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Recommendations

of the

Inter-Ministerial Committee

for

Accelerating Manufacturing in

Micro, Small & Medium Enterprises Sector

Ministry of Micro, Small and Medium Enterprises

September, 2013

Inter-Ministerial Committee

for

Accelerating Manufacturing in

Micro, Small & Medium Enterprises Sector

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Preface

We have great pleasure in submitting the report of the Inter-Ministerial Committee, set up vide order no. 601/2/1/2013-Cab.III dated 04.4.2013 of the Cabinet Secretariat, to suggest short and medium term measures for accelerating manufacturing in the MSME sector.

Over the last few months, the Committee has held detailed consultations with stakeholders in the government and in the industry. We have also drawn upon the suggestions made in previous reports dealing with the problems and issues of the industry in general and MSME sector in particular.

The Committee would like to place on record its appreciation of the support it has received from the Development Commissioner, MSME and officers in the Development Commissioner's office and the Ministries of Commerce and Industry, Textiles, Food Processing Industries and Labour and Employment

Madhav Lal
Chairman

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SUMMARY AND RECOMMENDATIONS

1. INTRODUCTION

Micro, Small and Medium Enterprises contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products to meet the needs of the local markets, the global market and the national and international value chains.

Statistical data of the past few years, however, indicates that the share of MSMEs in GDP, manufacturing output and exports has been slowly declining. With manufacturing sector as a whole having been less than robust, and the employment in the manufacturing segment having actually declined, the government came out with a Manufacturing Policy nearly two years ago in 2011. However, many of the measures proposed in that policy will have a long gestation period. Meanwhile, with growing concerns about the short and medium term, the Cabinet Secretary constituted an Inter-Ministerial Committee to recommend how the manufacturing can be accelerated in the MSME sector.

During deliberations with a diverse set of MSME stakeholders, it was repeatedly flagged that the MSMEs, as individual and collective entities, lack the abilities of the larger enterprises to advocate on economic and functional issues, and therefore come adversely on the receiving end of the unexpected actions of other stakeholders, including the state machinery. While the primary concern of the entrepreneur should be to run the enterprise, the prevalent ecosystem places huge demands on the time and resources of the entrepreneur engaged in manufacturing. Moreover, the issues and challenges at the different stages of the lifecycle of a manufacturing enterprise are quite diverse. A complex and unfriendly business ecosystem pushes small entrepreneurs towards the informal and unregistered segment, which is growing faster than the organised segment by more than five times, and already accounts for over 95 percent of all MSMEs. This trend must be reversed as it is not sustainable. Hence, there is a need for a common understanding amongst the policy makers and administrators in multiple departments of the local, state and central governments to help create an ecosystem that enables and assists entrepreneurs through the life cycle of creation, growth and closure of enterprises and encourages them to operate in the organised economy.

The Committee has made over 60 recommendations covering issues of regulation, finance, infrastructure, technology and market through the different stages of the life cycle of MSMEs. In addition, some product specific recommendations have been made in Chapter 6 (which, however, does not form part of this summary).

2. START-UPS

Land

R.1 State governments may urgently streamline and simplify internal processes and allot over 30,000 vacant plots lying vacant in established industrial estates across the country, to start-ups which come up with good business plans.

Mid-sized Industrial Estates

R.2 State governments should urgently identify mid-sized land parcels close to urban areas, which may be developed with public funding, for allotment to MSMEs. Start-ups generally look for spaces close to where their supporting families and markets are located. Also, the development of small parcels is likely to be much less time-consuming compared to bigger projects like NIMZ. The relevant central ministries should accord priority to such development, if necessary by making suitable changes in their ongoing programmes and by higher levels of funding.

Rented Premises

R.3 State governments may undertake programmes for the construction of premises that can be given on rent to manufacturing start-up enterprises. This will help de-risk collateralization, and was earlier recommended by PM’s Task-Force on MSMEs. Such programmes may also be supported by the central government.

Harmonising Urban Plans with Economic Activity

R.4 Ministries of Urban Development, Urban Poverty Alleviation and MSME, backed by sufficient resources may incentivize state governments and local bodies to designate adequate areas for manufacturing and industrial activity in the urban centres or emerging urban areas.

R.5 The above approach may be mainstreamed in both planning and regulation, through an overarching legislation for micro enterprises in urban areas, on the pattern of the recently enacted law for street vendors, keeping in view the livelihood aspect of the micro-enterprises.

Regulation and Processes for Registration for State Taxes, Property, and Access to Utilities

R.6 State governments, through use of IT, may simplify and make transparent the services associated registration for VAT and other local taxes, land/property and provision of utilities, and also bring such services under the ambit of the Public Services Delivery Act.

DICs as Facilitating Institutions

R.7 The manpower of District Industries Centre (DIC) may be re-oriented and re-trained towards entrepreneurship development, advocacy, mentoring and handholding of start-up MSMEs (with emphasis on manufacturing). They may be encouraged to provide such services by building partnership with professional bodies.

R.8 Given that most districts in the country have good infrastructure in the DICs (which is now in a state of neglect and decay), the central government may provide funding for its renovation and up-gradation, subject to the reform agenda for the DICs, as stated above, being implemented by the states.

Early Stage Funding, Angel Investors and Venture Capital

R.9 Government programmes for funding start-ups in manufacturing, which have potential for growth, may be provided with higher levels of funding and subsidy. To begin with, the Prime Minister’s Employment Generation Programme (PMEGP) may be up-scaled to include a special window for such projects. The programme could be re-christened as the Prime Minister's Entrepreneurship and Employment Generation Programme (PMEEGP).

R.10 A committee under the Chief Economic Adviser or other appropriately senior authority in the Finance Ministry may be set up to make specific recommendations on the removal of policy and fiscal impediments for enhancing the flow of angel and early stage venture capital funding for start-ups, having regard to the recommendations of the Mitra Committee report.

R.11 SIDBI should adopt a more proactive position to lead initiatives for attracting institutional and private funds for the new enterprises. In the very short run, it should increase the coverage of MSME beneficiaries under the India Opportunity Venture Fund (IOVF) as its tenure is of just 3 years ending in 2014-15.

R.12 The India Inclusive Innovation Fund may be operationalized as early as possible on the lines recommended by the National Innovation Council to drive the growth of innovative start-ups, which serve the needs of India's low income communities.

R.13 An overarching programme to encourage high growth start-ups and to attract early stage venture capital from the government and private (including overseas) sources, may be conceived with legislative backing, if necessary, on the lines of the Small Business Investment Companies (SBIC) legislation (PL 85-699) of USA. SIDBI may be directed to take the initiative in this matter.

Capital Formation in Start-ups

R.14 Returns of investment in unlisted enterprises registered under the Companies Act may be made tax free after one year of investment, as is permitted for listed companies. This would encourage both individual and institutional investors to provide equity contribution to MSME-start-up companies and meet their non-debt capital requirements.

R.15 A Credit Guarantee Fund (CGF) of Rs.1000 crore dedicated for enterprises started by graduate engineers and graduate management trainees, may be set up. The scope can subsequently be expanded to include other first generation entrepreneurs.

Incubators and Open Hub Partnership Systems

R.16 A legal framework for collaboration between governments (central, state, local), academia, research/technical institutions and industry towards pooling of R&D results and their transformation into successful ventures, as well as for industry related research may be set up. The framework would enable enforceable agreements/ MOUs to be signed between the relevant stakeholders delineating the apportionment of responsibilities, privacy issues and future benefits amongst them.

R.17 Ministry of MSME may canvass with concerned ministries and all state governments the need to considerably upscale the programmes for incubating enterprises in partnership with relevant institutions under their control as well as with the private sector.

R.18 Ministry of MSME may collaborate with Department of Science and Technology to develop a policy framework on Technology Business Incubators (TBIs) so that unlike a simple idea incubator, TBIs provide all manufacturing facilities to incubatee start-ups, such as machines, instruments and apparatus to test product and manufacture it on a pilot scale before expanding the scale as and when success comes. The IITs, the NITs, and well equipped engineering colleges are prime candidates for establishment and starting the TBI framework. The CSIR system of the chain of laboratories is another place where TBIs could be established.

Incentivising through Taxation

R.19 Manufacturing entities in the organized segment may be encouraged by offering lower corporate tax rates, as is done in several countries, including Japan.

R.20 Alternatively, exemption and concessions in Direct Tax may be considered in the first three years of operations. The exemption in the following two years may be limited to 50% of the income tax liability. It would be noticed that such a tax exemption may not result in significant revenue loss to the government as first two years or so are the years of the struggle for establishing a business. However, the incentivizing message that such a tax exemption will carry would be an extremely powerful one.

3. DOING AND EXPANDING BUSINESS

Enhancing Credit to MSMEs

R.21 SIDBI should play a more active role in advocating, providing professional inputs and designing specialised instruments that could enhance credit access by MSMEs generally and also helping them in times of distress.

R.22 SIDBI should launch an exercise, which could be supported by government funding, for assessing the 'credit gap' in the MSME sector. Initially this exercise may be undertaken in about 500 good manufacturing clusters, which would result in absolute targets for growth and disbursement being set. In this regard, all scheduled commercial banks (SCBs) may be directed to make fuller use of CGTMSE dispensation and collaborate with SIDBI, and other relevant institutions such as DICs of state governments and Development Institutes of Ministry of MSME (MSME-DIs), to reach out to needy MSME units with 'credit offers'.

Issue of Collateral Security

R.23 RBI may strictly enforce its guidelines to SCBs for not seeking collateral up to Rs.10 lakhs of lending. This should address the high perceived risk of lending to MSMEs and the tendency to seek collateral security, which is acting as a major deterrent to encouraging entrepreneurship.

R.24 The collateral free loaning guidelines of the RBI should be extended to loans up to Rs 1 crore, given the fact that CGTMSE guarantees are available up to that value.

R.25 Given that credit guarantee facilities are available for loans up to Rs 1 crore, and the fact that the same benefits the lenders also - they should absorb the guarantee fee as already recommended by the RBI Working Group on Credit Guarantee Scheme.

R.26 RBI may consider directing the SCBs that for loans above Rs.1 crore and up to Rs.5 crore in the MSME segment, they seek collateral of only machinery and equipment and that too at their 'fair value' estimated by some uniform method approved by the Institute of Chartered and Cost Accountants. This would further reduce the risk of collateralization perceived by small businesses. Further to ensure that cost of credit is not unduly hiked under some non-transparent credit risk assessment mechanism, RBI may direct Indian Bank Association and Credit Rating Agencies to work out a uniform credit rating format for determining the cost of credit.

Interest Rates

R.27 RBI may consider directing SCBs to reduce lending rates to MSE borrowers from about 17-18% to 13%, i.e. not more than 2% above the base lending rate, since credit risk is almost eliminated when the guarantee cover of CGTMSE is taken.

R.28 The banks can also sustain a lower lending rate if they were to provide a window of External Commercial Borrowing (ECB) to MSEs, particular for exporting MSEs. ECB is available at such low global interest rates that even with costs of hedging; the overall cost of funds to SCBs may be lower than domestically mobilized deposits.

SME Platforms in Stock Exchanges

R.29 As suggested by National Manufacturing Competitiveness Council (NMCC), liquidity fund may be set up for market makers in SME platforms so as to provide them with a cushion to reduce their holding risks. This would encourage market makers to scale up trading, which would provide liquidity to primary market investors, who would then turn up in larger numbers to make equity investment into SME companies thereby providing them with much needed non-debt finance.

Delayed Payments

R.30 Ministry of Finance may issue an order directing unpaid bills of MSME suppliers to be treated as accrued income of the defaulting customer enterprise. A bill may be considered unpaid if it remains outstanding with the defaulting customer enterprise even after receiving the direction from Micro and Small Enterprises Facilitation Council (MSEFC) to make payments. Unpaid bills of MSEs have often led to their sickness, which deters the growth of manufacturing activity.

R.31 The recently announced Credit Guarantee Fund for factoring may cover payment risks arising only from 'factoring without recourse' or 'acquisition of receivables' as referred to in the Factoring Act. A provision may be inserted in the MSMED Act mandating Factors to earmark a certain percentage of their 'acquisition of receivables' turnover for the MSEs on the same lines as 'Priority Sector' lending is earmarked by the SCBs against their Net Bank Credit.

R.32 In order to motivate large corporates/PSUs to promptly release payment to MSMEs, the banks may be encouraged to fix an additional working capital limit, of say 10-20% exclusively to be used for discounting of bills/vendor payments to MSMEs. This portion of working capital limit, granted to large corporates/PSUs, could also be treated as priority sector by RBI. The mechanism of utilization would be on the lines of bill discounting scheme. Further, this system can be made totally electronic, whereby the MSME seller after sale and acceptance by a corporate would place its sales invoice/bill electronically to its banker for discounting.

R.33 In this connection, lesson can be drawn from an exchange set up for the purpose in Mexico. An effort in this regard was initiated by SIDBI in association with National Stock Exchange in the past. It will be worthwhile to review the status and revive the efforts of having an exchange based discounting of bills of MSMEs.

R.34 In order to popularize the bill factoring and discounting for MSME, the stamp duty applicable on such bills needs to be exempted.

Fiscal Incentives for Expansion

R.35 Ministry of Finance may consider allowing a rapidly growing unit to retain a portion of tax payable such as excise, income tax, etc. for 3 to 5 years under a 'deferment scheme' if this unit is growing year on year above the national average. This would protect the revenues of government while at the same time stimulate the economy by incentivising fresh investments.

R.36 Ministry of Finance may further consider extending the benefit of investment allowance to small and medium manufacturers, by bringing down the floor level of investment eligibility from Rs.100 crore, as announced in the Budget 2013-14, to Rs.1 crore. This would encourage manufacturing enterprises to bring forward their plans of capacity expansion.

R.37 The policy announcement in the Budget, 2013-14, enabling MSME units to continue availing of the non-tax benefits for additional three years upon graduation from the entitled category may be extended to tax benefits as well. This would enable MSME units continue to avail of excise exemption and not engage a Chartered Accountant (CA) for certification purposes. At present excise exemption is withdrawn when the annual turnover exceeds Rs.1.15 crore and a CA is mandatorily required to be engaged when the annual turnover exceeds Rs.1 crore.

Cluster Development and Innovation Hubs

R.38 The concerned ministries may consider setting up of innovation hubs to use such R&D for manufacturing of high-end technology products. The innovation hubs may comprise the 2000 clusters in the organized sector; CSIR system of laboratories and Indian Institute of Science; and Technical Universities in the proximity of clusters. The innovation hubs may identify products driven by customer needs and technology, to be manufactured in clusters.

R.39 For improving the quality of manufacturing particularly in export clusters (Textiles, Chemicals and Leather products), Ministry of MSME may oversee setting up of Common Facilities Centres (CFC) in these clusters in active collaboration with state governments. To this end, additional budget needs to be provided to Cluster Development Programme implemented by the Ministry of MSME. The CFCs would perform the functions of tooling and technology development and thus complement the ongoing initiative of Ministry of MSME to set up 15 new Tool Rooms in the country whilst up grading 18 existing ones.

R.40 For ease of adopting best manufacturing practices by clusters, Ministry of MSME and the concerned state governments may collaborate with the industry associations to identify lead clusters and lead units where the interventions under the National Manufacturing Competitiveness Programme (NMCP) like Lean Manufacturing, Design Clinic, Technology and Quality Up gradation and promotion of ICT can be fast-tracked.

Schemes for Technological Up gradation- TUFS and CLCSS

R.41 For technological up gradation of MSMEs, Ministry of Finance may consider increasing the budget outlay on Textile Up gradation Fund Scheme (TUFS) and Credit Linked Capital Subsidy Scheme (CLCSS) as these schemes at the current scale of intervention have a limited budget and the quantum of money is not enough to meet the industry demand of modernized equipment.

R.42 Further, the Ministry of MSME may consider revising the Credit Linked Capital Subsidy Scheme (CLCSS) by enhancing the current limit from Rs 1 crore, offering interest subsidy as an alternative (on the lines of TUFS) and also by including the medium-scale enterprises in its ambit.

Product Standards and Testing Facilities

R.43 Ministry of MSME may review the organisation, management and funding pattern, and undertake an assessment, of its four regional and eight sub-regional testing centres with a view to equipping these with world class facilities at par with the European and US standards.

R.44 In order to encourage quality standards of manufactured products, government may direct all enterprises to mandatorily comply with product standards specified by the Bureau of Indian Standards (BIS), in a graduated time-bound manner. The Ministry of MSME may assist MSMEs to obtain BIS certification under the ISO certification scheme currently being implemented as part of NMCP.

R.45 The Department of Consumer Affairs may develop BIS up gradation plan with two components. First a pre-specified date by which all manufacturing units should mandatorily graduate to BIS as per existing levels of standards and second, a pre-specified date by which BIS itself is upgraded to the standards of EU and the US before manufacturing units graduate to that level as well.

Focusing on Low End Technology Products for Import Substitution

R.46 Line ministries/departments may identify major imports of products of their respective domain whose manufacturing involves low to medium end technology so that product specific schemes may thereafter be launched to incentivize their domestic manufacturing. Simultaneously Department of Commerce in collaboration with state governments may identify non-functional SEZs where such industries could be located.

Support for Marketing Activities

R.47 Ministry of MSME may expedite setting up of a National Portal that would enable MSME suppliers offer competitive deals through web interface. This must be done in an imaginative manner to cater to future requirements, where inter-linkages with service providers, both of communications and logistics, are inbuilt in the business model.

R.48 Appropriate collaborations with B2C(Business to Customers) e-commerce platforms to significantly upscale e-commerce in the country and enable the buyer on the virtual market to access both the niche products as well as products of mass consumption in varied quantities, may be encouraged through programme intervention and advocacy by promotional departments.

R.49 For promoting domestically manufactured products to counter imports in the ESDM sector, Department of Electronics and Information Technology may take necessary steps including blocking the entry of technically inferior products into the country. For facilitating import substitution in the automotive sector as also to promote its exports, government may set up a Technology Development Fund that supports R&D by the industry.

R.50 To facilitate international marketing, Department of Commerce/DGFT may provide an analysis on product wise export potential in different destination countries. This would not only benefit the MSME suppliers but also create a visible basis for implementing focus product and focus market schemes of Department of Commerce.

Public Procurement Policy

R.51 State governments may formulate a Public Procurement Policy along similar lines to that being implemented in Government of India for facilitating a demand pull growth of manufacturing in the MSE segment. The notification of the Public Procurement policy by the Government in 2012 for MSEs should be looked at not only as a means for enlarging the market for MSEs, but as a means of building enduring professional relationships between the government enterprises and the small industry.

Role of Associations in Promoting R & D, Credit Flow; Regulatory Compliance

R.52 Ministries/departments may consider engaging industry associations on a continuous basis to serve as an implementing arm of the government. The associations in particular can serve as a single window for hand holding MSMEs; coordinating activities between government and technical institutions towards achieving the common end of increasing R&D; pursuing banks to increase the credit flow into the MSME sector; and overseeing compliance with labour laws on behalf of the factory inspectors.

R.53 State governments may consider up scaling the activities of industry associations as a Special Purpose Vehicle (SPV) in cluster development. Activities would be best up scaled when quantum of spending by government on cluster development is enhanced along with an expanded role of SPVs in designing interventions as per local requirements. Industry associations can also move beyond their SPV centric involvement to a broader canvas where they team up to undertake research activities and provide technical and management solutions to manufacturing related problems cutting across regions and sectors.

4. CLOSURE AND EXIT

Simplifying Procedures and Redesigning Bankruptcy Laws

R.54 Ministry of Finance may provide required funds to Ministry of MSME to conduct a detailed exercise through professionals and in consultation with the concerned ministry or department, on simplifying procedures for closure of a manufacturing enterprise. Such procedures relate to legal compliances under the company law (in case of a company), labour laws (with respect to the employees), direct taxes, excise and service tax, customs and DGFT (central government), VAT (state government), power utility, water utility, municipal body, creditors, financial institutions etc. The exercise would focus on streamlining the procedures, reducing discretion and intermediation, and to making information available in formats that are easily understood.

R.55 Department of Financial Services may look into redesigning of bankruptcy laws to help viable companies in distress, and make closing and re-starting easier. A key objective of the bankruptcy laws should be to help viable companies survive while safeguarding the interests of the creditors. This involves the requirement of being able to distinguish quickly and at low cost those firms that should restructure from those that must close. Section 11 of the Bankruptcy laws of the United States may be referred as amongst other considerations, it provides another opportunity to a failed entrepreneur to learn from his mistakes and start all over again from a clean slate.

Scheme for Aid during Financial Crisis

R.56 SIDBI or NSIC may start a programme on the lines of Mutual Aid System of Japan wherein interest free loan is provided, with a repayment period of 7 years, to prevent a SME from going bankrupt during a financial crisis (which could include customer going bankrupt and a national or global crisis which threatens the business towards closure).

R.57 As advised by RBI, banks may urgently constitute MSE Rehabilitation Cell (MRC) at Zonal / Circle Head Quarters for monitoring of timely rehabilitation of sick MSE units.

R.58 Department of Financial Services may re-examine the SARFAESI Act for deferring the commencement of recovery proceedings against the sick Micro and Small Enterprise borrowers so that these small borrowers get additional time to revive their business. This is necessary in view of the fact that no remedial mechanism exists, either within/outside the Act to help revive potentially viable MSEs.

Changes in MSMED Act for addressing Sick Units

R.59 Ministry of MSME may consider amending the MSMED Act, 2006 to provide a mechanism for the orderly handling of financial distress by introducing a temporary stay, followed by orderly and speedy liquidation, revival or sale options. Simultaneously, for the longer term, a process of statutory reform at the state level may be initiated, to introduce reasonable limitations on personal liability and allowing rehabilitation by modernizing the punitive and value-destructive laws governing personal insolvency dated as far back as 1910/1920.

