cases'. (iii) Permanent forum at District level for addressing sickness.	When a business is in distress, it has the option of trying for re-structuring of its debt; or enter a One Time Settlement (OTS) with the bank. RBI has also constituted Committees to review rehabilitation of SME units through State Level Inter Institutional Committees (SLIIC) comprising of banks, financial institutions, state government reps and industry associations. The present mechanism is non-statutory and hence not binding on all concerned agencies, and also not time bound. Banks do not find most cases viable because proposals for revival are appraised by interested stakeholders (lending banks) leading to conflict of interest. Also, entrepreneurs lack the skills and knowledge, or the financial resources required to prepare and execute viable plans. When cases are not found viable, banks take legal recourse for recovery of their dues through DRT and SARFESI Acts.	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 set up a rehabilitation fund with a corpus of Rs.1000 crore, to meet its 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. The MoMSME may formulate an appropriate scheme to operate the fund. 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.
	Infrastructure		
15.	Allocating targeted investment in creating affordable industrial areas with integrated facilities for MSMEs on principles of cost recovery and support collective SME initiative for distribution of electricity in industrial areas and clusters.	SMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have cropped up in an unorganised manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable, leading to very high transaction costs.	(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. (ii) Expand the scope of the existing Integrated Infrastructural Development (IID) scheme of Ministry of MSME to cover the private sector.
16.	At least 45% of the land in new industrial areas should be reserved for MSEs and incentives be provided for installing captive power plant/power generators in the form of capital subsidy/interest subsidy.	With the growth of the industrial sector, including MSEs (which are an integral part of the value chain), adequate areas for extension of MSEs are simply not available. This has resulted in crowding of MSE operations in existing areas, often in conflict with environmental and urban regulations.	(i) 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. (ii) 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.

			(iii) 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. (iv) Encourage setting up/earmarking of at least one industrial estate in each block for micro and small enterprises. Wherever possible, private sector participation may be encouraged.
	Technology		
17.	Fostering linkages between MSEs and research & development institutes.	MSE sector in India, with some exceptions, is characterised by low technology levels, which acts as a handicap in the emerging global market. As a result of the above, sustainability of a large number of MSEs will be in question in the face of competition from imported goods. Also MSE alliances with domestic large companies are fragile, since the large companies can themselves build alliances with overseas suppliers. Despite efforts, institutional linkages of R&D institutions and industry (including MSEs) have not developed. Past policies on FDI have also not resulted in substantial technology gains.	(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. (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. (iii) 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. (iv) 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. (v) 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. (vi) 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.
18.	Set up of Technology Bank for MSEs.	SIDBI has promoted India SME Technology Services Limited (ISTSL) to facilitate technology transfer and provide attendant support services in order to enhance market competitiveness of MSMEs. ISTSL has identified Clean Development Mechanism as its thrust area and has been working actively in MSME clusters guiding MSMEs to take advantage of the opportunities existing in carbon credit market.	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.

19.	Set up of Technology Development Centres at regional level to disseminate information and to showcase latest technological interventions.	There are product-specific Technology Development Centres (TDCs) relating to foundary and forging, electronics, fragrance and flavour, sports goods, electrical measuring instruments, glass and footwear. However, there is a need to strengthen the infrastructure of these existing TDCs and set up new product-specific TDCs in areas like electronic toys, hand tools, automobile components, rubber products, plastic products, etc. to effectively meet the challenges of cheap imported goods.	(i) 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. (ii) 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.
	Skill Development		
20.	Formulation of an entrepreneurial policy to stimulate and develop entrepreneurial activity based on an integrated framework.	Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower possessing the right skills for manufacturing, service, marketing, etc. While SME sector employs substantial manpower, the turnover rate is very high (retentions are low).	(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. (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. (iii) Linkages between industry and entrepreneurship/ skill development centres be strengthened by incentivising Industry Chambers/Associations to set up skill development centres. (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. (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. (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. (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. (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. (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. (x) 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. (xi) 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.
	Taxation		
21.	**<u>Indirect Taxes</u>** (a) Central Excise (i) Enhancement of the limit of General Excise Exemption (GEE). (ii) Increase in the turnover eligibility limit for GEE. (iii) Abolition of education/ higher education cess on excise duty. (b) Service tax (i) Bringing rates of service tax at par with central excise rates. (ii) Raising the Service tax exemption limit. (iii) Adding some more services in the specified list of services in rule 6(5) of the CENVAT Credit rules 2004. (iv) Charging service tax on any specified value of the Annual Maintenance Contracts. (c) A number of issues relating to procedures were also raised by the MSME Associations.	A major initiative on the indirect taxation front is that the Government is likely to introduce Goods & Services Tax (GST) w.e.f April 2010. Department of Revenue informed that Goods & Services Tax (GST) would subsume various indirect taxes levied by the Union and State governments on goods and services and would lead to simplification and unifications of the various tax laws. The unified tax laws in the form of GST would reduce the compliance cost to a great extent.	(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. (ii) Department of Revenue to convene separate pre-Budget meetings for discussing issues relating to MSMEs. (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.

22.	**Direct Taxes** ~~(i)~~• Lower rate of Corporate Tax on MSEs ~~(ii)~~• Abolition of Firm Tax ~~(iii)~~• Deduction under section 80IB should be re-introduced from the date of setting up the unit ~~(iv)~~• Expenses incurred on hospitalization to be set off against income ~~(v)~~• Enhancement of depreciation rates for machinery ~~(vi)~~• Amendment of laws relation to tax on DEPB ~~(vii)~~• Enhancements of exemption limit of Income Tax ~~(viii)~~• Increase in limit for Tax Audit ~~(ix)~~• Curtailment in the number of returns and payment schedule ~~(x)~~• E-TDS charges be borne by the government ~~(xi)~~• Prescribe statutory time limit for the assessing officer to pass order u/s 201 in the case of TDS matters ~~(xii)~~• Assessing officer be made accountable for unnecessary delays; fix time	A major initiative of the Government on the Direct taxes front has been the release of the draft Direct Taxes Code in August, 2009. Department of Revenue has put the details of the Direct Taxes Code in the public domain through the website of Ministry of Finance and has sought the comments of public and stakeholders. The direct tax policy as reflected in the Direct Taxes Code is an attempt to introduce a tax regime with moderate rates of tax, simple procedures and minimal exemptions or tax based incentives. The policy is to provide a stable tax regime with reduced litigation and minimal scope for discretion.	(i) 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. (ii) 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. (iii) MSME Associations will take steps to guide their members in the facility of e-filing of IT returns through interactive workshops.

Formatted: Indent: Left: 0", First line: 0", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: 0.1", List tab + Not at 0.5" + 0.75"

	limit for refund ~~(xiii)~~• Appeal cases to be disposed of within a stipulated time period ~~(xiv)~~• Interest charged from assesses ~~(xv)~~• Penalty order be passed only after the decision of Appellate Tribunal ~~(xvi)~~• Application for rectification of mistake be deemed to have been allowed, if remained un-disposed after 6 months. ~~(xvii)~~• Provision for single yearly TDS return.		
	Special Package for NE Region and J&K		
23.	**NEIIPP-2007** (i) Restore Central excise refund benefits; (ii) Incentives should be treated as tax free income as per the spirit of the policy; (iii) MAT should be abolished immediately; (iv) Exemptions should be given to eligible units from the levy of Service Tax; (v) The incentives should be made applicable to power plants up to 50MW. (vi) The value of buildings connected with the	DIPP announced the North East Industrial Policy (NEIP) on 24.12.1997 for a period of 10 years. NEIP, 1997 has since been revised and replaced by a more investor friendly North East Industrial and Investment Promotion Policy (NEIIPP) 2007 for a period of 10 years w.e.f. 01.04.2007. NEIIPP, 2007 has been extended to Sikkim also. Salient features of the packages applicable in the NER are as under: (a) Capital Investment Subsidy under the packages is granted for the North East Region @ 30% of the investment in Plant and Machinery up to 1.5 crore. Beyond that ceiling it is to be approved by the Empowered Committee and the Cabinet. (b) Interest Subsidy: Interest subsidy @ 3% on	(i) To develope 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. (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. (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