5. LABOUR LAWS AND ENFORCEMENT

R.60 Ministry of Labour and Employment (MLE) may set up a Tripartite Committee comprising representatives of all stakeholders including the employers' associations, trade unions, central and state governments for examining all aspects of labour laws affecting the working of Micro and Small Enterprises (MSEs) and submit its recommendations to reduce the compliance burden on MSEs. Concomitantly the MLE may examine all suggestions/proposals received by them towards rationalization or simplification of procedures in compliance with labour laws.

R.61 MLE may consider replacing, to the extent possible, the extant practice of labour inspectors inspecting the factory premises on a regular basis with a mechanism that seeks self-certification by business enterprises and imposes heavy fiscal penalty on them for non-compliance detected through random inspections. The MLE may also encourage state governments to undertake a similar initiative with regard to all labour legislations enforced under their jurisdiction.

R.62 Until such time the mechanism of self-certification starts operating, MLE and state governments may direct factory inspectors to engage industry associations with adequately sized secretariat to assess the returns filed by the units and take responsibility towards their veracity.

6. STATISTICAL DATA ON MSMES IN MANUFACTURING

R.63 Central Statistical Organization (CSO) may develop an Index of Industrial Production for MSMEs (IIP-MSME) in order to capture the contribution of small factory establishments in the manufacturing sector. Similarly Annual Survey of Industries (ASI) may also indicate the MSME component (ASI-MSME) to facilitate a detailed industry wise analysis. Both IIP-MSME and ASI-MSME may broaden their frame to include a robust sample of the unorganized/informal segments of the MSME sector to enable a comprehensive coverage of the manufacturing performance.

CHAPTER 1

INTRODUCTION

1.1 The micro, small and medium enterprises have been defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, in terms of their investment in Plant and Machinery, as under:

For the Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed Rs. 25 lakh
Small Enterprises	More than Rs. 25 lakh but does not exceed Rs. 5 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore
For the Service Sector	
Enterprises	**Investment in equipments**
Micro Enterprises	Does not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crore

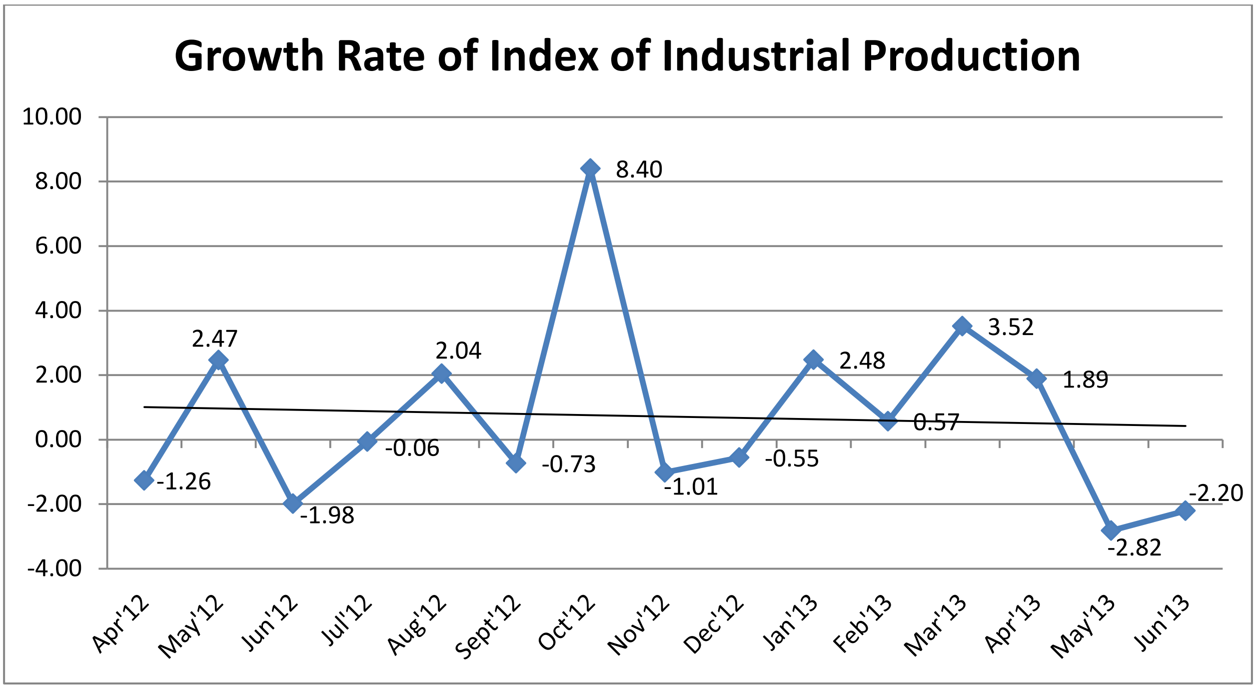
1.2 The Micro, Small and Medium Enterprises (MSMEs) contribute about 7-8 per cent of India's GDP, 45 per cent of the manufacturing output and 40 per cent of the exports. They are recognised as the engine of growth for the economy. After agriculture, MSME sector employs the largest number of persons. MSMEs are widely dispersed throughout the country and produce a diverse range of products catering to various segments of the market. The geographic spread, diverse product range and potential for innovation and employment generation make them extremely important in the context of economic growth with equity and regional balance.

1.3 The recent slowdown in the Indian economy, coming as it does in the wake of a global slowdown, has prompted the government to look at various issues concerning the

MSME sector, both from the point of view of external impact on it as well as from the standpoint of its potential to trigger positive impulses in the short and medium term. The Cabinet Secretary set up two inter-ministerial committees: the first, to recommend how the exports from MSMEs can be enhanced, and the second, to recommend how the production from MSMEs can be enhanced. This report deals with the second subject.

Trends in Manufacturing

1.4 The manufacturing sector in India (including the MSME segment) grew at an annual average growth rate of 9% during the period 2005-06 to 2012-13[1]. In the last two years, the growth rate in the manufacturing sector has fallen steeply. The Economic Survey reports that in 2009-10 and 2010-11, the growth in manufacturing was 11.3% and 9.7% respectively, but it fell sharply to 2.7% in 2011-12 and to 1.9% in 2012-13. CSOs recent trends in manufacturing sector in the country, as reflected in the monthly Index of Industrial production (which includes mining and electricity generation also) are indicative of a continuing slowdown in the industry.



1 Derived from 22 sub-sectors of Index of Index Production, which constitute the manufacturing sector as per the National Industrial Classification (NIC), 2004

1.5 Even during the period of high growth, the share of the manufacturing sector in GDP stagnated at around 16%. This compares unfavourably with other economies of East Asia such as China, Singapore, Thailand and Malaysia whose manufacturing accounts for 30%, 22%, 36% and 25% respectively of GDP.

Impact on Employment

1.6 A major concern arising from the low share of the manufacturing in GDP is regarding employment. Employment in the manufacturing sector, in fact, declined from 55 million in 2004-05 to 50 million in 2009-10. This trend does not augur well for the future, particularly in the context of the Planning Commission estimates where the manufacturing sector would need to provide 70 million additional jobs in the next 15 years in order to cater to the growing work force.

Sub-Sector Variations

1.7 The 22 sub-sectors which constitute the manufacturing sector have been growing at different rates. Annexure-I shows how the contribution of these sub-sectors changed in the last eight years. Among the 14 sub-sectors whose shares fell, those that stand out are Chemicals and Chemical Products (including Pharmaceuticals) and Textiles. The sub-sectors whose shares significantly increased include Radio, TV and Communication Equipment & Apparatus, Electrical Machinery & Apparatus, and Food Products & Beverages. These sub-sectors, of course, represent the broad classification of industry groups, and it would be necessary also to look at the reasons that could be responsible for significant growth or decline in the share of these sub-sectors.

MSMEs in Manufacturing

1.8 The data in Annexure 1 subsumes the contribution of the MSME sector, and a detailed breakup of the MSME contribution in each of the subsectors is not available. Further, the IIP is limited to organized factory output, whereas a significant part of the MSME space (nearly 95 per cent), both in the manufacturing and service sectors, is in the unorganised and informal segments, contributing not only to manufacturing value chains, but also catering to various local market segments. It is important to note that the data released by the Central Statistical Organization through the Index of Industrial Production

(IIP) does not fully reflect the status of MSMEs, while they contribute 40 per cent[2] of the overall manufacturing output in the country. These deficiencies in the CSO data and framework need to be corrected in the future, to provide a sound and fair basis for policy making.

1.9 The estimated manufacturing output for the years 2008-09, 2009-10 and 2010-11, at constant prices was Rs. 33.73 lakh crore, Rs 37.55 lakh crore and Rs 43.02 lakh crores respectively. Out of the above the contribution of MSME manufacturing sector is estimated at Rs. 13.76 lakh crore, Rs.14.88 lakh crore and Rs.16.56 lakh crore respectively. This indicates a declining trend in share of MSME manufacturing in total manufacturing output of the country. This share has declined over the period from 40.79 % in the year 2008-09 to 38.48% in the year 2010-11. Likewise, the share of MSME manufacturing in GDP has also declined from 7.73 percent in 2006-07 to 7.42 percent in 2010-11.

Growth of Registered and Unregistered Segments

1.10 As per the All India Census of MSMEs for the years 2001-02 and 2006-07, the growth (Annual Compound Growth) in unregistered segment is much higher compared to the registered segment. The number of registered enterprises grew at the rate of 2.61 per cent while the unregistered enterprises grew at 30.50 per cent. The growth rate of the number of registered manufacturing was 3.76 per cent as compared to the growth rate of 25.90 per cent for the unregistered enterprises.

1.11 The recent data on MSME registration with the District Industries Centres (DICs) provides a somewhat different perspective. As is known, the registration by MSMEs is not mandatory under the MSME Development Act, 2006, but a number of enterprises continue to register for various purposes, including for availing Central and State incentives. For those start-ups which commence production, the Entrepreneur’s Memorandum-II is filed with the DICs. The data collected from the States show a growth of 10% annually in the registrations from 2006-07 to 2012-13 (with a peak of 19% in 2011-12). This would seem to suggest that the registration of start-ups in the MSME segment was robust even during periods of

[2] Fourth Census on MSMEs

economic downturn. It is important to note, however, that these numbers reflect the new registrations while the growth in the number of registered and unregistered enterprises captured by the All India Census of MSMEs represents the net increase in the number.

1.12 In other words, the two sets of data, read together, could be suggestive of high attrition rates of the manufacturing enterprises. As the period above was characterised by an overall decline in MSMEs' share in GDP and manufacturing, it is reasonable to conclude that the growth in MSME numbers may actually be happening predominantly in low productivity, unorganised segments with relatively lesser contribution to the country's growth parameters.

Focus on Growth

1.13 From a policy perspective, the segmented nature of the MSME sector, with one end of the spectrum occupied by high end enterprises and the other end comprising the low end enterprises in a large informal domain, requires a critical look. The informal sector is, no doubt, an important part of the economy. Its contribution in development has been significant, as informal self-employment is quite often the only opportunity for the poor and unskilled members of the workforce to earn a living. Given, however, the fact that such enterprises face severe challenges to growth and their contribution towards fiscal revenue is also negligible, it seems necessary to focus on an eco-system that encourages the so-called "necessity entrepreneurs" to upgrade their business (thereby reducing the informal sector), encourages high growth MSMEs and also focuses on the entire value and production chains in manufacturing where the MSMEs play an even important role.

Focus on Value Addition

1.14 In a 2007 survey of 33 countries carried out by Georgia Institute of Technology, the value addition by India was abysmally low at USD 183 billion as compared to USD 1789 billion in the US, USD 1150 billion in China and USD 926 billion in Japan. Perhaps the reason for the low value addition in India was provided by another parameter. In 2007, the technology standing of India, as measured by the country's recent success in exporting high technology products, was placed at 23%, as compared to 83% of China, 76% of the US and 66% of Japan. These gaps in performance of India vis-a-vis other countries appear to have continued up to present times, and transcend the definitional boundaries of small and large enterprises. Be that as it may, they compel us to think in terms of higher value additions and competitiveness, accompanied or aided by higher levels of technology, for the entire manufacturing segment, including that in the MSMEs, in the years ahead. Evidently, the existing enterprises (big and small) and the registration of new manufacturing enterprises have not, over the years, helped in significantly enhancing value additions by the manufacturing sector.

Challenges and Opportunities of Globalisation

1.15 While globalization presented a number of challenges for the manufacturing MSMEs, it also opened up ample opportunities to shore up the growth of the manufacturing sector. However, as the XII Plan document observes, India has not been able to fully leverage the opportunities provided by the dynamics of globalisation that resulted in a dramatic shift of manufacturing to developing countries over the last decade. A testimony to this fact is the increasing gap in the share of manufacturing in GDP and its competitiveness as compared to other countries, particularly China. The plan document further states that if the existing under-performance of India’s manufacturing sector were to continue, the country would be unable to take advantage of the growing shift of manufacturing capacities from the developed nations to the rapidly developing economies (RDEs). It is estimated that by the year 2025, RDE production will account for over 55 per cent of global production compared to 36 per cent presently.

1.16 Although the present fragile economic recovery in US and European countries and subdued business sentiments restrict the growth of the manufacturing sector, the country needs to be prepared for the times when an upswing in world demand would require an impetus to domestic manufacturing. Meanwhile, the huge domestic market, encompassing the rising aspirations not only of the urban middle class, but also of the rural economy, need to be addressed through innovative domestic products and business models.

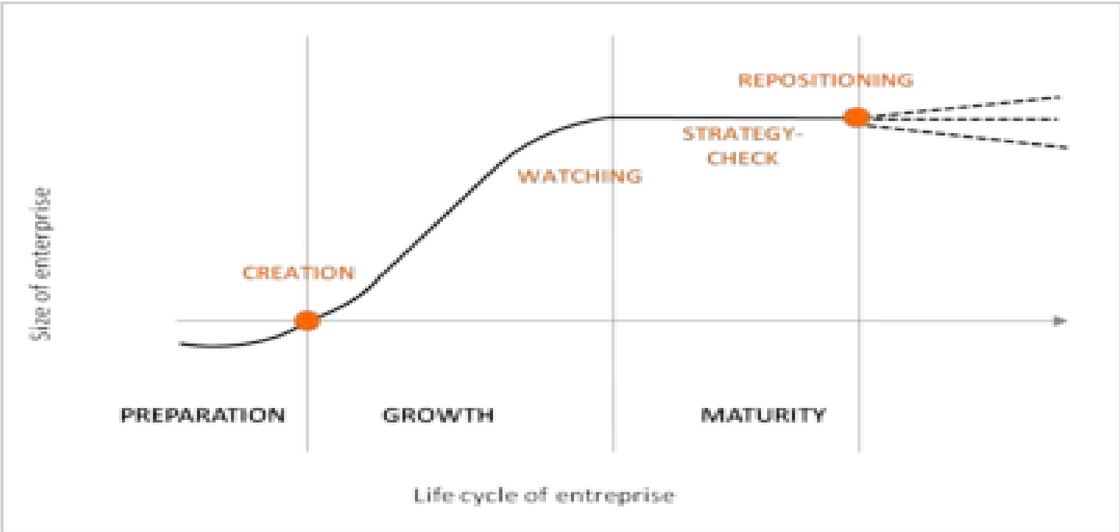
Previous Reports on MSMEs

1.17 A number of Committees have, in the past looked into the specific issues of the MSMEs, particularly in the context of globalization which completely transformed the ecosystem for the MSMEs. Most of the issues addressed by these Committees continue to be relevant even today. The Prime Minister's Task Force on MSMEs (2009), set up under the Chairmanship of the then Principal Secretary to the Prime Minister, revisited the core issues concerning access to finance, infrastructure, taxation, labour laws, start-ups, closures etc in the context of the slowdown in the global economy, and made a number of valuable recommendations, many of which have either been implemented or are under implementation. Unlike the PM's Task Force, the recommendations of the Mitra Committee (June 2012), that was appointed by the Planning Commission to go into the issues connected with angel investment and early stage venture capital for creating a vibrant entrepreneurial ecosystem in India, have not so far received the priority which they merited. We have drawn upon those recommendations of the Committees that have not been implemented, but still continue to be relevant for enhancing manufacturing output and productivity of the MSMEs in the contemporary context.

Systemic Approach to Supporting MSME Lifecycles

1.18 Given the diverse nature of the MSMEs and the challenges associated with its largely unorganised nature, it is tempting to once again approach the problem from the well-established common denominators like access to credit, markets, technology and infrastructure. These are no doubt important for all MSMEs. But in the context of the mandate of this committee, i.e. how to increase the manufacturing contribution of the MSMEs in the economy, it is important to look at these and other issues from an enterprise level perspective because even the nuances of these denominators tend to vary considerably through the different stages of an enterprise's development. As MSMEs are typically owner-driven enterprises, it is important to recognise that the ecosystem, including the legal framework, processes and management thereof, do not distract the entrepreneur from the core task of running an enterprise, particularly if it is a manufacturing unit.

1.19 For manufacturing output to grow, a supportive ecosystem is necessary for each of the stages of the life cycle of enterprises. *The first stage*, "Setting up of Business" would encompass the ecosystem for the promotion and creation of enterprises. This will determine whether the manufacturing output would receive an impetus from start-ups which, as world-wide evidence shows, determines most of the growth in manufacturing. *The* *second stage*, "Doing Business", or operations determines the extent to which existing enterprises are able to implement their manufacturing plans, which sustain the growth of output. *The third stage*, "Expansion" by existing enterprises is responsible for increasing their capacity and pushing up the growth of output. *And the fourth stage*, "Exit" of the existing enterprises or rather ease of it determines how quickly and effectively their assets could be redeployed for boosting output.



1.20 In this report, we have tried to discuss the issues at each of the stages indicated above, before moving on to specific sector issues.

CHAPTER 2

ENCOURAGING START-UPS

2.1 Evidence from across the world suggests that successful start-ups can contribute significantly in accelerating growth of manufacturing output as well as catalysing a shift towards better technologies and productivity. It is, therefore, important to work towards increasing the growth of Start-ups. The responsibility for creating an enabling environment conducive for start-ups rests primarily with the government. It would cover broad areas of the legal and regulatory framework, and ease of compliance thereof, infrastructure availability, mentoring and guidance, and finance.

2.2 The World Bank's 2013 report on 'Ease of Doing Business' finds India particularly wanting, in easing regulations for start-ups, particularly with respect to construction permits, payment of taxes and enforcing contracts. As per the report, business regulations are relatively supportive in respect of getting credit and protecting investors. It is important to note, however, that the World Bank Report deals with the entire business sector (and not with MSMEs alone). As stated previously, more than 95 per cent of the MSMEs in India (including those connected with manufacturing) are unregistered and operate in the unorganised segment. Therefore a large number do not have access to finance or credit from institutional sources.

2.3 Over the last few years, the contribution from the MSME segment to the GDP has been steadily declining. In the aggregate, however, they still contribute significantly to the manufacturing output as well as to the exports. It is important to reflect on these issues to identify the underlying causes and evolve strategies to promote and sustain entrepreneurship and even enhance the manufacturing output of the MSMEs in the future. Perhaps India may need to undertake considerable second generation reforms to break into the bracket of top 50 countries in ease of doing business by simplifying of business regulations and their application, and thereby reducing entry costs and regulatory compliance burden.

Role of the State and Local Governments and the Central Government

2.4 Many of the issues connected with the regulatory framework (including compliance thereof), and of infrastructure, pertain to the State and Municipal Levels. In particular, urban regulations and property rights issues appear to pose major challenges for start-ups, affecting their ability to register and to access finances from institutional sources. Access to utilities (power, water), environment clearances, labour laws and commercial taxes (VAT etc) also fall in the domain of the state and local authorities. With the inter-connectedness of the markets, there are additional burdens on the manufacturing entities with respect to inter-state trade, arising from tax rate distortions, compliance issues and other barriers to trade. Moreover, there are compliances associated with central agencies for direct taxes, excise and service tax.

2.5 While there is no doubt that the ecosystem for start-ups must have rules and regulations, and the least regulated environment may not be the most efficient one, it needs to be recognised that the consequences of excessive administrative requirements weigh more heavily on the capacity and resources of the MSMEs than for the large enterprises. It is therefore important to distinguish between regulations that are essential for the functioning of all businesses (big and small); those that are essential, but can be simplified or otherwise managed in a more efficient way for the MSMEs; and those that produce more costs than benefits and should be abolished. In other words, there is a need to look at the regulations from an MSME perspective, not necessarily to abolish the same but to reduce the compliance burden.

Land

2.6 For starting a manufacturing activity, an enterprise requires premises at an affordable cost. Industry Associations have time and again been representing that the start-up of new enterprises is being constrained by the non-availability of land and/or premises. In the past, the government had supported the establishment of mid-sized industrial estates all over the country. The recent updating of the District Industrial Profiles by the Office of the Development Commissioner (MSME) indicates that over 30,000 plots **in established industrial estates** across the country are lying vacant. Some of these are locked up in legal tangles with banks, State industrial corporations, state government departments and utilities. So, we have a strange situation that, on the one hand we have a scarcity of land for manufacturing MSMEs, and on the other, there are a large number of locked up industrial plots, whose full potential is not being realized. It is possible that some of these industrial areas may have been developed with inadequate due diligence with regard to their viability. However, that premise does not warrant a generalisation as many are located in quite suitable areas. In such places, the concerned institutions may not have accorded priority to laying down transparent systems of allotment with strategy and focus on encouraging manufacturing activity. It is recommended that the State Governments urgently streamline and simplify internal processes and allot the vacant plots to start-ups which come with good business plans.