	manufacturing process should be considered for calculating Capital Investment Subsidy. (vii) Transport subsidy should be made available for 10 years at par with all other subsidies @ 90% on the transportation of Finished Goods for inter-State movement of goods within NER. Further, a clarification may be issued that Transport Subsidy on the transport of finished goods is available upto the final destination (subject to Siliguri as the cut off point) and not restricted to the railway station nearest to the destination. (viii) For new units, the benefits should be available for 10 years from the date of commencement of commercial production after substantial expansion. (x) In order to promote MSMEs, they should be provided Power subsidy upto 50% on the basis of power consumption bills paid by the industrial units to the State Electricity Boards and not to captive power plants. The labour wage subsidy support may also be provided upto 40% of wage component to cover 12% EPF and additional 28% of the labour	working capital loan is granted to units in this region. (c) Comprehensive Insurance: Reimbursement of 100% Insurance Premium is granted on capital investment. (d) The package is applicable to the manufacturing, select service sector, biotechnology and Power Generating units (upto 10 MW). (e) Policy is location neutral, applicable to units set up anywhere in the Region. (f) The package provides incentives for excise duty exemption and income tax exemption. (g) These incentives are available to all new units as well as the units existing on the date of commencement of the scheme upon their substantial expansion defined under the Schemes. In addition, units which have undertaken effective steps before the announcement of the scheme are also treated as new units and are eligible for incentives on commencement of commercial production after the announcement of the Scheme. However, these benefits are only one time benefits. Besides the above packages, transport subsidy scheme is also applicable @ 90% of the transportation cost on movement of raw material and finished goods from the location of the industrial unit and the nearest designated rail head and vice versa. In addition transport subsidy is also provided @ 50% for inter-State movement of finished goods within NER. The benefits are available for a period of five years	cost of transport and travel. (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. (v) 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. (vi) 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.

	wage for which company is paying EPF.	from the date of commencement of commercial production.	
24.	The Usha Thorat Committee on 'Financial Sector Plan for the NE Region' has submitted a very good report for the banking sector in the North East Region and it needs to be ensured that the Committee recommendations are implemented in true spirit. Similarly, the recommendations made in the Special Summit on 'Banking and Credit Issues for the NE Region' on 4th October, 2008 at Vigyan Bhavan, New Delhi by the Ministry of Development of North East Region (DONER) should be implemented for improving the CD Ratio in the region.	The recommendations of the Usha Thorat Committee Report on financial sector plan for NER are being regularly reviewed by the RBI.	(i) 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. (ii) DFS to encourage banks/FIs to promote micro finance culture and the capacity building in NER.
25.	**J&K Special Package** (i) The applicability of package be extended to all industrial units both new and old without any rider of "substantial expansion" or "effective steps"; (ii) Specific location bar be waived; (iii) Incentives available under the CIS be extended to all industrial units having commenced their commercial production after 14.6.2002	In order to promote industrialization in J&K, DIPP announced the Industrial Policy J&K in June 2002. Salient features of the packages applicable in the State of J&K are as under: ~~(viii)~~**(h)** Capital Investment Subsidy under the packages is granted for the J&K @ 15% of the investment in Plant and Machinery upto Rs.30 lakh. Beyond that ceiling it is to be approved by the Empowered Committee and the Cabinet. ~~(ix)~~**(i)** Interest Subsidy: Interest subsidy @ 3% on working capital loan is granted to units in both these regions.	(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 i[n] Plant & Machinery subject to a maximum of Rs.30 lakh whereas under NEIIPP-2007 it is provided @ 30% of th[e] investment in Plant & Machinery and there is no uppe[r] 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