Mid-sized Industrial Estates

2.7 Industrial Estates for MSMEs do not require land acquisition on the same scale as that for an NIMZ or SEZ. Given the nature of start-ups, which typically depend heavily on family and mentor support in the initial stages, they are more likely to look out for business spaces close to where the supporting facilities and markets are located. It is recommended that the state governments are incentivised to identify mid-sized land parcels close to urban areas, which may be developed with public funding. Also, the development of small parcels is likely to be much less time-consuming compared to bigger projects like NIMZ. The relevant central ministries should accord priority to such development, if necessary by making suitable changes in their ongoing programmes and by higher levels of funding.

Rented Premises

2.8 With the steep rise in land prices and other attendant costs, it is very difficult for first generation entrepreneurs to invest a major portion of the start-up money in land and other infrastructure. However, by de-risking collateralization and creating a new clause of investment capital, it is possible to encourage first generation entrepreneurs to start up in rental premises and test their entrepreneurial skills. For this purpose, the Committee supports the earlier recommendation of the PM's Task Force to create a programme for construction of premises that can be given on rent to manufacturing start-up enterprises. Such a programme may be funded liberally by the central government and implemented in partnership with state government agencies and/or industry associations.

Harmonising Urban Plans with Economic Activity

2.9 It needs to be recognised that much of the manufacturing in the unorganised sector comes from the non-conforming zones[3] of urban areas. It is anybody's guess what may be the costs in terms of rent-seeking, safety and conditions of work in such areas because of the huge hiatus between the written law and its application. The state and local authorities will have to find mechanisms for according priority to economic development activities (including manufacturing) in urban areas while planning the growth of cities, and tier1, tier2 and tier3 towns. The state governments and local bodies need to be incentivised to accord priority to designate areas for manufacturing in the urban centres or emerging urban areas. Such initiatives may be advocated and led by the Ministries of Urban Development, Urban Poverty Alleviation and MSME, and backed by sufficient resources from the central government. The above approach may be mainstreamed in both planning and regulation, through an overarching legislation for micro enterprises in urban areas, on the pattern of the recently enacted law for street vendors, keeping in view the livelihood aspect of the micro-enterprises.

Regulation and Processes for Registration for State Taxes, Property, and Access to Utilities

2.10 As mentioned above, there are multiple statutes under which the start-up MSME must comply upfront by obtaining registrations. These relate to state taxes (like VAT), property rights on land and premises and access to utilities such as power and water. The processes associated with all such registrations remain time consuming. Although most governments have made the fee for such registrations quite nominal, the complexity and lack of transparency of the processes, is known to lead to rent-seeking, thereby presenting a major impediment for doing business. With the expansion in IT usage, process re-engineering in the delivery of such services is much easier than it was earlier. The Committee recommends that the state governments simplify and make transparent the procedures with registrations and also bring them under the ambit of their Public Service Delivery Act.

[3] Dharavi in Mumbai, plastic toy manufacturing in Delhi, clusters in Moradabad, Firozabad etc, to name only a few.

DICs as Facilitating Institutions

2.11 The MSMED Act, 2006 had attempted to ease "Setting up of Business" by MSMEs. The Act has simplified business registration by requiring MSMEs to file an Entrepreneur's Memorandum (EM) in two stages. EM I is filed to indicate the intent of setting up a business, while EM II follows when the intent translates into manufacturing activity. The EM forms are simple, and the process of filing them simpler still. The offices of District Industries Centre (DIC) of respective state governments, are supposed to give time bound approval to EM filings. The filing of EM *online* is being practiced in Gujarat, Andhra Pradesh and Tamil Nadu. The ease of filing EM-I and II online is also reflecting in the larger numbers of units getting registered.

2.12 It may be noted that since the promulgation of the MSMED Act, filing of EM-I & II is optional. However, EMs are almost invariably demanded for purposes such as grant of central and state incentives, bank loans, power and water connections, etc., all of which separately entail elaborate procedures with the respective departments. Moreover, registration and compliance requirements are also mandated for a host of other regulatory purposes such as those with the state and central taxation authorities, labour department, municipal bodies, environmental (pollution control) bodies etc.[4] A mere simplification of EM filing procedures by itself has not simplified the start-up eco regulatory system, as it requires similar back office and procedural reform initiatives by multiple departments. A mention has been made above about how the basic issue of land use or non-conformance with urban regulation or of property rights may exclude prospective start-ups from access to the essentials of manufacturing.

2.13 The complexity of many aspects of business regulatory processes makes it important to put in place effective mechanisms to help entrepreneurs through administrative procedures for starting their business. This is particularly important for the start-ups, because new entrepreneurs are not familiar with processes and typically have to go through the complex administrative procedures for registering their businesses, obtaining licenses

[4] All India figures of VAT registration are nearly 10 times of that of EM filing.

and clearances, exactly at the time when they are struggling to start their new business, particularly so when it happens to be a manufacturing business.

2.14 In the past, efforts had been made to provide single window clearances for start-ups using the District Industries Centres as the focal point. The DICs were provided with good infrastructure and a diverse cadre of officers familiar with industry requirements. The experience in most places was not good, however, as the DICs in the pre-liberalization days remained preoccupied with a lot of work connected with licensing and allocation of quotas, and also because other stakeholder departments were unwilling to alter their procedures to facilitate single window clearances. That situation has now changed, because the DICs are not burdened with regulatory functions and also because advancements and affordability of IT applications in the government can enable much better modalities for information flow to the MSMEs. It is recommended that the DIC manpower should be re-oriented and re-trained towards entrepreneurship development, advocacy, mentoring and handholding for start-up MSMEs (with emphasis on manufacturing). Given that most districts in the country had a good infrastructure in the DICs (which is now in a state of neglect and decay), it is recommended that the central government provide funding for its renovation and up-gradation, subject to the reform agenda for the DICs, as stated above, being implemented by the states.

Financing Start-Ups

2.15 It has been estimated by the Mitra Committee that promoting growth oriented entrepreneurship will require infusion of capital both in the form of equity and debt through angel investors, incubators, venture capital funds and banks and financial institutions to the tune of Rs 3 lakh crore (or around $55 billion) over the next decade. The Committee has flagged the current shortcomings and suggested a number of measures to address these in the short and medium term. Its recommendations deserve an urgent consideration by the concerned departments.

Angel Investors and Early Stage Venture Capital

2.16 As highlighted by the Mitra Committee, angel investors drive significant early-stage investments in countries with high entrepreneurial activity. Apart from capital, angel investors also provide mentoring and network access to entrepreneurs. They play a critical role in scaling up businesses to make them attractive for institutional investors such as venture capital funds. Constrained by regulations that make both investing and exits cumbersome, Indian angels are reported to have invested only about Rs 100 crore representing a mere 7% of the total early-stage investing in 2011, as against 75% in the US. Similarly, annual venture capital investing also remains at around Rs 1,200 crore in India, as compared to Rs 29,000 crore in the US and 3,000 crore in China. Furthermore, 90% of early stage venture funds in India come from offshore sources rather than from domestic investors.

2.17 Government programmes for funding start-ups in manufacturing, which have potential for growth, may be provided with higher levels of funding and subsidy. To begin with, the Prime Minister’s Employment Generation Programme (PMEGP) may be up-scaled to include a special window for such projects. The programme could be re-christened as the Prime Minister’s Entrepreneurship and Employment Generation Programme (PMEEGP).

2.18 The Mitra committee has recommended policy and fiscal incentives to raise the level of such finding to about Rs 14,000 crore in the next ten years. It is suggested that a committee under the Chief Economic Adviser may be set up to make specific recommendations on removal of policy and fiscal impediments for enhancing the flow of angel and early venture capital funding for start-ups.

SIDBI’s India Opportunities Venture Fund

2.19 What can be of immediate relief to start-ups is their coverage under the India Opportunities Venture Fund (IOVF). The Union Budget of 2012-13 had announced the setting up of India Opportunities Venture Fund (IOVF) at SIDBI with a corpus of Rs.5000 crore. IOVF is mandated to provide direct assistance to start-ups as well as indirect assistance by way of Fund of Funds operations wherein assistance is provided to Venture Capital Funds across the country for catering to the equity requirement of innovative start-ups. As in March, 2013, IOVF has committed an assistance of Rs.404.82 crore comprising Rs.230.82 crore of direct assistance to 120 units and Rs.174 crore as indirect assistance through the Fund of Funds route. SIDBI should adopt a more proactive position to lead initiatives for attracting institutional and private funds for the new enterprises. SIDBI should rapidly increase the coverage of MSME beneficiaries under IOVF as its tenure is of just 3 years ending 2014-15.

India Inclusive Innovation Fund

2.20 Also in the pipeline is the India Inclusive Innovation Fund (IIIF), first announced in 2011 under the aegis of National Innovation Council. The IIIF is presently in the conceptualization stage and is expected to have a corpus of Rs.5500 crore. The IIIF has been conceived with the idea of providing risk capital to such ventures whose innovative enterprise would serve the needs of India's low income communities. In doing so, the Fund would also give an impetus to growth of manufacturing output. It is important to quickly commence the operations of the Fund in order to drive the growth of innovative start-ups.

Framework for Public Funding of Early Stage Venture Capital

2.21 While government commitments towards the above-mentioned funds are useful, it seems necessary to lay down transparent and efficient framework to support the flow of early stage venture capital for start-ups. In the United States, the Congress has notified the Small Business Investment Companies (SBIC) Law in the 1950s under which the Small Business Authority supports investment companies to leverage funds from the market for start-ups. The SBIC have over the years not only successfully financed innovation start-ups but have been generally responsible for encouraging entrepreneurship and innovation. At the same time, the SBIC framework provides for oversight of the Congress, thereby enhancing transparency for the public funding in this area. A similar approach is suggested in India, for which SIDBI should be mandated to come up with a proposal.

Capital Formation in Start-ups

2.22 The fourth census of MSMEs conducted by Ministry of MSME shows that 94% of the MSMEs in both the organized and unorganized sector are micro enterprises or typically start-ups, with investment in plant and machinery of less than Rs.25 lakhs. Unfortunately, the entire eco-system of starting a new unit in India is not equity driven but driven by debt instruments. Typically for a new start-up, the funds, in terms of equity of the start-up is obtained from the entrepreneur's family, friends and relatives. For a little larger project, the entrepreneur turns to banks. Credit is expensive in the Indian scenario and requires, in spite of RBI guidelines, collateralization. Among the middle class, which is the large segment of population, the perceived risk of collateralization is so high that it acts as a major deterrent to scaling up of business.

2.23 The inflow of equity from family, friends and relatives has no formal recognition in the financing of investments of start-ups. It is strange that the return on equity investments in the listed companies become tax free after one year. However, if the same equity is invested in an unlisted small unit making profits, the return is charged at the highest levels of income tax slab. MSME Associations feel that this system discourages and prevents investments in start-ups of young entrepreneurs which are perceived to be successful. Should proper recognition be given to such investment and taxed at par with the investment in listed companies, it would unlock a fresh class of capital formation which remains largely untapped today. In order to prevent the misuse of such an arrangement it can be restricted to only such enterprises that are registered under the Companies Act. The registration under Companies Act invites a host of compliances and any possible tax evasion can easily be detected. The creation of this clause on investment capital would go a long way in helping start-ups which makes returns on investment in unlisted companies, tax free.

2.24 In addition to facilitating the capital formation for start-ups, it is also necessary to de-risk collateralization. Already there is Credit Guarantee Fund (CGF) Scheme existing for MSME. It has a present leverage of about 16 ‘x’, where x is the corpus of the Fund. With a corpus of Rs.3000 crore, the guarantee cover provided by the Fund has crossed Rs.50000 crore in 2013[5]. Using the same CGF model and same leveraging and same experience, with very little money of say a one thousand crore corpus, it would be possible to provide a dedicated CGF for enterprises started by graduate engineers or graduate management students, to begin with. The scope can subsequently be expanded to include other first generation entrepreneurs. The economic benefit of starting such a Credit Guarantee Fund would be enormous. It would be able to leverage, with Rs.1000 crore, a total collateral free security in terms of bank credit of Rs.16000 crore on a broad estimate. This would be

[5] Total live guarantees outstanding as on 31st March, 2013 is Rs.42,300 crore which is just 6.1% of the bank credit outstanding to Micro and Small enterprises on the same date.

sufficient for creation of 2 lakh enterprises (on an average of Rs.8.00 lakh credit line for each enterprise) and creation of more than 10 lakh jobs (on an average of each enterprise accounting for 5 employees).

ESTABLISHING A SUPPORT SYSTEM FOR GROWTH ORIENTED START-UPS

Open Hub Systems

2.25 For the innovative, knowledge based and growth oriented enterprises, the areas of coordination would need to go beyond the traditional understandings of a single-window system. Multiple platforms may be required to bring about convergence of information, and transformation of R&D results into successful ventures. These would give greater depth and meaning to the future collaborations between the government (central, state and local), academia, research/technical institutions and the industry. Open hub systems of collaboration can be encouraged if we put in place a legal framework under which MoUs can be signed between the relevant stakeholders delineating the apportionment of responsibilities, privacy issues and future benefits amongst them.

Incubators

2.26 The entire sequence of developing an innovative business idea into a product, and its commercialization, through the setting up of an enterprise, can be done more efficiently in incubators. Currently, there are 120 incubators in India, largely funded under the programmes of the Ministry of Science and Technology and the Department of Biotechnology. These are largely affiliated to educational institutions. Their number needs to be raised considerably. In addition to physical infrastructure, incubators must provide enhanced services like mentoring and access to financial institutions, business networks and investors. The Committee recommends that the local, state and central government considerably upscale the programmes of incubating enterprises in partnership with relevant institutions under their control as well as with the private sector.

2.27 Funding of business incubators and ideas remains a challenge. Venture and Angel Funds continue to be the major source of funding but are limited to few business pockets in the country. The Ministry of MSME operates a scheme, “Support for Entrepreneurial and

Managerial Development of SMEs through Incubators" but the scheme is yet to take off having so far contributed to incubating about 350 ideas, which have resulted in 75 start-ups. Following the 2013-14 budget announcement of making funding of incubators a component of Corporate Social Responsibility (CSR) budget, there is reason to be optimistic about a significant growth of funding for business incubation in the near future.

Technology Business Incubators

2.28 It is worth flagging, however, that India has concentrated only on incubation of ideas. Technology Business Incubators (TBIs) as evidenced in Israel and US are yet to be established on a significant scale. The difference between a technology incubator and a simple idea incubator is that a TBI gives to a technical entrepreneur access to the required machines, instruments and apparatus to test products, manufacture products on a pilot scale and then expand as and when success comes. Indeed Israel has established scores of TBIs giving access to rather expensive facilities for such start- ups. These TBIs also serve as equity partners in the investment made by the technical entrepreneur. India has no policy programme for technical incubation. The IITs, the erstwhile Regional Engineering Colleges and now called NITs, and well equipped engineering colleges are prime candidates for establishment and starting the TBI framework. The CSIR system of the chain of laboratories is another place which is ripe for such thing. What is needed is a policy and implementation framework on Technology Business Incubators (TBIs).

Incentivising through Taxation

2.29 It is generally agreed that business tax policy and tax systems could provide good signals about competitive advantages in lowering an enterprise's overall effective tax rate, as well as remove resource and cost burdens often associated with compliance. It is felt that to encourage start-ups a policy package could be considered by the government whereby a start-up is exempt from payment of income tax in its first three years of operations. The exemption in the following two years may be limited to 50% of the income tax liability. It would be noticed that such a tax exemption may not result in significant revenue loss to the Government; in any case, first two years or so are the years of the struggle for establishing a business. However, the message that such a tax exemption will carry is an extremely powerful one. Several countries like Japan also have no corporate tax rate for SMEs.

Expanding Prime Minister Employment Generation Programme (PMEGP)

2.30 Government is currently incentivizing credit flow to new start-ups through employment generation schemes like the PMEGP. Such schemes do not specifically focus on high growth enterprises. While increasing the allocation of such schemes would facilitate setting up of larger number of start-ups, it also seems desirable to earmark a certain percentage of the allocations specifically for high growth enterprises. In the event the PMEGP could also be rechristened Prime Minister Employment and Entrepreneurship Generation Programme (PMEEGP).

CHAPTER 3

DOING AND EXPANDING BUSINESS

IMPACT OF GLOBALISATION AND CHANGES IN MARKET ENVIRONMENT

3.1 Globalization of the economies across the world has changed the notions of manufacturing, productivity and competitiveness. Flexible production processes and structures are being increasingly put in place to compete in very dynamic markets where product life is very short and discerning customers with higher purchasing power and more differentiated and international tastes are demanding much more product variety, higher quality and greater value for money. The new production systems are increasingly moving to the **network form of enterprises**, each contributing to the production and distribution according to their respective core competencies. Therefore, competitiveness now requires the ability to constantly take the most advantageous position or niche in the rapidly changing market environment.

3.2 The changed scenario is totally different from the one in which the Indian MSMEs operated until the early 1990s, where certain products were reserved for manufacturing by SSIs and market competition was mostly inter-se. While the challenges of change are obvious, it is now possible for even small firms to acquire a strong competitive position by creating and offering products and services of superior value to the customers concerning price, quality, distinctiveness, and so on. However, this competitive advantage requires better management and performance of the value chain of the enterprise. The changing structure of the production-distribution system shifts the focus of productivity improvement from looking exclusively at the organisation's internal processes to examining the extended value chain, supply chain and networks of the organisation. The Government programmes have also to be re-oriented accordingly.

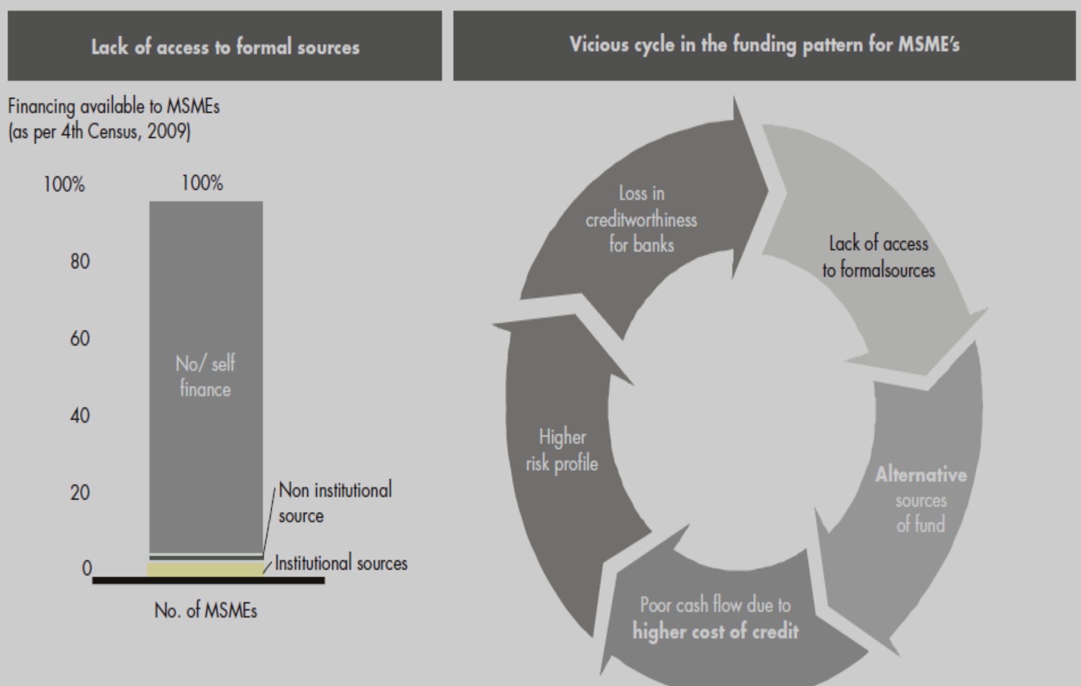
3.3 Notwithstanding the above, pressures of competition have also brought unforeseen burdens on the MSMEs. They increasingly have to bear risks of just-in-time delivery such as holding higher and diverse inventories, thereby increasing working capital requirements and incurring additional costs.

CREDIT AVAILABILITY

3.4 In our interaction with the MSME associations, they have again mentioned that the issues connected with credit availability - adequacy, timely availability, cost and mortgages - remain a continuing concern. This is not surprising because, with little promoter's capital, a small unit is entirely dependent on credit to set up its enterprise.

3.5 The Mitra Committee report has summarised the vicious cycle of credit issues in the following diagram, where the cycle starts from lack of access to formal sources of finance- which leads to tapping alternate sources of funds that are costly- higher cost of credit results into poor net cash inflow- which increases the risk profile of the small unit-and reduces her credit worthiness-which in turn further aggravates lack of access to formal sources of finance.

Figure 18: MSMEs struggle to access formal sources of debt



Source: Fourth All India Census of MSME sector Report; Key stakeholder interviews

Enhancing Credit to MSMEs

3.6 Recognizing the crucial role of bank finance for the MSMEs, the PM's Task Force on MSMEs recommended specific and monitorable targets for credit disbursement by Scheduled Commercial Banks in the Micro and Small Enterprises sector. The details are in Box-1 below.

3.7 In a recent review of the performance of Scheduled Commercial Banks (SCBs), it was seen that in 2012-13, the growth of credit from SCBs in aggregate to the MSEs was 29.5%, the share of micro units in MSE credit had reached 53.3% (March, 2013), while the growth in micro sector accounts for all SCBs put together was 13.9%. At an aggregate level, the targets set for the banks were met. However, there were significant variations in the performance of the individual banks, with some of the major public sector banks showing a disappointing performance.

Box-1

Prime Minister's Task Force on MSMEs (2009)

In 2009, The Prime Minister's Task Force on MSMEs under the Chairmanship of Principal Secretary to the Prime Minister was set up to consider various issues raised by Associations of MSME, hold discussions with all stakeholders and draw up an agenda for action. The Committee submitted its report in 2010. One of the most important recommendations made by the Committee, which is presently under implementation, relates to setting credit targets for the micro and small sector (MSE) including both manufacturing and services. The RBI guidelines to this effect oblige all Scheduled Commercial Banks to meet the following targets:

At least 20% year-on-year growth of credit to the MSE segment;
At least 60% of the MSE credit disbursed to the micro component; and
At least 10% year-on-year growth of micro enterprises' accounts

These targets are monitored at the level of Departmental Related Parliamentary Standing Committee (DRPSC) and Standing Committee of RBI. Banks individually depose before the DRPSC and the Standing Committee to explain shortfalls in achieving the targets.

3.8 Moreover, RBI records show that Net Bank Credit to about 1 crore accounts in the MSE sector[6] in March, 2012 stood at approximately Rs.5 lakh crore or 5.5% of 2011-12 GDP. If one account is equated to one unit and given that there are 3.6 crore MSE units as per the fourth census conducted by Ministry of MSME, it appears that 2.6 crore units are still deprived of bank credit. Now if credit requirement of the deprived 2.6 crore units is

[6] Includes manufacturing as well as services enterprises

assumed to be same as the 1 crore covered units, which is about Rs.5 lakhs per unit, then a broad estimate indicates that current demand of credit by MSE sector is Rs.10 lakh crore or about 9% of 2011-12 GDP as against bank deposits of about 62 lakh crore in June, 2012. With less than 40% fulfilment of credit demand and a mere 12% offloading of deposits into the MSE sector, credit inflow into the MSE sector needs to dramatically increase in order to make a significant impact on manufacturing output.

3.9 It appears that stipulation of year-on-year target growth rate of credit into the MSE sector by the Prime Minister's Task Force on MSME is not adequate to meet the credit demand of the MSE sector even in the medium term of 3-5 years. It is also seen that banks have not made much use of the Credit Guarantee Scheme for MSEs wherein bank exposure is covered up to a maximum of Rs.100 lakhs per loan account. As on 31st March, 2013, Banks have taken guarantee cover of only about Rs.52,000 crore against their net bank credit of Rs. 5 lakh crore. With claims by Banks for invoking guarantee cover not exceeding Rs.200-300 crore per annum, the Credit Guarantee Fund, with a corpus of Rs.3000 crore, has adequate capacity to extend larger amounts of guarantee for the MSE loans. In a related issue the Committee considered the request of Ministry of Textiles of including cooperative banks among lending institutions covered by CGTMSE since most of the loans to the handloom sector are provided by cooperative banks. The Committee however feels that the matter should be best left to the judgment of the CGTMSE board, which is presently considering such a request, as to whether cooperative banks are ready to apply a level of due diligence similar to what professionally managed SCBs apply. The Ministry was also advised to set up an exclusive fund for providing support to institutions lending to the handloom sector.

3.10 It is important to assess the credit gap and fix absolute targets for releasing credit to the MSE sector in the medium term. The scheduled commercial banks, facilitated by SIDBI, should not consider credit off-take as 'demand driven' but instead collaborate with District Industries Centres (DICs) of state governments and Development Institutes (DIs) of Ministry of MSME to reach out to MSME units with 'credit offers' whilst making fuller use of the Credit Guarantee Scheme, particularly in clusters. The doubling of the refinancing capability of SIDBI from Rs.5000 crore to Rs.10000 crore as announced in 2013-14 budget should enthuse banks to liberally provide credit to the MSE sector. However at the same time SIDBI should play a more active role in advocating, providing professional inputs and designing specialised instruments that could enhance credit access by MSMEs generally and also helping them in times of distress.

3.11 SIDBI should launch an exercise, which could be supported by government funding, for assessing the 'credit gap' in the MSME sector. Initially this exercise may be undertaken in about 500 good manufacturing clusters, which would result in absolute targets for growth and disbursement being set. In this regard, all scheduled commercial banks (SCBs) may be directed to make fuller use of CGTMSE dispensation and collaborate with SIDBI, and other relevant institutions such as DICs of State Governments and Development Institutes of Ministry of MSME, to reach out to needy MSME units with 'credit offers'.

Issue of Collateral Security

3.12 In practice, credit for MSMEs in India is expensive and, although RBI guidelines clearly stipulate that no collaterals are to be taken for loans up to Rs.10 lakhs, these are being demanded at the branch level. As mentioned earlier, for the middle class, which is a large and significant segment for innovation, the perceived risk of collateralization is so high that it acts as a major deterrent for entrepreneurship. RBI may strictly enforce its guidelines to SCBs for not seeking collateral up to Rs.10 lakhs of lending. This should address the high perceived risk of lending to MSMEs and the tendency to seek collateral security, which is acting as a major deterrent to encouraging entrepreneurship. The collateral free loaning guidelines of the RBI should be extended to loans up to Rs 1 crore, given the fact that CGTMSE guarantees are available up to that value. Further as the credit guarantee facilities are available for loans upto Rs 1 crore, and the fact that the same benefits the lenders also - they should absorb the guarantee fee as already recommended by the RBI Working Group on Credit Guarantee Scheme.

3.13 There is a case for extending the credit guarantee facility for loans of higher amounts. At present, the facility is generally extended for term loans or composite (term plus working capital) loans. For an ongoing business, however, the working capital requirements may get altered on account of a variety of factors. It has been seen that many

MSME accounts turn NPA because of uncertainties of the global market and the increasing pressures on the tier 2 and tier 3 suppliers to carry inventories for longer term. In such situations, the commercial banks could afford greater flexibility to the enterprises if the credit guarantee facility is used more robustly to cover the working capital credit facilities.

Choice and Valuation of Collateral and Cost of Credit

3.14 Industry Associations reported to the Committee that banks generally show preference for land and building assets as collateral instead of plant and equipment. This in turn forces MSMEs to invest in land and building when instead their businesses are more viable when these assets are taken on rent. Moreover, even when plant and equipment are accepted as collateral, banks conservatively estimate their realisable value and accordingly sanction loans smaller than the actual need of the borrower. Further small loans become costlier when, despite the rating obtained from credit rating agencies, banks independently apply stricter formats and principles to assess credit riskiness of the MSME borrower.

3.15 It is disappointing that the issue of collateral should arise again and again despite the RBI having given clear directions to banks to not accept collateral for loans below Rs.10 lakhs. Even though the credit guarantee scheme is available for loans up to Rs.100 lakhs, it is noted that the average loan size for guaranteed loans is only about Rs 5 lakhs. This seems to confirm the complaints of the Industry about the scheme actually remaining out of reach and coverage of MSEs with higher investments or turnovers. In fact there is a strong case for permitting medium scale enterprises also under the CGTMSE scheme (at present restricted to micro and small enterprises).

3.16 For higher loan amounts, say up to Rs 5 crore, separate mechanisms of independent credit rating can be evolved by amending the existing scheme. RBI may consider directing the SCBs that for loans above Rs.1 crore in the MSME segment, they seek collateral of only machinery and equipment and that too at their 'fair value' estimated by some uniform method approved by the Institute of Chartered and Cost Accountants. This would further reduce the risk of collateralization perceived by small businesses. Further to ensure that cost of credit is not unduly hiked under some non-transparent credit risk assessment mechanism, RBI may direct Indian Bank Association and Credit Rating Agencies to work out a uniform credit rating format for determining the cost of credit.

Interest Rates

3.17 As of now, interest rates on MSE lending, including for start-ups, are the highest amongst priority sector lending. The high interest rates (as high as 17-18%) are sought to be justified on the basis of a perceived notion of higher risks associated with MSE lending. However, the high interest rates tend to make the entire production cycle of MSMEs less viable and non-competitive in the global context.

3.18 There are two reasons why banks should lower the interest rates on MSE lending. First, with CGTMSE guarantee cover available, risk of lending to MSEs is practically eliminated. There is no reason, therefore, to charge a significant premium on the base lending rate. Accordingly, the lending rate to MSEs should not normally exceed 12-13% or say more than 2% above the base lending rate. It is another matter that banks, in general, are not willing to take recourse to CGTMSE, a tendency that needs to be reversed. Second, if banks can reduce interest rate by offering attractive EMI packages on housing and educational loans, which are also part of priority sector lending, interest rate on MSE lending can also be lowered.

3.19 Banks can further lower the interest rate on MSE lending if they were to provide a window of External Commercial Borrowing to MSEs including start-ups. Even with the present trend of rapidly depreciating exchange rate, the cost of hedging added to the low global interest rates might still not be higher than the base lending rate. Unfortunately, this option has not been explored by the Indian banking channels till now. The RBI and Department of Financial Services may explore the ECB window for lending to MSEs, particularly export oriented MSMEs.

SME Platforms in Stock Exchanges

3.20 For providing general purpose equity to MSMEs, separate platforms for SMEs were set up in 2012 in the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) following recommendations of the Prime Minister’s Task Force on MSMEs. So far 30 SMEs are listed on BSE-SME with active trading involving only 4 scrips whilst only 3 SMEs are listed on the NSE. To increase the number of listed SMEs, SME exchanges have recently waved off the requirement of a SME applicant floating an Initial Public Offer (IPO) as a pre-condition for getting listed. This implies that the primary equity investors in SMEs can now be limited to high net worth individuals, corporates, qualified Institutional investors like Venture Capital Funds, Private Equity Funds, Provident Funds etc., and Bankers.

3.21 However even the IPO relaxation may not attract these high end investors as they do not see an easy exit owing to absence of liquidity on the SME platform. In such situations, liquidity is increased through market makers. Market makers are generally merchant bankers who offer both a buy and a sell quote. Their buy quote provides liquidity to the market while the sell quote, if accepted, lessens their risk of holding the security. In order to cover for their holding risks, the NMCC has recently suggested setting up of a Liquidity Fund for Merchant Bankers. This suggestion merits consideration keeping in view the objectives of increasing trading in the SME Exchange and the bringing down the cost of the capital to about 8% to 10%.

Delayed Payment Issues

3.22 In the value chain, the marketing node is closest to the customer, which enables the MSME supplier establish a long-term relationship with the customer, who typically is a large enterprise. When a relationship gets established, it is characterized by reciprocity. Sometimes the MSME supplier accommodates the customer by providing credit and at other times the customer is willing to give an advance payment to the MSME supplier. Such reciprocal relationships guarantee assured work orders to MSME suppliers and help them build capacities to manufacture additional output. Unfortunately reciprocity has remained elusive in the national market space. Several large enterprises do not make timely payments to MSMEs. Consequently MSMEs default on commitments to their own creditors be it delayed payments to their upstream suppliers or/and debt servicing obligations to banks. As a result, future supply of materials and advances/credits to MSMEs dry up, which in number of cases have led to their sickness.

3.23 The problem of payments is exacerbated in the global context. Owing to inadequate exposure to trade documentation, MSME suppliers either incur a huge transaction cost when exporting directly or accept a significant cut in margins when exporting through merchant exporters. Moreover insufficient knowledge and/or prohibitive cost of instruments for receiving international payments such as letter of credit, discounting of bills etc prevents MSME exporters obtain sufficient protection for their payments, which can lead to delayed or even no payments by international customers. MSME exporters also find unaffordable the premium charged by Export Credit Guarantee Corporation (ECGC) for providing insurance coverage to their receivables, which cuts into margins. MSMEs further complain of inadequate period of pre and post shipment packing credit (for financing of exports) provided by banks and high penalties charged by them on delayed recoveries, which also cuts into margins. Lack of knowledge of hedging currency risks has also entailed huge losses on the rupee value of receivables.

Facilitation Councils

3.24 The MSMED Act contains provisions for addressing delays in payment to Micro and Small Enterprise (MSE) suppliers from their buyers (who are normally Medium or Large Enterprises). The provisions stipulate that after 45 days of making the supplies, the buyer shall be liable to pay compound interest with monthly interest at three times the bank rate notified by RBI. The buyer is also obliged to include the penal interest payable in its annual accounts, which would not be permissible for deduction in the assessment of income/corporate tax. In the event the buyer does not comply with the provisions of delayed payments, the MSE supplier can refer the matter to Micro and Small Enterprises Facilitation Council (MSEFC), which would issue necessary directions to the buyer, within 90 days of receiving the reference. To help MSME with their payments, RBI has also directed scheduled commercial banks to earmark a certain component of the working capital loan extended to large enterprises reflecting the amount payable to MSMEs. Notwithstanding these measures, the Committee while interacting with Industry Associations felt that much more needs to be done for effectively addressing the delayed payment problems of MSME suppliers in the National Market space. One measure could be to treat delayed payment as income of the offending enterprise so that it ends up paying a larger amount of tax.

Factoring

3.25 The Factoring Act, 2011 is another step in the direction of addressing payment delays of MSMEs in the national market space. Unfortunately the Act falls short of mandating 'factoring without recourse' for MSMEs. The Act refers to 'factoring without recourse' as 'acquisition of receivables', which a factor may offer to an enterprise as one of the two service options. The other option, 'factoring with recourse', which is referred to as 'financing of receivables' is a more attractive option for the Factor as under this option, it is not required to take over the payment risks of MSMEs. To the extent a factor offers 'financing of receivables', it does not benefit the MSMEs. This is unfortunate, particularly in the light of the recent budget announcement of setting up a Credit Guarantee Fund for factoring.

3.26 For any factor to benefit from the Credit Guarantee Fund for factoring, it would be appropriate if the Fund covers for payment risks arising only from 'factoring without recourse' or 'acquisition of receivables' as referred to in the Act. And if this indeed can be a stipulation then factors can also be mandated to 'acquire the receivables' of the MSMEs on the same lines as Scheduled Commercials Banks are mandated to extend a certain proportion of their Net Bank Credit to 'Priority Sector' including MSMEs. Such a provision can be inserted in the MSMED Act, 2006.

3.27 In so far as risks of international payments are concerned, the Industry Associations, particularly the Export Promotion Councils, need to take up sensitization of MSME exporters on different ways of minimizing payment risks. Where costs of delays need to be reduced through provision of lower premium on insurance cover, interest subvention and extended borrowing period on packing credit etc, the Inter-Ministerial Committee on increasing Exports of MSMEs would be giving the necessary recommendations.

Motivation for Releasing Payments by Corporates/PSUs

3.28 In order to motivate large corporates/PSUs to promptly release payment to MSMEs, the banks may be encouraged to fix an additional working capital limit, of say 10-20% exclusively to be used for discounting of bills/vendor payments to MSMEs. This portion of working capital limit, granted to large corporates/PSUs, could also be treated as priority sector by RBI. The mechanism of utilization would be on the lines of bill discounting scheme. Further, this system can be made totally electronic, whereby the MSME seller after sale and acceptance by a corporate would place its sales invoice/bill electronically to its banker for discounting.

3.29 In this connection, lesson can be drawn from an exchange set up for the purpose in Mexico. An effort in this regard was initiated by SIDBI in association with National Stock Exchange in the past. It will be worthwhile to review the status and revive the efforts of having an exchange based discounting of bills of MSMEs.

3.30 In order to popularize the bill factoring and discounting for MSME, the stamp duty applicable on such bills needs to be exempted.

Fiscal Incentives for Expansion

3.31 The Committee also considered interesting policy options which would encourage growth and stimulate investments. One policy option considered allowing a rapidly growing unit to retain a portion of tax payable such as excise, income tax, etc. for 3 to 5 years under a 'deferment scheme' if this unit is growing year on year above the national average. This would protect the revenues of Government while at the same time stimulate the economy by incentivising fresh investments.

3.32 Continuing with tax benefits, Government may also consider extending the benefit of investment allowance to MSMEs to encourage them to expand. MSMEs have unfortunately been denied the benefit of investment allowance, which in the recent budget has been announced for investment of Rs.100 crore or more in plant and machinery. This limits the benefit to large enterprises alone. However if investment allowance is made available to MSMEs, it would encourage them to bring forward their plans of investing in plant and machinery. It is recommended that the benefit of investment allowance to Start-ups be extended to MSMEs by bringing down the floor level of investment eligibility to Rs.1 crore.

3.33 The existing policy framework, however, does not put a premium on success. A unit upon expansion immediately stands to lose the tax benefits associated with "a small industry" tag. For example, with expansion the unit would no longer be eligible for excise exemption, which has a threshold limit of Rs 1.15 crore of turnover. Moreover, once a unit attains Rs 1 crore of turnover, it has to necessarily maintain a Chartered Accountant for certification purposes under the Income Tax Act. In addition to loosing tax benefits, the unit also loses non-tax benefits upon expansion to a higher category enterprise. In this context, the policy pronouncement in the Budget Speech of 2013-14, enabling the units to continue availing of the non-tax benefits for additional three years upon expansion is a welcome step. However, similar benefits should be extended for tax benefits as well.

Simplifying Procedures

3.34 Business expansion would be further stimulated in a simplified tax regime. In this regard, MSMEs are eagerly awaiting the introduction of GST as it does away with the plethora of tax returns. The down side risk of not moving in this direction for incentivising growth and attaining the scale economies is dangerous. On ground, it has been observed that a complex tax regime has led to creation of multiple legal entities, under the same ownership structures or family owned business, created specifically for the purposes of seeking tax exemptions and regulatory compliances. Thus, instances have been seen of several legal entities being floated, by the same owners, producing the same product but at slightly different geographical locations to seek tax exemptions or simply to overcome distortions arising from differential taxes in inter-state trade. Effectively this has ensured non- attainment of scale economies, where a single entity should be encouraged to expand by capital deepening.

3.35 In the "Doing Business" stage, MSMEs need to contend with filing of annual returns with several agencies they are registered with such as the tax and labour authorities. Not only is the filing process cumbersome, involving lengthy and complex forms with limited availability of electronic mode of submissions, the agencies with whom the returns have to be filed are located in both the central and state government offices, which have little or no coordination between them. At times even the offices within the government at one level do not coordinate their activities. This results in filing of same information to multiple agencies leading to an excessive compliance burden on the MSMEs. And if the unit is dependent on imports for supply of raw material and/or is manufacturing for exports, then its regulatory burden further shoots up with the obligation of meeting with massive trade documentation formalities. Such an entangled mass of business regulations has justified calls for simplification and single window clearances. Even if single window clearance is considered as not feasible, IT advancements have made it possible to at least provide single gateways for clearances by multiple authorities.

3.36 The situation is however not all that bleak. As per a working paper of the World Bank being developed in collaboration with Ministry of Finance, Government of India, some states have made noticeable efforts towards simplification of business regulations. The single window system in Orissa and Andhra Pradesh are more forward looking than others. Madhya Pradesh has reduced its investment application form from 52 to 5 pages, while reducing the time limit for land allotment in industrial estates from 210 to 30 days; Rajasthan has exempted approval for non-hazardous factories employing up to 50 workers and introduced online payment of Factories & Boiler (F&B) fees; Gujarat and Karnataka have established joint inspections by the Factories, Labour and Pollution departments. Bihar, Andhra Pradesh, Tamil Nadu, and Maharashtra have simplified tax administration processes, including the introduction of e-filing and e-returns. Karnataka, Andhra Pradesh and Tamil Nadu have simplified labour registers across Acts to maintain a common/single labour register to store all records.

3.37 These may be the beginnings of second generation reforms, which need to be scaled up in as little time as possible. Reforms would also include legislative changes such as those under the Contract Act, Factories Act, Contract Labour Act, EPF/ESIC Acts, Land Acquisition Act, SARFAESI Act, Industrial Disputes Act and Insolvency Act to name a few. The Committee however notes that such legislative changes, even if the process starts now, would take some time to materialize.

TECHNOLOGY AND STANDARDS

Changed Production Systems

3.38 As stated earlier, globalization of the economies across the world has changed the notions of manufacturing, productivity and competitiveness. The new production systems are increasingly moving to the network form of enterprises, each contributing to the production and distribution according to their respective core competencies. Therefore, competitiveness now requires the ability to constantly take the most advantageous position or niche in the rapidly changing market environment.

3.39 In the scenario of dynamic changes in competitive postures, the MSMEs in various market chains need to expand their capacity to meet growing customer orders. The extent to which capacity needs to expand depends on the choice of products manufactured by MSMEs. Low technology intensive highly standardized products have large markets across the world. Even if a reasonable presence in such markets is secured, it would support mass manufacturing, which through scale economies would reduce cost and make these products competitive. This implies that if MSMEs were to manufacture low technology highly standardized products, they can join hands to take up mass manufacturing involving massive capacity expansion to meet increased product orders. Low wages in India could support mass manufacturing only if they form clusters.

High Value Additions

3.40 On the other hand if MSMEs were to manufacture high technology intensive customized products, they would cater to niche markets. Here more than capacity expansion, R&D triggered technology infusion would be required to meet a modest growth of demand. Volume of production will be low but manufactured products would be characterized by high value addition, which would sustain a high growth of manufacturing sector, possibly as much as resulting from mass manufacturing if not higher.

3.41 Given the diverse nature of the MSMEs and a predominance of low technology enterprises in India, the propositions given above are not meant to advocate one approach by excluding the other. The underlying idea is to flag the need for supporting an ecosystem that encourages both high technology enterprises and low end technology enterprises, which nevertheless have the capabilities to capture significant volumes on the global value chains.