Formatted: Indent: Left: 0", First line: 0", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: 0.3", List tab + Not at 0.5" + 1.25"

	without any bar against those which took effective steps prior to the said date; (iv) Central package of incentives after necessary amendments need to be made applicable for 15 years till year 2022; (v) Package should also be made applicable to other sectors in J&K as in NER under NEIIPP; (vi) Definition of substantial expansion should be expanded to include increase in investment in plant and machinery by 25 % and incentives should be available on first and every subsequent expansion; (vii) Restoration of Central Excise concession; (viii) 100% income-tax exemption should be given and excise duty refund granted under exemption for 10 years. (ix) In case where CENVAT paid on raw material and intermediate product going into production of finished produce is higher than the excise duty payable on finished products, refund of such overflow of CENVAT credit. (x) Extension of NEIIPP, 2007	~~(x)~~**(j)** Comprehensive Insurance: Reimbursement of 100% Insurance Premium is granted on capital investment. ~~(xi)~~**(k)** The package for J&K is applicable to the manufacturing sector only. ~~(xii)~~**(l)** Policy for J&K specifies thrust industries which can be located anywhere in the State and other industries set up in specified khasra number. ~~(xiii)~~**(m)** The package also provides incentives for excise duty exemption and income tax exemption which are the mandate of Department of Revenue. ~~(xiv)~~**(n)** These incentives are available to all new units as well as the units existing on the date of commencement of the scheme upon their substantial expansion defined under the Schemes. However, these benefits are only one time benefits. Besides the above packages, transport subsidy scheme is also applicable to J&K @ 90% of the transportation cost on movement of raw material and finished goods from the location of the industrial unit and the nearest designated rail head and vice versa. The benefits are available to a unit for a period of five years from the date of commencement of commercial production.	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. (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.

	to J&K State.		
26.	Revival and rehabilitation of sick units in J&K	J&K has provided a list of 410 enterprises requiring re-structuring/rehabilitation.	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.
27.	JKDFC is required to be authorized for providing venture capital up to 30% of the project cost to MSMEs in order to promote industry across the State. The Corporation needs to be made member of Credit Guarantee Fund Trust (CGFT) and Small Farmers Agri Business Consortium (SFAC) in order to provide collateral free and venture capital assistance to desired entrepreneurs; and (iii) The Corporation should also provide fresh financial infusion to the units under revival/rehabilitation and up-gradation.	JKDFC has been set up by the Government with the mandate to undertake activities of financing in the State of J&K. The Corporation has already started term lending to industrial units in the State.	JKDFC may become more active in the State since JKSFC is not providing loans. Further, JKDFC may be made member lending institution under CGTMSE.
28.	SIDBI need to assess fund required for revival of State Financial Corporations (SFCs)	The account of JKSFC has been classified as NPA in the books of SIDBI. The current outstanding is Rs.55.49 crore and the over dues	Regarding revival of JKSFC, the State Government should come out with definite plan for this purpose which should be examined by DFS.

	and formulate a package for implementation.	amount to Rs.78.46 crore (Principal - Rs.42.46 crore, Interest - Rs.36.01 crore, as on October 31, 2009). Further, the minimum guarantee dividend of Rs.14.41 crore payable to IDBI by the Govt. of J&K as per SFCs Act, 1951 (prior to amendment in September, 2000) will now be payable to SIDBI (as per agreement with IDBI).	
29.	Adequate budgetary provision should be made for incentives to be paid by Central Government to the industries in NER/J&K so that genuine claimants do not suffer for inadequate budgetary allocation/ delayed disbursements.	DIPP has estimated the requirements of Rs.59.46 crore in case of special packages for J&K, H.P. and Uttarakhand, Rs.17 crore for the NE States under NEIIPP-2007 and Rs.460 crore under the Transport Subsidy Scheme for all the States where the scheme is in operation.	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.
30.	Release of balance funds in respect of 5 growth centers in NER and 1 Centre in J&K.	Under the Growth Center Scheme, the Central Government was providing an assistance of Rs.15 crore to each of the 10 Growth Centers in NER and 2 Centres in J&K The Scheme has been discontinued since 1.4.2009. Under the Scheme, release of funds amounting to Rs.33.35 crore for 5 functional centres in NER and Rs.5.75 crore 1 functional centre in J&K is pending	Under the Growth Centre Scheme implemented by DIPP, release of funds amounting to Rs.33.35 crore for 5 functional centres and Rs.5.75 crore 1 functional centre in J&K 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).
31.	GST amalgamating the Central Excise Duty and VAT is going to be in place by 2010. Commensurate mechanism needs to be put up in place to continue with present incentives.	The proposed GST is under finalization in consultation with the State Governments.	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.