3.42 China, and more recently Vietnam have had significant success in mass manufacturing. Although they have a head-start over India, as a low-wage cost country, India need not count itself out of mass production in every sphere. It is true that the existing model of mass manufacturing requires massive investment in capacities but the same can be achieved also through clusterisation of MSMEs, both existing and new. The cluster programs therefore require higher allocations and commitments from the government.

Innovation Hubs

3.43 In Germany, after the 2008-09 global depression, manufacturing exports have grown in double digits in spite of the country being one of the highest wage cost countries, with strict norms of effluents, pollution, and labour welfare. Manufacturing performed well because Government of Germany strengthened innovation hubs comprising the *MITTELSTANDT* (the small and medium businesses, family owned businesses as in case of India), the applied research institutions and the universities, for manufacturing innovative products driven by technology and customers' needs. The Committee is of the view that the Indian MSME manufacturing sector should up-grade to high-end technology in order to significantly increase value addition and create a niche in the global market for itself.

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3.44 For graduating to high-end technology products, the Committee feels that the German model of innovation hubs can be replicated in India as well. In India the equivalent of *MITTESTANDT* could be the 2000 odd clusters in the organized sector. The applied research institutions could be Council of Scientific and Industrial Research (CSIR), system of laboratories and Indian Institute of Science (IIS). Technical Universities in the proximity of clusters could form the third pillar of the innovation hub. Such innovation hubs would bring enormous amount of knowledge and technology existing in R&D and Technical Institutions of India to roost thereby imparting a value added edge to the manufacturing of MSMEs. It is recommended that such collaborations should be encouraged through policy directives and creation of overarching platforms, preferably with statutory backing (eg under the MSMED Act).

Cluster Development

3.45 Clusters need to be ready for becoming an active component of the innovation hubs. Cluster readiness is accomplished when units in a cluster adopt best manufacturing practices. To this end, the Cluster Development Programme (CDP) implemented by Ministry of MSME has been making cluster specific interventions. So far interventions in varying degrees have been made in 475 clusters. Box-2 below describes different types of interventions being made under the CDP.

3.46 The interventions are made by specialist institutions, which are generally State Government Bodies under the control of Directorate of Industries. For the purpose of setting up the Common Facility Centres (CFCs), specialist institutions coordinate their activities through a Special Purpose Vehicle (SPV) set up by the Industry Association representing the concerned cluster. Ministry of MSME releases funding directly to the specialist institutions. So far CFCs have been or are in the process of being set up in about 80 clusters. The CDP funding needs to be considerably enhanced to up scale the programme to cover a larger number of clusters. Special focus may be given to those clusters whose products constitute a sizeable proportion of India's manufacturing exports such as Textiles, Chemicals, Leather products etc. Ministry of MSME may oversee setting up of Common Facilities Centres in export clusters in active collaboration with State Governments. These CFCs may perform the functions of tooling and technology development and thus complement the ongoing initiative of Ministry of MSME to set up 15 new Tool Rooms in the country whilst up grading 18 existing ones.

3.47 The NMCP programme of the Development Commissioner MSME needs greater focus and application in the clusters. This can result in rapid adoption of best manufacturing practices like Lean Manufacturing, Design Clinic, Technology and Quality Up gradation and promotion of ICT. Box-3 below broadly enumerates the NMCP whose 10 components are being implemented as plan schemes by the Ministry of MSME.

Box-2

Interventions under the Cluster Development Programme

Assistance with making of Diagnostic Study Reports, which map the business processes in the cluster and propose remedial measures.

Assistance through Soft Interventions which involve technical assistance and assistance with capacity building, exposure visits and market building for cluster units

Assistance with formulating Detailed Project Report, which involve preparation of a technical feasible and financially viable project report for setting up of a common facility centre for cluster units and/or infrastructure development project for new industrial estate/ area or for up gradation of infrastructure in existing industrial estate/ area/ cluster.

Assistance with setting up of Hard Intervention/Common Facility Centers (CFCs), which create tangible “assets” like Testing Facility, Design Centre, Production Centre, Effluent Treatment Plant, Training Centre, R&D Centre, Raw Material Bank/Sales Depot, Product Display Centre, Information Centre and any other need based facility.

Assistance with Infrastructure Development, which include Development of land, provision of water supply, drainage, power distribution, non- conventional sources of energy for common captive use, construction of roads, common facilities such as First Aid Centre, Canteen and other need based infrastructural facilities.

Schemes for Technological Upgradation- TUFS and CLCSS

3.48 An essential component of adopting best manufacturing practices is the deployment of modern machineries in the manufacturing process. Some MSMEs have already deployed either State-of-the-Art machineries or versions that are a significant upgrade on traditional machines. Such technological up gradation need to be widespread for not only clusters, which would be enabled to become active partners of innovation hubs but stand alone MSE units as well, which can increase productivity of their manufacturing process. The Textile Up gradation Fund Scheme (TUFS) provides subsidy support for such up gradation in the textile industry. The Credit Linked Capital Subsidy Scheme (CLCSS) of Ministry of MSME provides similar support in respect of several industry verticals. However, these schemes at the current scale of intervention have a limited budget and the quantum of money is not enough to meet the industry demand of modernized equipment. The Committee feels that budgetary support to such programme needs to be sufficiently scaled up (to include Medium Enterprises for CLCSS and enhancing the current limit of the eligibility from Rs 1 crore to Rs 5 crore). The Committee further feels that the possibility of amending CLCSS and including an option for interest subsidy on the lines of TUFS can be explored. In other words, an amended scheme can offer prospective beneficiary, the option of either availing capital subsidy or interest subsidy for technology up gradation.

Box-3

Constitution of National Manufacturing Competitiveness Council (2004)

Government of India constituted the National Manufacturing Competitiveness Council (NMCC) in September 2004 to provide a continuing forum for policy dialogue and to energize and sustain the growth of manufacturing industries. The NMCC brought out "The National Strategy for Manufacturing" in March, 2006, which targeted a minimum manufacturing growth of 12 per cent per annum. The strategy, embodied in the National Manufacturing Competitiveness Programme (NMCP) has 10 components targeted at enhancing the competitiveness of the entire value chain involving the MSMEs. The 10 component schemes are

Application of Lean Manufacturing
Design Clinic Scheme
Technology and Quality Upgradation Support (TEQUP)
Promotion of ICT in MSME sector
Marketing Assistance and Technology Upgradation Scheme for MSMEs
National Campaign for awareness in Intellectual Property Rights
Entrepreneurial & Management development of SMEs through Incubators
Enabling Implementation of Quality Management Standards and Quality Technology Tools (QMS/QTT) for SMEs
Setting up Mini-Tool Rooms on PPP Mode
Marketing Support / Assistance to SMEs (Bar Coding)

The 10 component schemes are at various stages of implementation by Ministry of MSME. The strategy also recommended some sub-sectors for immediate focus such as Textiles and Garments, Leather and Leather Products, Auto Components, Drugs & Pharmaceuticals, Food Processing and IT Hardware. The Committee feels that the lessons learnt from the implementation of the NMCP schemes by the Ministry of MSME during the last three years need to be considered while considerably up scaling these schemes in the XII Plan period.

Capital Subsidy for Second-hand Machines

3.49 Ministries/Departments implementing capital subsidy schemes for technology up gradation provide subsidy only against the purchase of new machinery and not second hand machinery. Technology Up-gradation Fund scheme implemented by Department of Textiles has however permitted linking eligibility of subsidy with procurement of second hand machines as well. This however is not the case with CLCSS. Some Associations have argued that on the grounds of viability, it makes more business sense to procure a second-hand machine instead of new one. Under certain situations the cost and life of second-hand machine are so favourable as compared to that of a new one that a unit would like to opt for the older machine. The Ministry of Textiles endorses this view, and feels that subsidy may be granted to new as well as old machines that have not significantly aged. This will also ensure policy congruence with Export Promotion Capital Goods (EPCG) scheme implemented by Department of Commerce. EPCG scheme allows zero duty procurement of machines both through import and domestic channels against an export obligation equivalent to the duty saved. The scheme allows for procurement of second-hand machine provided it is left with at least 80% of its normal life for productive deployment. This view is however not supported by Department of Industrial Policy and Promotion since the Inter-Ministerial Committee making a categorical recommendation for extending capital subsidy for second hand capital goods would give a signal that the Government does not really intend to 'walk the talk' of manufacturing to be technologically driven. Also both MSME and domestic capital goods industries are important according to the National Manufacturing Policy.

Testing Facilities

3.50 Best manufacturing practices must deliver world class products, which need to be certified by world class testing facilities. The country unfortunately lacks good, world class testing facilities for physical testing, chemical testing, destructive testing, non-destructive testing or specialized testing facilities such as for the ESDM sector. The country however has seeds of such testing facilities under the office of DCMSME at four regional testing centres and eight sub-regional testing stations. The Committee recommends that an assessment needs to be taken for up gradation of these facilities to world class standards at par with the European and US standards, by provisioning for equipment, personnel and collaborations with other testing centres around the world. The certifications from these testing sectors should be such as to be acceptable anywhere in the world. Industry Clusters and Associations also need to be encouraged to set up high class testing facilities.

Product Standards

3.51 In India the Bureau of Indian Standards (BIS) sets minimum product standards, which as per the 2012 Import Policy has been mandated for various product groups imported into the country. These include Food; Cement; Electrical products; Batteries; Thermometers; Steel products; Gas cylinders; Medical Equipment; Tyres; and Plastic bottles amongst others. However compliance with same standards is optional for Indian manufacturers of these products. The Committee is of the opinion that if quality products are to be manufactured in India, these should mandatorily comply with product standards specified by the BIS. This cannot be achieved overnight, but a time-bound programme must be mandated for the same. The Ministry of MSME may assist MSMEs to obtain BIS certification under the ISO certification scheme currently being implemented as part of NMCP.

3.52 Bringing up MSMEs to the BIS level would however be just a beginning. What is further required is to raise the benchmark of the BIS itself, for standard setting as well as its processes, to that of the US and the EU, which are the major export destinations of the country. By meeting with enhanced standards, Indian exporters would be able to penetrate these export markets deeper thereby driving up domestic manufacturing. The Committee would like the Department of Consumer Affairs to develop BIS up gradation plan, which may include two components. First a pre-specified date by which all manufacturing units should mandatorily graduate to BIS as per existing levels of standards and second, a pre-specified date by which BIS itself is upgraded to the standards of EU and the US before manufacturing units graduate to that level as well.

3.53 As per the 2012 Import Policy, Government of India has notified mandatory adherence to Bureau of Indian Standards (BIS) for various product groups imported into the country. These include Food; Cement; Electrical products; Batteries; Thermometers; Steel products; Gas cylinders; Medical Equipment; Tyres; Plastic bottles to name a few. It is clear that product selection for mandatory adherence to BIS stems from safety concerns including hygiene, nutrition and environment. What however is not clear is whether this is enough to prevent import of sub-standard products into the country, which may not be nutritionally or environmentally hazardous but are technically inferior and cheaper to those manufactured in the country. Ban on imports of sub-standard products through comprehensive imposition of BIS would drive up domestic manufacturing of technically superior products.

3.54 The Committee discussed whether BIS should be imposed on all imports into the country as they exist for all products manufactured in India. It transpired that while BIS could be imposed on all imports, it would have to be imposed on Indian manufacturers as well following the National Treatment principle of the WTO. It therefore follows that BIS could be mandatorily imposed on all imports only after all enterprises in the country are made to mandatorily comply with BIS. This would happen if as suggested, Department of Consumer Affairs implements the up gradation plan to BIS.

Focusing on Low End Technology Products for Import Substitution

3.55 Until technological up gradation starts giving results in the medium term, in the short term products which involve low to medium end technology are best candidates for driving growth of the manufacturing sector, at least in the National market space. A case in point is the manufacturing of lighting products. With continuing growth of Indian urban establishments of metros, cities and towns leading to growth of housing, industrial and construction activities, festivities, etc., the lighting sector has emerged with a huge market potential. Technology too has evolved from erstwhile era of incandescent lamps to fluorescent tubes to CFLs to LEDs and the demand is increasing exponentially. Presently such demand is significantly met from imports. However as the technology involved in the manufacturing of lighting products is not complex, this is the ideal sector for MSME industries to compete with lighting imports and increase the manufacturing growth in the Country.

3.56 Other similar products involving technical ease of manufacturing and where import demand is significant include tiles, furniture and bathroom fittings. These industries can be developed in land blocks of non-functional SEZs or available unused land blocks. Other related upstream and downstream industries also need to be set up in the vicinity. Relevant line Ministries/Departments should identify major imports of products of their respective domain whose manufacturing involves low to medium end technology so that product specific schemes may thereafter be launched to incentivize their domestic manufacturing. Simultaneously Department of Commerce in collaboration with State Governments may identify non-functional SEZs where such industries could be located.

MARKETING IN NATIONAL AND GLOBAL SPACE

Improved Marketing of MSMEs in National and Global Market Space

3.57 From inception, MSMEs have to face up to the challenge of marketing their products. Historically, Indian MSMEs in the manufacturing sector have been catering more to domestic market unlike in China where exports have been a major driver of manufacturing. For some MSMEs, this may have entailed the advantage of being shielded from the global cyclical pulls. However, such an approach denies the possibilities of global market opportunities. The marketing strategy of MSME products needs to take an integrated view of both the local and global markets. Ideally a Start-up should be born global.

Use of IT

3.58 For small producers, the barriers of information, resources and infrastructure - of geographies, regulations, market penetration, prices and logistics - all combine to make, a vast majority of micro and small industries limit their market to local geographies. This is also true for clusters, which produce and sell in regions they historically find themselves in. It is possible to overcome these handicaps by the use of technology that has opened new vistas for information and also for integration in the value chains.

3.59 This is undoubtedly helpful for MSMEs not merely to survive but also to expand. Expansion would take place when MSMEs are able to reach out to distant markets, inform potential customers about their products and receive critical feedback for product improvisation. Such marketing endeavours involve costs for MSMEs. Public funding to support such endeavours would be justified to provide a level playing field and address the asymmetries of the market (particularly with regard to information). The Ministry of MSME is contemplating a scheme under the 'Promotion of ICT' component of the NMCP programme to enable MSMEs make use of e-marketing portals and also to possibly developing a National web portal that enables MSME suppliers offer competitive deals through web interface. This must be done in an imaginative manner to cater to future requirements, where inter-linkages with service providers, both of communications and logistics, are inbuilt in the business model. Such measures would significantly upscale e-commerce in the country and enable the buyer on the virtual market to access both the niche products as well as products of mass consumption in such large quantities, which hitherto has not been seen in the country.

3.60 Further appropriate collaborations with (Business to Customers) B2C e-commerce platforms to significantly upscale e-commerce in the country and enable the buyer on the virtual market to access both the niche products as well as products of mass consumption in varied quantities, may be encouraged through programme intervention and advocacy by promotional departments.

3.61 Web based interface is however predicated on how web savvy the MSME suppliers are. Given that 94% of MSME suppliers are micro enterprises, it appears that benefits of e-commerce portal may not be immediately availed off by a majority of them. Such small suppliers would find selling their products to intermediaries more convenient by sacrificing small amount of their margins. The Committee feels that intermediaries will have a critical role to play in building necessary connect between MSME suppliers and distant customers while margins sacrificed on intermediation would progressively reduce with the growth of intermediaries. Intermediation is known to grow as an offshoot of buyers-sellers meets as it leads to increased awareness across geographies. As a medium term measure there is a need to organize massive sector specific buyers-sellers meet across the country.

Import Substitution

3.62 Like export promotion, Government can also promote import substitution to tap into the large domestic market that shows preference for products of foreign suppliers. The Committee notes that during 2009-12, imports of electrical products amounted to US$ 42 billion. Similarly, large imports of motor vehicle parts of about US$9 billion also took place during the same period. However as domestic manufacturing of these products has also been growing at a high rate, it follows that enterprises engaged in the manufacturing of electrical products and motor vehicle parts are well established and thus best placed to undertake massive import substitution for the country.

3.63 As per a study commissioned by India Semiconductor Association and conducted by Ernest & Young, Electronic Systems Design and Manufacturing (ESDM) sector is slated to become the single largest imported item by 2020. This sector is a fit case for bringing in import substitution. The Department of Electronics and Information Technology may further incentivize domestic growth of ESDM sector while countering imports with standards that block the entry of technically inferior products into the country. For substituting imports with domestic manufacturing in the Automotive Sector, the Committee recommends setting up of Technology Development Fund that supports R&D by the industry. All Ministries/Departments may also identify major imports of products of their respective domain whose manufacturing involves low to medium end technology so that product specific schemes may thereafter be launched to incentivize their domestic manufacturing.

Export Promotion

3.64 In the global market space intermediation is easier to achieve as Merchant Exporters exist in plenty to procure products from the MSME suppliers for eventual exports to various importing countries. Intermediation is also more desirable for exports as MSME suppliers may find compliance with trade documentation a huge transaction cost to bear with. However even for those MSME suppliers who choose to directly export to the World market, assessment of export potential of their products is critical. Such assessment would help them focus their marketing efforts in countries which have high demand for their products.

3.65 The assessment of export potential is not a difficult exercise nowadays, provided one is aware of simple methods to sift through the trade data available from myriad sources on the web. Large export houses including Merchant Traders do analyze export potential and making appropriate strategies. Export Promotion Councils are also well versed with assessment methods of export potential. Unfortunately nowhere in the system is centralized information on export potential available for the benefit of MSMEs. The Office of Development Commissioner, MSME has undertaken an independent exercise to arrive at a product list whose exports can be promoted with maximum impact. The Committee urges Department of Commerce/DGFT to undertake a similar exercise for identifying such products across industry verticals. The exercise is explained in Box-4 below.

Box-4

Short-listing of Products for Export Promotion

In order to boost exports the first step is to identify products with some initial competitive presence, which would help in increasing their market share in world imports. Products with exports of USD 100 million plus can be considered to have some initial competitive presence. The second step is to further identify from the product list of the first step those products whose world imports are significant so that export promotion efforts are not focussed at smaller markets. Products with world import of USD 1billion plus can be considered to have large markets. The list derived from step two comprises products whose export promotion should maximize the intended result.

To arrive at this list world imports and India export figures were compiled for each product at the 6 digit level of HS code for five years from 2008 to 2012. There were 6000 plus such products taken from the data base of International Trade Centre. The 5 year average of each of the 6000 plus import and export figures were estimated. Products with less than USD 100 million average annual exports from India were excluded. This list was further shortened to include only those products whose annual average world imports exceeded USD 1 billion. Consequently a list of 247 products at the 6 digit level was obtained for export promotion.

The aggregate exports of 247 products serve 3.7% of the corresponding world imports market. If export promotion efforts are concentrated on these products alone, so much so that their exports increases to say even 5% of the corresponding world imports, it is estimated that overall exports of India stands to increase by at least 25% without any growth in world imports.

Within the list of 247 products, product groups whose exports serve less than 5% of the corresponding world imports, need a greater focus of export promotion efforts. These product groups are: Chemical Products (2.36%); Transportation Equipment (2.06%); Base Metals and Articles thereof (4.03%); Machinery and Mechanical/ Electrical Appliances (0.85%); Plastics and Rubber (1.65%); Footwear, Headgear (2.88%); Miscellaneous Manufactured Articles (1.63%); Wood Pulp Products (4.73%); Instruments-Measuring, Musical (0.55%).

Within the same list of 247 products, product groups whose exports serve more than 5% of the corresponding world imports are : Mineral Products (5.33%); Pearls, Precious or Semi-Precious Stones, Metals (11.85%); Textiles and Textile Articles (6.89%); Vegetable Products (6.91%); Prepared Foodstuffs (5.98%); Animal and Animal Products (11.69%); Hides and Skins (6.2%); Articles of Stone, Plaster, Cement and Asbestos (9.06%).

Public Procurement Policy

3.66 The Ministry of MSME has taken a significant step forward in supporting the marketing activities of micro and small enterprises by notifying the Public Procurement Policy. The Policy mandates all Central Government Ministries/Departments and CPSUs to procure 20% of their annual procurements from MSEs. The broad features of the policy are reflected in Box-5 below. The Committee has been further informed that Ministries/Departments annually procure goods worth about Rs.80,000 crore of which currently 10% is being procured from MSEs. Given the compulsion of procurement under

Public Procurement Policy, it is expected to spur the growth of manufacturing in India by MSEs. However as the Policy is applicable only to Ministries and Departments of Central Government and Central Public Sector Enterprises, the Ministry of MSME has written to State Governments requesting them to formulate a similar policy at the State level.

3.67 The notification of the Public Procurement policy by the Government in 2012 for MSEs should be looked at not only as a means for enlarging the market for MSEs, but as a means of building enduring professional relationships between the government enterprises and the small industry. As stated above, this policy, if carefully implemented and pursued, would systematically enable MSEs to enhance production, strengthen the vendor development mechanisms in the country, facilitate technology and information flow and ultimately enable MSEs to think globally.

Box-5

Public Procurement Policy (2012)

In March, 2012, Ministry of MSME notified the Public Procurement Policy whereby Central Government Ministries, Departments and Public sector Undertakings are mandatorily required to set an annual goal of procurement from Micro and Small Enterprises from the financial year 2012-13 onwards, with the objective of achieving an overall procurement of minimum of 20%, of total annual purchases of products produced and services rendered by Micro and Small Enterprises in a period of three years. Annual goal of procurement also include sub-contract to MSEs by large enterprises and consortia of MSEs formed by National Small Industries Corporation. From 1st April, 2015, overall procurement goal of minimum of 20% becomes mandatory.

The Public Procurement Policy also makes special provisions for MSEs owned by Scheduled Castes or Scheduled Tribes. Out of 20% target of annual procurement from MSEs, the policy, as a sub-target earmarks 20% (i.e 4% out of 20%) for procurement from MSEs owned by Scheduled Castes or Scheduled Tribe entrepreneurs. To enable wider dispersal of enterprises in the country, particularly in rural areas, the policy further stipulates that procuring entities shall continue to procure 358 items from MSEs, which have been reserved for exclusive purchase from them.

Eco System for Partnership

3.68 The reality of today's global competitiveness environment requires a team effort to succeed. In the developed countries, businesses, government and academia are partnering to make strategic choices about how to develop and sustain the knowledge and capabilities necessary to be leaders in the advanced manufacturing economy. The report on the deliberations in the World Economic Forum summarized the issue succinctly, as indicated in the Box 6 below.

Box-6

Partnering for Competitiveness

The examples of leading public-private partnership organizations provided by executives varied widely by sector, funding mechanics, tenure, exact focus of mission and geographic reach – from the Agency for Science, Technology and Research in Singapore to Fraunhofer-Gesellschaft in Germany and to the Manufacturing Institute in the United States. Despite differences in location and mission, these leading examples demonstrate a common set of best practices.

Best practices of public-private partnerships-Demand-driven and highly responsive to specific needs of industry and society: The most effective public-private partnership organizations are demand-driven and have a mission focused on specific market needs, both from an industry and societal perspective. These organizations address relevant, timely and current issues while anticipating future demands and trends.

Offers a differentiated value proposition that transcends traditional business barriers: Each of the organizations identified has a distinct and differentiated value proposition essential to its market success. Further, they all excel at creating bridges between groups that would otherwise operate in different spheres, extracting latent value from the collaboration.

Long-term horizon and flexible in measuring success: Like well-managed businesses, leading public-private partnership organizations establish metrics for success and track themselves by those metrics. What differs are the type of metrics and the time horizon for success. A public-private partnership organization is not measured in quarterly earnings and may even use metrics other than monetary value.

Seeks revenue streams beyond government or public funding: Leading organizations derive a much more significant portion of their revenue and funding from private sources than from public sources. In virtually all cases, they have multiple funding sources.

STRENGTHENING ASSOCIATIONS & NETWORKS

Role of Associations in Promoting R & D, Credit Flow; Regulatory Compliance

3.69 In addition to field offices, autonomous bodies and PSEs, Industry Associations can serve as a useful implementing arm of the Government. Being the representatives of the stakeholders who are direct beneficiaries of Government schemes, the Associations would display a greater drive in bridging gaps in implementation. The Associations in particular can serve as a single window for hand holding MSMEs, coordinate activities between Government and technical institutions towards achieving the common end of increasing R&D; pursue banks to increase the credit flow into the MSME sector; and oversee compliance with labour laws on behalf of the factory inspectors. Engaging Industry Associations on a permanent basis would achieve one of the recommendations of NMP of instituting an effective consultative mechanism with all stake holders in order to make mid-course corrections in any policy implementation.

Compliance load on account of Labour Legislations

3.70 In the country's federal set up, business regulations are enacted and implemented by all three tiers of Governance- Central, State and Municipalities. The huge labyrinth of business regulations across the country has raised the compliance burden to such levels of deterrence that existing businesses are reluctant to expand while starts-ups are few and far between. At the Municipality level, construction permits takes ages to materialize. Challenges faced in getting utility connections such as electricity and water at the State Government level is formidable. Environmental clearances are equally testing at both the State and the Central level and so are the statutes and inspections under labour legislations.

Role of Industry Associations in compliance with Labour Regulations

3.71 In keeping with the recommendation of the NMP to reduce compliance burden on industry, arising out of procedural and regulatory formalities, through rationalization of business regulations, the Committee discussed business regulatory issues with Industry Associations. The Associations were most concerned with labour legislations holding it as an all important factor that has limited the growth of manufacturing output in the country. In this regard the NMP has also stated *"A comprehensive exit policy will be put in place which will promote productivity while providing flexibility by removing rigidity in the labour market and ensuring protection of workers' rights as laid down in the statute".*

3.72 Accordingly the Committee has focused only on labour legislation part of the regulatory environment reporting specific suggestions by Industry Associations to implement labour reforms, which have long been awaited since the major liberalization the country undertook in 1991. The suggestions also include specific ways of reducing compliance burden by eliminating harassment caused by physical verification at the factory premises. This report also includes comments of Ministry of Labour in respect of each suggestion of the Industry Associations.

Other Recent Initiatives

3.73 In the context of 'doing business' and 'expanding business' phases of a manufacturing enterprise, it is useful to recall some important initiatives of the government in recent years. Some of the recent initiatives include MSMED Act, 2006; National Manufacturing Competiveness Programme; and Public Procurement Policy, 2012. These initiatives have been discussed in previous and subsequent sections of this report. Box-7 below discusses the MSME elements of the National Manufacturing Policy, a major initiative that took place in 2011.

Box-7

National Manufacturing Policy

In November, 2011, the Department of Industrial Policy and Promotion (DIPP) announced the National Manufacturing Policy (NMP), which set the target of manufacturing sector growth at 12-14% per annum so that the sector contributes at least 25% of the National GDP and creates 100 million additional jobs in the manufacturing by 2022. The policy gives special attention to six industry verticals namely, Employment Intensive Sectors, Capital Goods, Industries with Strategic Significance, Industries where India enjoys a competitive advantage, Small and Medium enterprises, and Public Enterprises.

The NMP states that one of the key instruments to catalyze the growth of manufacturing will be the establishment of National Investment and Manufacturing Zones (NIMZs), which will be developed in the nature of green field industrial townships, benchmarked with the best manufacturing hubs in the world. These will also help the country meet the increasing demand for world-class urban centres in India, while absorbing surplus labour by providing them gainful employment opportunities. These NIMZs will seek to address the infrastructural bottleneck in the long run which has been cited as a constraining factor for the growth of manufacturing.

The NMP is not limited to NIMZ but also has provisions for providing benefits to clusters of industrial activity located outside the NIMZ. This is clarified in a subsequent notification, which states that while the NIMZs are an important instrumentality (for disseminating benefits of NMP), the proposals contained in the Policy apply to manufacturing industry throughout the country including wherever industry is able to organize itself into 'clusters' and adopt a model of self-regulation as enunciated in the NMP.

The clarification implies that MSME units that are organized as a cluster and represented by a SPV can benefit from the NMP provided the SPV takes up the additional responsibility of regulating the units it represents in the same manner that the SPV of a NIMZ would do for its resident manufacturing units. The organization of the cluster however also needs to converge with the definition stated in the NMP, which defines clusters as a '*concentration* of *manufacturing industry units located within* a *clearly demarcated geographical area with the land use notified as such by the State Government'.*

CHAPTER 4

CLOSURE AND EXIT

4.1 There could be many reasons why an enterprise needs to close down – voluntary or forced by circumstances. The ease of closing down business is crucial for a good entrepreneurship ecosystem.

Simplifying Procedures

4.2 For a manufacturing enterprise, a closure would, inter-alia, require legal compliances under the company law (in case of a company), labour laws (with respect to the employees), Direct Taxes (central government), excise and service tax (central government), customs and DGFT (central government), VAT (state government), power utility, water utility, municipal body, creditors, financial institutions etc. Even when the laws may be clear enough on the requirements to be fulfilled, the implementation of the same is perceived to be problematic for MSMEs. There is a need to streamline the procedures, reduce discretion and intermediation, and to make the information available in formats that are easily understood. If funding is provided to the Ministry of MSME, it could conduct detailed exercise through professionals, and in consultation with the concerned ministry or department to suggest model rules or regulations in this behalf.

4.3 With globalisation and competition, the possibility of a large number of manufacturing enterprises not getting business, and having to close, has to be particularly catered to. The experimental character of entrepreneurship and the risks involved have to be understood so that an entrepreneur gets another chance in which he may do better. The business environment for MSMEs can be strengthened by reducing the bankruptcy stigma and facilitating re-starts. Unfortunately the entire banking system places a great deal of emphasis on stigmatizing failure. The underlying message is that if an entrepreneur has failed once, he would not be given a second chance. A policy change is indeed here. Unless there has been wilful default, surreptitious draining of resources, etc. a failed entrepreneur may have actually learnt from his mistakes and become a good investment bet. Section 11 of the Bankruptcy laws of the United States emphasizes this concern by allowing an entrepreneur to start up with a clean slate all over again. The Committee recommends that in the medium term, in collaboration with the Department of Financial Services, similar measures on the lines of Chapter – 11 of the Bankruptcy laws of US, are created within the Indian system.

4.4 At a broader level, the bankruptcy laws should be designed to help viable companies in distress, and make closing and re-starting easier. Enterprises need insolvency procedures which recognise that viable businesses can suffer from temporary problems e.g. an economy-wide recession. Such procedures should facilitate the necessary internal reorganisation and restructuring of debt. A key objective of the bankruptcy laws should be to help viable companies survive while safeguarding the interests of the creditors. This requires being able to distinguish quickly and at low cost between firms to restructure and firms to close.

Scheme for Aid during Financial Crisis

4.5 Japan has a *Mutual Aid System* to prevent SMEs going bankrupt during financial crisis (which could include customer going bankrupt, a national or global crisis which threatens the business towards closure). The programme provides interest free loans up to ten times the accumulated premiums paid by an SME. The qualification is that the company is in business for at least one year. Loan limit is equal to the uncollected amount receivables (from customer) or 10 times the total premiums, with a repayment period of 7 years, including 6 months grace period. The loan is Collateral/Guarantor free. The Committee recommends that a programme of a similar to the Mutual Aid System of Japan should be started by SIDBI or NSIC.

4.6 Financial sector reform in India have progressed rapidly keeping in view the international practices, and elaborate instructions have been issued by the RBI on aspects like prudential norms and risk-based supervision. SME Associations have, however, been representing that the norms are, in practice, applied unevenly between the larger corporates and the MSMEs, and also that the MSMEs do not have the benefit of statutory mechanisms like the BIFR to review their loan portfolios for rescheduling.

4.7 The RBI has issued guidelines from time to time for detecting incipient sickness at an early date and make efforts to nurse the units back into shape. However, as the PM's Task Force observed "banks do not find most cases viable because proposals for revival are appraised by interested stakeholders (lending banks) leading to conflict of interest". Annexure-II provides a summary of NPAs of Scheduled Commercial Banks in the MSE sector for the recent years. It is seen that NPA as a percentage of outstanding debt in the MSE sector (and within it the micro segment) has been coming down. However, NPA of about Rs.31 thousand crore as in March, 2013 is still high and is perceived to be a major deterrent to extending credit in the MSE sector by the banking system. However, this must be seen in the context of the rescheduling done in the MSME sector vis-à-vis the larger industry.

4.8 NPA leads to sickness and from among the sick units Banks initiate a rehabilitation package for those units that are identified as potentially viable. In November, 2012, RBI issued revised guidelines on the definition of sickness that enabled a longer "hand-holding" period for potentially viable sick units. The guidelines now define delay in repayments at 3 months past the due date instead of 6 months. This was to enable early detection of sickness and consequently a longer period for rehabilitation and revival. The guidelines also provide for a viability study to form the basis of rehabilitation package; and a non-discretionary one- time settlement scheme. Annexure-II below shows the growth of sick units over the years and the number identified from within category as potentially viable units.

4.9 It is seen that in March 2012, banks found only 12.1% of sick MSEs as potentially viable which came down to 5.1% in March, 2013. Further, banks put only 64.4% of the viable units under nursing at the end of March, 2012 which stood much lower at 36% in March, 2013. As a percentage of sick units, the number of units put under nursing came down from 7.8% in March, 2012 to 1.8% a year later. Thus, the number of sick MSEs found viable and those put under nursing remained insignificant. This is in sharp contrast to the corporates whose loan portfolios are routinely rescheduled. It appears that the latest RBI guidelines on rehabilitation of sick units are yet to show any impact whilst the challenge of nursing back sick units is growing. The Committee notes that the number of sick MSEs has gone up significantly from 85,591 in March, 2012 to 2,49,903 in March, 2013. Accordingly, the Committee, as advised by RBI, also suggests banks may urgently constitute MSE Rehabilitation Cell (MRC) at Zonal / Circle Head Quarters for effective monitoring to ensure timely rehabilitation of sick MSE units.

4.10 The Committee acknowledges the importance of the SARFAESI Act in ensuring that funds are not locked in NPA and are available for redeployment in productive assets and securities. However, the fact that the Act has no clauses specifically for MSME borrowers and there are also no other remedial mechanisms for MSMEs under any other law (unlike for the corporates), tends to prevent the revival of sick but potentially viable MSME borrowers. The Committee feels that given the rapid growth of sick MSE units, SARFAESI Act may be re-examined for deferring the commencement of recovery proceedings against the sick Micro and Small Enterprise borrowers so that these small borrowers get additional time to revive their business.

4.11 It has been represented by some Associations that the highly punitive, colonial-era personal insolvency laws create a strong disincentive to take reasonable business risks, and keep SMEs small, risk-averse and unable to access commercial credit. It is further pointed out that if an SME is declared "sick", and even if its commercial creditors wish to restructure loans, the rehabilitation process is often undermined by the uncoordinated exercise by state and central institutions of statutory claims, resulting in loss of value and potential harm to multiple stakeholders. As there is no mandatory stay of enforcement and no single institution coordinating the various claimants, so even while the loan restructuring exercise is on, the owner faces immediate enforcement claims and might even face imprisonment. If an enterprise fails, the claims may be collected from personal assets as well, making exit from business very painful (and virtually undermining re-entry). It needs to be noted in this context that most MSMEs are not incorporated as limited liability companies and have loans invariably backed by personal guarantees of the promoters.

Changes in MSMED Act for addressing Sick Units

4.12 It has been suggested that, to begin with, the MSMED Act of 2006 may be amended, to provide a mechanism for the orderly handling of financial distress by introducing a temporary stay, followed by orderly and speedy liquidation, revival or sale options.

Simultaneously, for the longer term, a process of statutory reform at the state level may be initiated, to introduce reasonable limitations on personal liability and allowing rehabilitation by modernizing the punitive and value-destructive laws governing personal insolvency dated from 1910/1920. These suggestions merit a serious consideration keeping in view safeguards to mitigate moral hazard and fraud concerns and ensuring that creditors would need reasonable protection against abuse of discharge provisions. Box-8 below states some specific suggestions made by FISME towards amending the MSMED Act

Box-8

Suggestion of FISME with regard to the amendments

MSME Law Amendments: Define conditions under which a person can file for insolvency protection; mandate a temporary stay of enforcement by creditors; allow for appointment of agent/trustee to determine and oversee next steps: restructuring, sale or liquidation. For the liquidation option, introduce procedures/rules for orderly liquidation (including priorities). A state level institution (analogous to, but independent of, the facilitation councils) for out-of-court resolution would need to be established. States would need to adopt implementing legislation; both center and state authorities would need to endow the tribunal with requisite quasi-judicial power, as the body would need to exercise both central and state jurisdiction.

Amendment of Personal Insolvency Laws: Begin the process of replacing the Provisional Insolvency Act (1920) and the Presidency Towns Insolvency Act (1908) in each state: these cover both the non-agrarian and agrarian sectors; the reform is long overdue for both sectors. Center can help catalyze change at the state level, working with interested Chief Ministers, their respective law reform commissions and recognized legal experts to draft a model law that can be adopted by each state. The need to introduce limited personal liability cannot be dealt with in the context of the SME act, as personal insolvency is a state matter. The new law should introduce a limited stay, reasonable discharge provisions, and the opportunity of rehabilitation and “fresh start.”

CHAPTER 5

LABOUR LAWS AND REGULATIONS

5.1 In the country's federal set up, business regulations are enacted and implemented by all three tiers of Governance- Central, State and Municipalities. The huge labyrinth of business regulations across the country has raised the compliance burden to such levels of deterrence that existing businesses are reluctant to expand while starts-ups are few and far between. At the Municipality level, construction permits takes ages to materialize. Challenges faced in getting utility connections such as electricity and water at the State Government level is formidable. Environmental clearances are equally testing at both the State and the Central level and so are the statutes and inspections under labour legislations.

5.2 In keeping with the recommendation of the NMP to reduce compliance burden on industry, arising out of procedural and regulatory formalities, through rationalization of business regulations, the Committee discussed business regulatory issues with Industry Associations. The Associations were most concerned with labour legislations holding it as an all important factor that has limited the growth of manufacturing output in the country. In this regard the NMP has stated *"A comprehensive exit policy (for labour) will be put in place which will promote productivity while providing flexibility by removing rigidity in the labour market and ensuring protection of workers' rights as laid down in the statute".*

5.3 Accordingly the Committee has focused only on labour legislation part of the regulatory environment reporting specific suggestions by Industry Associations to implement labour reforms, which have long been awaited since the major liberalization the country undertook in 1991. The suggestions also include specific ways of reducing compliance burden by eliminating harassment caused by physical verification at the factory premises. This report also includes comments of Ministry of Labour and Employment (MLE) in respect of each suggestion of the Industry Associations. The suggestions of Industry Associations and response of MLE are discussed below.

Suggestion 1: Exempt MSME from Definition of Factory

5.4 Under Section 2(m) of the Factories Act, 1948, the definition of factory in respect of Small Scale Establishments is as follows:

i) wherein ten or more workers are working or were working on any day of the preceding 12 months, and in any part of which a manufacturing process is being carried on with the aid of power, or

ii) whereon twenty or more workers are working or were working on any day of the preceding 12 months, and in any part of which a manufacturing process is being carried on without the aid of power.

5.5 The Associations have suggested that in order to exempt a larger number of MSEs from the definition of Factory, which would alleviate their compliance burden, Factories Act should be amended to exempt Small Scale Establishments from its ambit. Thus establishments with power employing up to 40 workers and without power up to 50 workers should be exempted from the definition of a factory. In case of factories run by labour Co-operatives the numbers can be 50 and 100 respectively.

5.6 Ministry of Labour have pointed out that the Factories Act is not enforced by Central Government but by State Governments. They have further stated that contrary to the suggestion of the Associations to raise the limit of exemption under the Factories Act, many State Governments have in fact reduced it in order to increase the coverage of the Act. Ministry of Labour however holds the view that any change in the exemption limit should not compromise on safety, health and welfare provisions for workers.

Suggestion 2: Permitting of Contract Labour

5.7 Section 10 of the Contract Labour (Regulation and Abolition) Act, 1970 provides for abolition of contract labour. However contract labour is an effective way of deploying manpower, reducing uncertainly of work among unemployed and increasing cost effectiveness of the enterprise making it more equipped to face global competition. Moreover specialized contract labour can be assigned work involving her area of expertise leading to increase in productivity. Contract labour would also not be exploited as it is the principle employer (enterprise) and not the immediate employer (Labour contractor), who is legally responsible for wages and social security benefits of employees as provided under the Employees' State Insurance Act, 1948 and the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

5.8 The Associations have suggested that Section 10 of the Contract Labour (Regulation and Abolition) Act, 1970 providing for abolition of contract labour should be deleted and the Act renamed as the Contract Labour Regulation Act, 1970.

5.9 MLE have stated that since Central Advisory Contract Labour Board, comprising representatives of employers, government departments and trade unions, is actively examining on merit each issue of contract employment placed before it there may not be a need to delete Section 10 of the Act.

Suggestion 3: No Obligation to Notify Vacancies to Employment Exchange

5.10 Under Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959, although the employer is under no legal obligation to recruit any person who is sponsored by the Employment Exchange, it is still obligatory on his part to notify vacancies (section 4), submit quarterly and biennial returns (section 5), and give access (Section 6) to authorized Government Officers to records and documents.

5.11 The Associations have suggested that the Act should be amended to provide for notification of vacancies in private sector purely on voluntary basis, in order to exempt the employers from stressful obligations of Section 4, 5 & 6 of the Act.

5.12 Ministry of Labour have stated that the obligation to notify vacancies at Employment Exchanges helps employers use an additional channel to recruit labour, which is beneficial to them. Ministry of Labour also benefits by way of getting vital inputs in framing appropriate policies for skill development.

Suggestion 4: Exempt MSEs from Coverage under Shops & Establishment Act

5.13 For the purpose of the coverage of the Act, Shops and Establishment Act provides for coverage of the shop or establishment engaging even one employee. This leads to additional regulatory stress for small units.

5.14 The Associations have suggested that the provisions of Shops and Establishment Act should be amended to include coverage of only such shops or commercial establishment, which engage 50 or more persons. Ministry of Labour have indicated that Shops & Establishment Act is a State subject.

Suggestion 5: Mergers of Various Labour Legislations

5.15 India has a very heavy dose of labour legislation, their number being more than one hundred. Moreover, there is considerable over-lapping of several statutory provisions. There is requirement of canteen, rest rooms and first aid facilities, for example not only in the Factories Act, 1948 but also in the Contract labour (Regulation & Abolition) act, 1970 and the Inter-State Migrant workmen (regulation of employment & conditions of service) act, 1979. Owing to several legislations there are great variations in the definitions of words & expressions amongst them. Even the basic terms like 'employed person' and 'wages' have been defined differently in different labour laws.

5.16 The Association have suggested merging of Trade Unions Act, 1926, The Industrial Employment (Standing Orders) Act, 1946 and the Industrial disputes Act, 1947 into a single law on Industrial relations. They have further suggested merging of Employees' Compensation Act, 1923, Employees' State Insurance Act, 1948; Employees Provident Fund and Miscellaneous Provisions Act, 1952 and the Maternity Benefit Act, 1961 into a single law on Social Security so as to enable employers make a single contribution to the entire gamut of comprehensive social security cover.

5.17 Ministry of Labour have supported the codification of labour laws reiterating it as a long time goal of the Ministry. They have however pointed at practical difficulties of doing it as labour is in the concurrent list, which requires Central Government to consult and collaborate with State Governments on matters of legislative amendments. They have further indicated that bringing all establishments under a single coverage could take away the flexibility of independently addressing socio-economic requirements of different categories of establishments. In so far as setting up of a single fund is concerned for consolidating all social security contributions by employers, the Ministry of labour have stated that in doing so Government would need to create a single massive administrative infrastructure, which would be difficult to administer.

Suggestion 6: Simplifying Definition of Workman

5.18 A "workman" has been defined in multiple ways in different Acts. She is an 'employee' under ESI Act, 1948; Min Wages Act, 1948; EPF & MP Act, 1952; Payment of Bonus Act, 1965; and Payment of Gratuity Act, 1972. She is a 'workman' under Employee Compensation Act, 1923, Standing Order Act, 1946, ID Act, 1947; a 'worker' under Apprentices Act, 1961 and Factories Act, 1948 and simply an 'employed person' in Payment of wages Act, 1936. Even the term 'wages' has been defined in eleven different ways in different labour laws. There is a marked difference in the scope of the term 'wages', for example in ESI Act, 1948 and EPF & MP Act, 1952. Under the EPF & MP Act, 1952, PF contributions are payable only on basic wages, dearness allowance, retaining allowance and not on any other allowance. But under the ESI Act, 1948, the term 'wages' is very wide and all-embracing including practically all types of allowances. It is important that the workman is defined in terms of remuneration rather than the nature of job so that the anomaly of equating pilots with regular workmen could be resolved.

5.19 The Associations have suggested that Ministry of Labour may consult employer bodies such as CII and Trade Unions to arrive at a figure of remuneration to define a 'workman', which would override all existing definitions.

5.20 Ministry of Labour have agreed to ask Office of Chief Labour Commissioner (Central) to examine the issue of 'Ambiguous definition of Workman', in consultation with Employer Bodies and Trade Unions.

Suggestion 7: Simplification of Record Maintenance

5.21 Almost every Act requires the employer to maintain a set of registers, submit periodic returns and display certain notices near the main entrance of the establishment. There is lot of duplication and overlapping of these paper work formalities. To illustrate, Accident Register has to be maintained and Accident Report has to be sent both under the Factories Act, 1948 and the Employees State Insurance Act, 1948. Likewise inspection book is required to be maintained under the Factories Act, 1948, Employees' State Insurance Act, 1948 and the Employees Provident Fund and Miscellaneous Provisions Act, 1952.

5.22 The Associations have suggested that maintenance of records and submission of returns should be simplified. Time limit for preservation of registers and records should be laid down in all the labour laws so that old records could be weeded out. There should be only one annual return instead of different returns with varying periodicity under various labour laws, as at present. Inspecting officers should not ask for manual (physical) registers and instead accept computerized information.

5.23 Ministry of Labour have stated that a 2011Bill for amendment of 'Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 will be soon introduced in Parliament. The Bill aims to considerably ease the compliance burden of establishments in this regard.

Suggestion 8: Stress Free Inspection of Premises and Documents

5.24 Presently each establishment is liable for inspection by several Inspectors with little or no co-ordination amongst them. There are half a dozen or so Inspectors appointed under various labour laws who make several visits to the establishment on the pretext of overseeing compliance of statutory provisions. This results in undue harassment of the enterprise.

5.25 The Association have suggested that there should be not more than one annual inspection of factories by all the Inspectors (namely Labour Inspectors, Factory Inspector, ESI Inspector, EPF Inspector, Welfare Inspector, Statistical Inspector etc) which should be coordinated and jointly organized by concerned agencies after giving reasonable prior notice so that the clerk/officer concerned is present there to make available the requisite records.

5.26 Given the gamut and complexities of labour regulations, the Committee found it beyond its scope to arrive at meaningful recommendations on *amendment* of labour regulations. To this end the Committee advises MLE to set up a Tripartite Committee comprising representatives of all stakeholders including the Employers' Associations, Trade Unions, Central and State Governments for examining all aspects of labour laws affecting the working of Micro and Small Enterprises (MSEs) and submit its recommendations to reduce the compliance burden on MSEs.

5.27 Instead the Committee chose to discuss the ways in which the compliance burden of enterprises could be reduced within the existing framework of labour regulations. In this regard the Committee would like to advise MLE, to consider replacing, to the extent possible, the extant practice of labour inspectors inspecting the factory premises on a regular basis with a mechanism that seeks self-certification by business enterprises and imposes heavy fiscal penalty on them for non-compliance detected through random inspections. The MLE may also encourage State Governments to undertake a similar initiative with regard to all labour legislations enforced under their jurisdiction.

5.28 The Committee also feels that until such time the mechanism of self-certification starts operating, the factory inspectors may engage Industry Associations to assess the returns filed by the units and take responsibility towards their veracity. To this end the associations chosen for this purpose need to enjoy the confidence of the units they represent and have an adequately sized secretariat to deliver on their commitments. Concomitantly the MLE may examine all suggestions/proposals received by them towards rationalization or simplification of procedures in compliance with labour laws. In this regard the MLE may consider replacing, to the extent possible, the extant practice of labour inspectors inspecting the factory premises on a regular basis with a mechanism that seeks self-certification by business enterprises and imposes heavy fiscal penalty on them for non-compliance detected through random inspections. The MLE may also encourage state governments to take a similar initiative with regard to all labour legislations enforced by them.

5.29 Ministry of Labour and Employment (MLE) has informed that it is setting up a Tripartite Committee comprising representatives of all stakeholders including the Employers' Associations, Trade Unions, Central and State Governments for examining all aspects of labour laws affecting the working of Micro and Small Enterprises (MSEs) with a view to reducing the compliance burden on MSEs.

CHAPTER 6

PRODUCT SPECIFIC RECOMMENDATIONS

NMP on Product Verticals

6.1 In making product specific recommendations, the Committee was guided by the emphasis laid on major product verticals in the National manufacturing Policy (NMP). The policy statement on these product groups is reproduced below.

Employment intensive industries

Adequate support will be given to promote and strengthen employment intensive industries to ensure job creation. Special attention will be given in respect of textiles and garments; leather and footwear; gems and jewellery; and food processing industries.

Capital Goods

A robust economic growth would necessitate a strong demand for capital goods. Such growth would create a strong and continuing demand for capital goods. The capital goods industry, which is the mother industry for manufacturing, has not grown at the desired pace. A special focus will be given to machine tools; heavy electrical equipments; heavy transport, earth moving and mining equipments. Time bound programmes will be initiated for building strong capacities with R&D facilities and also to encourage growth and development of these capacities in the private sector while strategically strengthening the public sector to complement the private initiatives where essential.

Industries with strategic significance

A strategic requirement of the country would warrant the launch of programmes to build national capabilities to make India a major force in sectors like aerospace; shipping; IT hardware and electronics; telecommunication equipment; defence equipment; and solar energy. Mission mode projects will be conceptualised in each of these sectors, recognizing the fact that a mission on solar energy has already been launched under the National Action Plan on Climate Change.

Industries where India enjoys a competitive advantage

India‘s large domestic market coupled with a strong engineering base has created indigenous expertise and cost effective manufacturing in automobiles; pharmaceuticals; and medical equipment. The concerned ministries will be formulating special programmes to consolidate strong industry base to retain the global leadership position.

Small and Medium Enterprises

The SME sector contributes about 45% to the manufacturing output, 40% of the total exports, and offers employment opportunities both for self-employment and jobs, across diverse geographies. A healthy rate of growth shall be ensured for the overall growth of the manufacturing sector as also the national economy by policy interventions in areas like manufacturing management, including accelerated adoption of Information technology; skill development; access to capital; marketing; procedural simplification and governance reform. The National Manufacturing Competitiveness Programme, being implemented by M/o MSME will be strengthened, and the recommendations of Task Force on MSME for creation of a separate fund with SIDBI, strengthening of National Small Industries Corporation (NSIC), modification of lending norms and inclusion of lending to MSMEs under 'priority sector' lending will be given due regard in taking appropriate measures. Manufacturing management will be given a focused attention as it will facilitate improvement of productivity, quality and competitiveness of manufacturing enterprise. Industry will be encouraged to collaborate with higher educational institutions to develop curricula for grooming graduate engineers and supervisory managers for various facets of manufacturing.

Public Sector Enterprises

Public Sector Undertakings, especially those in Defence and Energy sectors, continue to play a major role in the growth of manufacturing as well as of the national economy. A suitable policy framework will be formulated in this regard to make PSUs competitive while ensuring functional autonomy.

Focus Product Verticals

6.2 In line with the stand taken under the NMP, the Committee has made specific recommendations for accelerating manufacturing in respect of product verticals that have significant presence of MSMEs. To this end the Committee has leaned on the recommendations made in the XII Plan document selectively supplementing it with additional points generated during deliberations with Industry Associations and Ministries/Departments represented on the Committee. The following product groups have been selected by the Committee for making product specific recommendations:

i. Electronic Systems Design and Manufacturing (ESDM);
ii. Automotive;
iii. Drugs and Pharmaceuticals;
iv. Chemical;
v. Textiles;
vi. Food Processing Industries;
vii. Leather and Leather Goods; and
viii. Gems and Jewellery

Recommendations cutting across Product Verticals

6.3 While going through the recommendations in the XII Plan document with regard to the above product verticals, the Committee consolidated those recommendations that are not specific to a particular product group but entail implications cutting across all verticals. The Committee supports these recommendations, which are as follows:

- Improve access of Indian manufacturers to global markets through effective negotiations with trade partners at the bi-lateral, pluri-lateral and WTO levels. Ministries/Departments may coordinate strategies to tackle non-tariff barriers through counter measures during signing of FTAs.
- Promote exports through fiscal incentives such as larger benefits under Duty Drawback and Advance Authorization schemes. Provide assistance for market promotion such as participation of industry in international trade forums and brand development of 'Made in India' in major export markets. A regulatory institution

needs to be set up to monitor different transaction charges exporters pay to various government agencies.

- Remove the inverted duty structure so as to reduce cost of essential imported raw-material and increase protection to domestic manufacturers of finished goods.
- Set up product specific funds including innovation and venture capital funds for financing investment in R&D. Increase the percentage of setting off R&D expenditure against taxable income of enterprises. Tax rebates for outsourced R&D services and patent filing expenses including litigation may also be considered.
- Improve industry–academia linkages by creating a strong platform for incentivising innovation and arranging public–private partnerships between industries and leading academic partners. Develop innovation centres in universities and colleges. Set up product specific councils to lay down the innovation road map for the concerned product.
- Ensure access to finances at internationally competitive rates. Export units may be provided packing credit in foreign currency for reducing their interest cost. In this regard, the existing scheme of RBI wherein the Central Bank provides foreign currency to banks for onward lending to exporting units needs to be continued. A dollar fund may also be created for refinancing banks to finance industry at competitive international rates. External Commercial Borrowing may be allowed to meet working capital requirements.

PRODUCT VERTICALS

6.4 The Committee now highlights and supports what it considers as important recommendations in each of the above product group clusters. These are indicated below with a brief overview of the sector.

Electronics Systems Design and Manufacturing

6.5 Electronics Systems Design and Manufacturing (ESDM) comprises semiconductor design; high-tech manufacturing; electronics components; electronics systems design telecom products and equipment; IT systems and hardware and other segments.

Electronics, along with Information and Communications Technology (ICTE), is considered a meta-resource: the competitiveness of various industries often depends on their ability to integrate ICTE in their business processes. Electronics is the largest and the fastest growing manufacturing industry in the world. It is expected to reach US$ 2.4 trillion by 2020. The manufacturing sub-sector 'Radio, TV and communication equipment' has shown the largest increase in share in manufacturing value added between March, 2005 and January, 2013.

6.6 The recommendations in respect of ESDM sector are as follows:

- Establish a 'National Electronics Mission, a nodal agency for the electronics industry within DIT with direct interface to the Prime Minister's Office (PMO).
- Provide preferential market access to local companies in the following manner:
    - 30% of the demand must be met by products made in India if they are technically and commercially competitive for government procurements.
    - Using products made in India to execute national projects such as national knowledge network, rural broadband and Common Service Centres (CSC).
    - Specifying 30% value addition for foreign investment in a specific technology if products made in India do not exist in a specific technology area.
    - Using products made in India as part of bi-lateral trade and providing trade-in grants in the form of the products
- Mandate Indian standards for ESDM to safeguard against substandard items.
- Ensure that open defence and homeland security procurement of IT/electronics equipment is opened to the private sector.
- Encourage Industry to offer consolidated products in the following ways:
    - Effective bulk procurement system for consolidated requirements such as IT based security systems for protection of buildings/campuses as well as surveillance and response capabilities
    - Computers in Schools
    - E-governance projects
    - LED lighting

- Facilitate setting up of 'Centre for Research in Embedded Systems and Semiconductor Technology' (CREST).

6.7 The Committee also sought the views of Department of Electronics and Information Technology on accelerating manufacturing in the ESDM sector. These are stated below.

PACKAGE FOR MSMES WITHIN THE NATIONAL ELECTRONICS POLICY

The National Policy on Electronics (NPE) recognizes the pervasion of electronics from traditionally identified electronic sectors like IT, telecom, consumer electronics, broadcasting, electronic components, for example, to new sectors such as energy sectors, which have electronic devices such as solar photovoltaics and LEDs. Further, medical devices have increasing proportion of medical electronics devices as well. Automobiles have increasing component of automotive electronics in them. Nano-electronics, Avionics, etc are other examples. Since components, like semiconductors, passives, LEDs, LCDs, PCBs, Lithium Ion batteries, etc are used in these electronics are same/similar, they all constitute an important part of electronics manufacturing ecosystem. The policy framework under NPE extends to all verticals of electronics and extends benefits to all MSMEs under these verticals.

Electronics Hardware manufacturing however faces a zero duty regime by virtue of India becoming signatory to the Information Technology Agreement (ITA-1) at the Singapore Ministerial Conference of the WTO in December, 1996. The MSMEs in electronics hardware manufacturing in India, as a result, came in direct competition with multinational companies with multi-billion dollar scale and perished to a large extent. The ones which could find some niche market could only survive. Several others became traders of imported products at zero duty. In the absence of any protection, domestic manufacturing of Electronics Hardware can increase only if it reduces its costs. And cost can be reduced by providing concessions in domestic taxes and duties or at least reducing its cascading effect and incentivizing expansion of manufacturing scale which would generate scale and scope economies.

MSMEs in Electronics Hardware Manufacturing can also prosper if following the practice in China, Taiwan, Korea and Japan, MSMEs act as ancillary to an anchor client, becoming an integral upstream or downstream part of its supply chain. In so doing the MSMEs would congregate in a cluster and derive cluster synergies to ensure a competitive presence in the supply chain. The National Policy on Electronics (NPE), 2012, provides incentives for investment in electronics manufacturing under Modified Special Incentive Package Scheme. Under the scheme subsidy to the tune of 25% in non-SEZs (20% in SEZs) is available for investments across the value chain. In addition, CVD on import of capital equipment for all non-SEZ units is also reimbursed. These incentives are available for investments upward of Rs 1 crore.

In addition, the following package is proposed for accelerating growth of Electronics Hardware manufacturing by MSMEs:

Not to be a signatory to ITA-2

There is a concerted attempt by multinational companies in the electronic sector to extend the ITA to newer additional products which were either left out in ITA-1 or have since come out in the market as part of new product innovation/development. This agreement is commonly called ITA-2 and efforts to enlist India's support to it are going on. The new set of products under ITA-2 includes categories like consumer electronics, consumer appliances, medical electronics etc. If India signs ITA-2, it will further adversely affect likelihood of development of electronics industry in the country. Government should take a clear stand against not joining ITA-2 to protect MSME in consumer electronics/appliances industry in the market. The department of Electronics and Information Technology (DEITY) and Department of Commerce have taken a view that it is not in India's interest to sign up ITA-2 and therefore decided not to join the ongoing discussions.

Reimbursement of expenses relating to compliance with the "Electronics and Information Technology Goods (Requirements for Compulsory Registration), Order, 2012

The NPE states that to curb inflow of sub-standard and unsafe electronic products, development & mandating of standards would be taken up. The DEITY has notified the "Electronics & Information Technology Goods (Compulsory Registration) Order, 2012" on

3rd October 2012 mandating compliance of 15 electronics goods to Indian safety standards under the Compulsory Registration Scheme of the BIS. The order is set to come into effect from 3rd July 2013. As per the order, all goods, whether imported or manufactured domestically, must be tested against the notified standards from BIS recognised labs and the manufacturers shall obtain Compulsory Registration from BIS after filing application based on self declaration. While the testing related expenses are relatively insignificant for big players, these expenses can be a strain on MSMEs. Therefore, it is proposed that the testing charges incurred for getting the products tested from BIS approved Govt labs (for initial registration as well as during surveillance) be reimbursed to MSMEs as per prevailing rates of test charges levied by Directorate of Standardization Testing and Quality Certification (STQC) labs. Further, up to 20% of the test charges may additionally be reimbursed for development of product documentation, filing of application for Registration with BIS, Registration fee etc

Reimbursement of expenses for testing and certification required for export

The products have to comply with the regulations/standards of the buying countries. The exporters incur heavy expenses on testing and certification of the products from various Test Houses and Certification Bodies. Many countries have resorted to using Technical standards as Technical Barriers to Trade. Since the prime motive in most cases is to create barriers for foreign goods, most of these tests and certifications have to be done in laboratories in foreign countries at international rates. It is therefore proposed that testing charges incurred for getting the products tested from any lab domestic or abroad be reimbursed to MSMEs as per prevailing rates of test charges levied by STQC labs. Further, a cost up to 50% of the test charges may additionally be reimbursed towards the annual certification fee paid to any certification body (domestic/abroad) per model subject to a maximum of two certifications with each model qualifying only once under the scheme.

Development of Electronic Manufacturing Clusters by MSMEs

The scheme for Electronic Manufacturing Clusters (EMC) approved under the NPE provides assistance to Greenfield and Brownfield EMCs up to Rs.50 crores. However, the assistance is provided only after the scheme is approved. The MSMEs can benefit from the cluster scheme if some upfront assistance is provided for diagnostic study, soft interventions (training, seminars etc) and preparation of DPR, as is done under the Cluster Development programme of the Ministry of MSME. A departure could be made in increasing the amount of up front assistance for Electronic Manufacturing Clusters as compared to other sectors.

Support for filing International Patents in Electronics by MSME

The DEITY has a scheme to provide financial support to SMEs and Technology Start-Up units for international patent filing so as to encourage indigenous innovation and to recognize the value and capabilities of global IP and capture growth opportunities in the area of information technology and electronics. The MSMEs are eligible under the scheme. The support from is limited to Rs.15 lakhs or 50% of the total expenses incurred on filing and processing each invention, whichever is less till the grant of Patent. All expenditures incurred during patent filing including patent processing costs including Attorneys' Fees, Patent Office filing fees, Examination Fees, Patent Search cost, additional cost for entering National Phase up to grant/issue are reimbursed. A similar scheme is envisaged for MSMEs to provide grant in aid in the form of reimbursement for filing National Patents in Electronics with the eligibility criteria modified to include in house R&D and technology incubation. The support would be limited to Rs. 10 Lacs.

National Exports Awards in Electronics

With a view to encouraging and motivating industry to export, it is proposed to institute National Exports Awards in Electronics for MSMEs. Details may be worked out separately.

Focus Product Scheme (FPS) and Focus Market Scheme (FMS)

To promote export by MSMEs in the electronics sector, it is proposed that the FPS/SFPS/FMS scheme under the Foreign Trade Policy be extended to export by MSMEs of manufacturing electronics goods identified under Modified-Special Incentive Package Scheme. Para 2.1 (a) of the Strategies under the National Policy on Electronics, approved by Cabinet also provides that FPS would be allowed for extended list of industries in electronics including Electronic Manufacturing Services (EMS) industry. The financial outflow would be small; however it would help encourage the MSMEs to enter into export market, especially in the Middle East and Africa.

Treating Domestic Tariff Area (DTA) sales by MSME of ITA-1 and electronic goods, which are otherwise importable at zero duty, as deemed exports

At present certain specified categories of supply of goods, as specified in FTP, get the benefit of "deemed exports". These include supply of goods to EOU/EHTP/STP/BTP, supply of goods against Advance Authorization etc. To bring MSME DTA units, manufacturing electronics items which are importable at zero basic customs duty at par with EOU/EHTP/SEZ units, the sale to these units from DTA should also be treated as "deemed export".

Automotive

6.8 The automotive industry is a key sector for the Indian economy. Owing to its deep forward and backward linkages, it has a strong multiplier effect and acts as one of the drivers of economic growth. With the gradual liberalisation of the automotive sector in India since 1991, the numbers of manufacturing facilities have grown progressively. It produces a wide variety of vehicles ranging from passenger cars to heavy commercial vehicles to tractors and other agricultural equipments and so on. The competitive paradigm for the automobile sector world over is rapidly undergoing complete transformation on account of environmental and energy security concerns. It is estimated that by 2020, electric vehicle (EV) and other green cars will represent up to one third of total global sales in developed markets and up to 20 per cent in urban areas of emerging markets. The growth of the automotive sector would pull up growth in the manufacturing of parts and components of automobiles and other machineries in which the MSMEs have a significant presence.

6.9 The recommendations in respect of automotive sector are:

- A stable import tariff structure that encourages investments rather than trade in fully built vehicles.
- Deepen competence in manufacturing of fuel efficient cars and electric vehicles including the hybrid segment.
- Bridge the skill gap in partnership with National Skill Development Corporation.
- User incentives for adoption of Electronic Vehicles.

Drugs and Pharmaceuticals

6.10 Indian pharmaceutical industry is one of the high performing knowledge-based segments of the Domestic Manufacturing Sector. The soft patent regime prior to 2005 provided opportunity for this industry to consolidate its position and witness significant growth in generic production and exports. Indian pharmaceutical Industry has entered an era in which it has to play a pivotal role in providing generic medicines to the world and also become a global hub for R&D activities. Despite country's success, the country still at the periphery of a vast unexplored opportunity. At this juncture, it is all the more important to recognise the challenges and opportunities and realign strategies along with appropriate policy and institutional frameworks for shaping the future of the Indian pharmaceutical industry.

6.18 The recommendations in respect of Drugs and Pharmaceutical sector are as follows:

- Capacity building of private sector to meet WHO–Good Manufacturing Practices (GMP) standards and other international manufacturing standards.
- Enabling the Indian pharmaceutical industry to develop competence in advanced areas of drug manufacturing like dedicated research facility in bulk drugs, improving processes of manufacturing generics and new Active Pharmaceutical Ingredients (APIs).
- Developing common infrastructure in drug discovery and development, such as, manufacturing, distribution, exports and medical devices.
- Develop competencies for 2D Bar-coding for SMEs.
- Developing capacity of Central Drug Standards and Control Organisation to ensure timely clearance for new drug trials, pharmaco-vigilance, and assistance to the willing industry members to shore up their technical capacities for better regulatory compliances and adequate number of labour inspectors.
- Developing, evolving and rationalising regulatory frameworks for biosimilar drugs, fixed-drug combinations, clinical trials and early drug development.
- Strengthening National Institutes of Pharmaceutical Education and Research (NIPERs) to boost patent filing from these institutes.

- Improving access to quality healthcare promotion of unbranded generics through Jan Aushadhi Stores (JAS). Ministry of Health needs to bring out legislation for prescription of medicines in generics nomenclature by the doctors on a mandatory basis.
- Inducing greater level of domestic manufacture of medical devices by creating infrastructure and parks for setting up Greenfield medical devices and equipment units and setting up a National Centre for Medical Devices.

Chemicals

6.11 The domestic chemical industry is heterogeneous in nature comprising organic, inorganic, petrochemicals, dyes, paints, pesticides and specialty chemicals manufactured in the small scale and large units (including MNCs). In the global context, the industry is increasingly moving eastwards in line with the shift of key consumer industries (for example, automotive, electronics and so on) to leverage greater manufacturing competitiveness therein. The share of Asia in the global chemical industry has increased from 31 per cent in 1999 to 45 per cent in 2009. With the current size of $108 billion, the Indian chemical industry accounts for approximately 3 per cent of the global chemical industry.

6.12 The recommendations in respect of the Chemical sector are as follows:

- Refinery configuration to focus on optimisation of availability feedstock and source feedstock from feedstock rich countries through long term contracts.
- National Chemical Laboratory (NCL) and Indian Institute of Chemical Technology (IICT) to take initiative towards development of processes to use bio-based raw material instead of crude-based ones.
- Set up Greenfield Petroleum, Chemicals and Petro Chemicals Investment Regions (PCPIRs) and R&D parks through public private partnership.
- Establish a site operator, with the right functional expertise, to market and manage each PCPIR.
- Setting up specialised vocational training centres in the clusters for chemical industry.
- Consolidation of rules governing environment protection for chemical industry.

- Development of green technologies and implementation of the related provisions and fiscal measures of the National Manufacturing Policy.
- Central and State Government to work together to ensure more rigorous and transparent enforcement of pollution-related and environment-related regulations in chemical units.
- Simplifying the process of registration of pesticides to boost export possibilities
- Better testing mechanisms for tackling the problem of spurious pesticides

Textiles

6.13 The strength of the Indian textiles and clothing industry lies in its strong raw-material base, indigenous design capabilities, presence in the entire value chain, large and growing domestic demand, and the availability of trained manpower at internationally competitive rates. The Indian Textiles and Clothing Industry consume a diverse range of fibres and yarns but is predominantly cotton based. The sector plays a pivotal role in the economy, contributing about 12 per cent of the manufacturing output, 11 per cent of merchandise exports and employs about 45 million people. It has a major presence in the unorganised sector as compared to the organised sector, both in terms of the workforce and number of enterprises.

6.14 The recommendations in respect of the Textile sector are as follows:

- The benefits of the Technology Up gradation Fund Scheme (TUFS), for spinning should be allowed only when it is accompanied by matching investments in weaving or knitting. This would increase forward integration with the downstream segments of the supply chain and enable maximum quantity of yarn produced in the country to be converted into spinning products domestically.
- Consolidate gains from existing Integrated Textile Parks to strengthen both forward and backward linkages in the entire textile value chain. The proposed new scheme of setting up of Integrated Apparel Clusters and activities laid down in the Technology Mission for Knitwear and Woven wear should be subsumed within the Scheme of Integrated Textile Parks.

- Modernize G&P factories and Market Yards for reducing the contamination of Cotton.
- A scheme for Common Effluent Treatment with Marine Outfall for the existing textile processing clusters on a PPP mode needs to be considered.
- Modernize Jute Mills and undertake diversification of its products in order address the domestic as well as global markets.
- Develop 3rd Generation multivoltine crossbreeds to increase production and matching quality parameters of bivoltine silk and accelerate the growth in vanya silk production towards exploring better value realisation in domestic and international markets.
- Set up an office of Powerloom Commissioner for enabling setting up of Common Facility Centres, Yarn Bank, Design Development Centres in the clusters as also conducting awareness programmes/seminars/workshops/pilot activities and Distress Relief Fund Scheme for powerloom weavers. For its modernisation allow for an exclusive provision for Powerloom Sector under TUFS.
- In order to cater to the expected increase in the global demand of woollen yarn fabrics, there is a need to reduce mortality rate of sheep. To this end, Common Facility Centres should be set up in large numbers, which would also address improvement in productivity of wool production.

6.16 The Committee also sought the views of Department of Textiles on the development of the Handloom sector towards increasing manufacturing output in the Textiles industry. These are stated below.

THE HANDLOOM SECTOR

Handloom Weavers are amongst the neediest borrowers of institutional credit. Accordingly Ministry of Textiles has approved a scheme for Institutional Credit for making available subsidized credit to handloom weavers. Under the scheme, an individual weaver is eligible to avail benefit of margin money, interest subsidy while Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) guarantees the loan extended to the weavers by its approved Member Lending Institutions (MLI), which include all Scheduled Commercial

Banks. The guarantee cover is up to Rs.100 lakhs of credit taken by MSEs, which is a strong incentive for MLIs to lend to individual weavers. However the incentive is not strong enough to extend credit to a sizeable number of weavers located in the rural regions of the country as they are not closely located to MLIs, which have an overly urban presence. The rural credit gap can be bridged by cooperative banks but they are not enlisted as MLIs of CGTMSE. Therefore to ensure adequate credit flow into the rural sectors for the benefit of weavers amongst others, the cooperative banks need to be enlisted as MLIs of CGTMSE as well.

Following on the footsteps of the Public Procurement Act, which mandates Ministries/Departments and Central Public Sector Undertakings to procure 20% of their annual purchases from MSEs, mandatory purchases need to be imposed on the private sector as well. Large private enterprises may be mandated to dedicate 30% of their souvenir and gift budget to the handloom products. This would provide sustainable livelihood to nearly 44 lakh weavers and allied workers from rural areas, who are facing difficulty in marketing their products and thus increasing the level of handloom output. Large private sector enterprises may also adopt handloom clusters / villages for holistic development under their CSR activity.

There has been a persistent demand from various industry associations to exempt small establishments from the purview of the Factory's Act, in order to reduce their compliance burden. Handloom weaving establishments make a special case for their exemption. Being primarily a household activity, the handloom weaving has sporadically adopted the concept of common workshed in response to promotion of Handloom Clusters, Self-Help groups, Special purpose Vehicles and Producer Companies by Government. However even under the common work-shed handloom weaving retains its character of a household activity with majority of work force comprising members of households. As such the protection offered by the Factory's Act to workers is not required and the Act thus needs to exempt handloom weavers from its purview. To start with handloom units working under common workshed having handloom weavers and allied workers up to 100 may be exempted from the purview of the Factory's Act.

THE HANDICRAFTS SECTOR

The Handicrafts Sector plays a significant & important role in the country's economy. It provides employment to a vast segment of craftsperson in rural & semi urban areas and generates substantial foreign exchange for the country, while preserving its cultural heritage. Handicrafts have great potential, as they hold the key for sustaining not only the existing set of millions of artisans spread over length and breadth of the country, but also for the increasingly large number of new entrants in the crafts activity. Presently, handicrafts contribute substantially to employment generation and exports. The Handicraft sector has, however, suffered due to its very nature of being unorganized, with the additional constraints of low capital, poor exposure to new technologies, absence of market intelligence, and a poor institutional framework. However, handicrafts sector is undergoing a transition from primarily a house-hold activity to SME activity with sprouting of small units at various places such as Glass units at firozabad, Pottery units at Khurja, Wooden handicrafts at Saharanpur etc. The following issues are highlighted:

Credit at cheaper rates

Handicrafts sector is a cottage sector and gestation period for producing the handicrafts is longer than other sectors of the economy. The rate at which the finance is available to handicrafts sector is high. Keeping in view the nature and role of the sector in the Indian economy, it is recommended that credit at cheaper rates should be made available to handicraft units.

Problem of Electricity shortage to be addressed

Artisans in some states have reported chronic power shortage. Electricity at reasonable rates should be made available to handicrafts units round the clock.

Availability of quality raw material such as wood at cheaper rates

Handicrafts sector suffer from lack of raw material availability like in case of wood. Therefore, steps are required to be taken to make available quality raw material to the artisans/entrepreneurs at a reasonable rate.

Relaxation in Labour laws

India has a multitude of labour legislations. It is felt that a relaxation for SMEs in handicrafts should be made from applicability of these laws.

Integrated parks on the pattern of SITPs

Of late, compliance issues emerging out of environmental and public health concerns have posed significant problems for the sector. The artisans/entrepreneurs lack the wherewithal to address these on their own. Therefore, integrated parks with common facilities such as workman's hostels, affluent treatment, testing, packaging etc., need to be set up.

Skill Development

Many artisans are based out of remote locations, where the avenues for skill adoption and up gradation are severely restricted. This affects the productivity in the sector adversely. There is a need to upgrade the existing skills as well as to add additional skill to handicrafts artisans through training and skill up gradation programmes.

Technology Up gradation assistance to be provided to the units

Technology needs to be seen a tool for preservation of our traditional heritage rather than being treated as its enemy. There is an urgent need for technology gap mapping and dissemination of modern technology and production techniques.

Exemption in Excise and VAT duties:

Given its special role in preserving our traditional heritage and promoting employment in remote rural and semi-urban areas, the handicrafts sector needs to be kept out of taxation net.

THE TECHNICAL TEXTILES SECTOR

Technical textiles, is the segment with a very high growth potential. With growth in Indian economy the demand of technical textiles product is expected to grow exponentially. Since, a substantial part of technical textile manufacturing is done by MSMEs, it is important to support them to tap the business opportunities more effectively. For this following are the recommendations:

- Promoting investments for manufacturing of technical textile products through focused subsidies
- Allocating funds for product and process R&D work in technical textiles
- Implement mandatory usage of suitable and specific technical textile products for applications like infrastructure, healthcare, industrial safety, personal and property protection, etc.
- Support establishment of technical textiles specific support infrastructure in textile parks
- Create an ecosystem of Indian and international manufacturers to support setting up of conversion facilities in segments of hygiene, healthcare, industrial products like belt and filters, etc
- Mega-cluster scheme to be made applicable to Technical textile segment as in case of Handloom, handicrafts, powerloom, etc.
- Schemes to promote setting up of manufacturing units for technical textiles capital machinery
- Scheme to promote setting up facilities to manufacture speciality fibres herewith not manufactured in India
- Inclusion of technical textile specific section in the curriculum of various application areas degrees at bachelor as well as masters level courses; for instance, inclusion of dedicated geotechnical textile chapter in civil engineering curriculum.
- Supporting R&D institutions and user industry for design development, specification formulation and standardization.

Food Processing Industries

6.17 As a leading producer of food grains, milk, fruits and vegetables, India has the advantage of adequate food at the farm gate to ensure food security for the nation and to even have a surplus for exports. Food processing industry in India has immense potential for boosting the rural economy as it brings about synergy between consumers, industry and agriculture. A well developed food processing industry is expected to increase farm-gate prices, reduce wastages, ensure value addition, promote crop diversification, generate employment opportunities and boost export earnings.

6.18 The recommendations in respect of Food Processing industries are as follows:

- Expand and modify existing infrastructure development schemes such as the Mega Food Parks Scheme and Integrated Cold Chain Scheme.
- Modernise existing Abattoirs and establish new ones.
- Taking up a nation-wide skill development programme along the lines of special projects for skill development of rural youths under Swarnajyanti Gram Swayojgar Yojna (SGSY) of Ministry of Rural Development.
- Putting in place a network of food testing labs (Government/Private) through provision of appropriate incentives.
- Encourage larger participation in Codex (Food standard developed by WHO) deliberations and setting up/strengthening of Codex Cell in Food Safety and Standards Authority of India (FSSAI) to promote, coordinate and monitor related initiatives at the level of stakeholders. All efforts should be made to harmonise Indian Food Standards with Codex under the ambit of the Food Safety and Standards Act, 2006.
- Apart from National Institute of Food Technology Entrepreneurship and Management (NIFTEM), the Central Food Technology Research Institute (CFTRI) should play a more central, pro-active role to strengthen knowledge base of the industry through greater public and private partnership in technology development.

6.19 The Committee also sought the views of Ministry of Food Processing Industries (MFPI) with regard to Reforms in APMC Acts and Food Safety and Standards Authority of India (FSSAI). These are stated below.

REFORMS IN APMC ACT

The growth of the food processing sector can be accelerated by reforming the existing institutional structure for facilitating procurement of raw material by the food processors.

To this end significant progress has been made by various States in undertaking reforms in Agriculture Produce Marketing Committee (APMC) Act as per the model APMC Act. However, it has been observed that market reforms vary from State to State. In some States, registration for contract farming has been provided with the Marketing Committee (AP, Karnataka, Haryana, Maharashtra, Madhya Pradesh and Rajasthan) whereas in others the contract has to be registered with a Nodal Agency at State level (Punjab). Then in some States, the agricultural produce purchased by the food processors from other States for self consumption have been exempted from Mandi tax (Haryana) whereas in others Mandi tax is again charged at the point of consumption (Punjab). Further, some States have exempted perishables from Mandi tax, whereas others have not. In most of the States, the registration for direct marketing is required to be done at multi-locations with the respective marketing committees whereas other States have provided single point registration for this purpose (Maharashtra). It has also been observed that processed agricultural produce like ghee, besan, maida etc. are being treated at par with primary agricultural produce for the purpose of charging Mandi tax, even though, these processed products are purchased by food processors from the processing units like Dal Mill, Flour Mill Dairy etc.

The Ministry of Food Processing Industries has been interacting with apex industry associations like FICCI, CII, PHD and ASSOCHAM on these issues. Based on the deliberations and inputs received following areas have been identified for attention:-

a. The double taxation on the agricultural produce purchased by the food processors needs to be avoided. Thus, if the produce has been taxed in one State, it should not be taxed in another State where the processor is located.

b. Perishable horticultural/ agricultural produce may be exempted from Mandi tax to encourage processing and reduce wastages thereof.

c. The single point registration (in one State) for direct marketing may be provided to the food processors.

d. The registration of contract farming may be provided with the respective marketing committees.

e. The processed food articles like besan, maida, ghee may not be treated as primary agricultural produce for the purpose of Mandi tax, if they are being used as raw material by the food processors.

Since agricultural Marketing fall within the purview of the state government, Department of Agriculture and co-operation need to pursue these issues vigorously with the state governments.

FOOD SAFETY AND STANDARDS AUTHORITY OF INDIA (FSSAI)

The Food Safety and Standards Act passed by Parliament in 2006 provides for consolidation of erstwhile laws relating to food namely by replacing Prevention of Food Adulteration Act, 1954; The Fruit Products Order, 1955; The Meat Food Products Order, 1973; The vegetable Oil Products (Control) Order, 1947; The Edible Oils Packaging (Regulation) Order, 1998; The Solvent Extracted Oil, De oiled Meal and Edible Flour (Control) Order, 1967; The Milk and Milk Products Order, 1992 and other orders issued under the Essential Commodities Act, 1955 relating to food. The Act also provided for establishment of the Food Safety and Standards Authority of India (FSSAI) with the mandate for laying down standards for articles of food and to regulate their manufacture, storage, distribution, sale and import.

All food business operators (FBOs) other than petty food businesses are required to obtain a Central or a State license depending upon the provisions of the Act. The petty FBOs have to obtain registration. The Act and the regulations there under are enforced by the Central Food Authority viz. FSSAI and at the State level by Food Safety Commissioners for each State, Designated Officers for each District and Food Safety Officers for local areas as assigned by the respective Food Safety Commissioner. The enforcement agencies enjoy powers to issue or cancel license of food business operators, prohibit the sale of any article of food which are not as per prescribed standards, to inspect units and to take samples, to seize any articles of food which appear to be in contravention of the Act or the regulations, to levy penalty and to launch prosecution.

While the FSS Act empowers FSSAI and the State level authorities, the infrastructure to administer the Act is still not in place. There is a general lack of awareness about the Act and the regulations, especially among the small businesses. A number of small FBOs have expressed concern over the regulatory compliance of Registration and approval for proprietary products for opening & running business. There is a need to have a broad-based consultation with all stake holders for implementation of the various provisions of Law to ensure that the growth of FP sector does not retard. In the circumstances, FSSAI has to allow for a period of transition during which there has to be intensive training of the FBOs, especially the small enterprises and also a system of guidance and advice to the operators in obtaining license/ registration and ensuring adherence to the Legislation. Moreover, there is a need for awareness generation campaign about the provision of law, need for compliance and hand holding of the FBOs to ensure smooth transition to the new regime. During such transition period, there also has to be flexibility in enforcing the law and avoid arbitrary closure of units and stoppage of production.

Ministry of Health and family Welfare needs to pursue this further as FSSAI falls under their Administrative Control.

Leather and Leather Goods

6.20 The leather and leather products industry occupies an important position in the Indian economy in view of its massive potential for employment generation, potential for growth both in domestic and export markets. The leather industry is spread in different segments, namely, tanning and finishing, footwear and footwear components, leather garments, leather goods including saddlery and harness.

6.21 The recommendations in respect of Leather and Leather Goods are as follows:

- Establish new Footwear Design and Development Institutes (FDDI) to address skill deficit in the sector wherein campus placement is enabled for the trainees.
- Introduce measures for improving Animal Husbandry, Slaughter and Skin Collection and Rural Tanning.
- Modernize and technologically upgrade Tanneries.

- Brand Building and Indian Leather Mark
- Constitute Footwear and Leather Products Development and Promotion Council (FLPDPC) to lay down the innovation road map for Leather products.

Gems and Jewellery

6.22 India's Gem and Jewellery (G&J) industry is an important foundation of the country's export-led growth. It is a leading foreign exchange earner and one of the fastest growing sectors accounting for 16.67 per cent of India's total merchandise exports during FY 2010-11. India now accounts for nearly 55 per cent of world net exports of cut and polished diamonds in value terms, 90 per cent in terms of pieces and 80 per cent by cartage. The industry employs about 2 million highly skilled work-force out of which one million are exclusively engaged in export production. The industry is importing rough diamond from countries such as Belgium, UK, UAE, Israel, Hong Kong, Switzerland and other mining countries. The polished diamond is exported to countries such as UAE, Hong Kong, USA, Belgium and Israel. India is also known to be the largest consumer of gold in the world. It is estimated that the current annual demand for gold in the country is well over 800 tonnes. This makes India the largest fabricator of gold as well.

6.23 The recommendations in respect of the Gems and Jewellery Sector are as follows:

- Restrict the export of rough diamonds from domestic mines and invest in diamond reserves abroad through PPP to ensure the sustained availability.
- Explore possibility of free import of precious metal gold for manufacturing exports.
- Commission exploration programmes and surveys to ascertain availability of coloured gemstones in India.
- Create Sector Skill Council, under the aegis of NSDC, GJEPC and other critical stakeholders for developing and administering 'Train the Trainer' programmes and creating necessary training infrastructure for the purpose.
- Document the existing tacit knowledge of traditional artists while developing a Design Centre of Excellence and Product Development near one of the G&J clusters.
- Set up Gem Bourses, jewellery parks/clusters, Gem trading centres and G&J training centres in some key cities across the country.

APPENDIX

SOME EXISTING SCHEMES FOR MSMES

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

Credit Linked Capital Subsidy Scheme (CLCSS)

The CLCSS is meant for technology up gradation of Micro and Small Enterprises and was launched in October 2000 and subsequently revised from 29.09.2005 onwards. The scheme provides 15% Capital Subsidy (limited to maximum Rs. 15.00 lakh) for purchase of Plant & Machinery. Maximum limit of eligible loan for calculation of subsidy under the scheme is Rs.100 lakh.

Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)

The Government launched the Credit Guarantee Fund Scheme for Micro and Small Enterprises in August, 2000 with the objective of making available credit to MSEs, particularly micro enterprises, for loans up to Rs. 100 lakh without collateral/ third party guarantees. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and Small Industries Development Bank of India (SIDBI).

Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

The Micro and Small Enterprises – Cluster Development Programme (MSECDP) is being implemented for holistic and integrated development of micro and small enterprises in clusters through Soft Interventions (such as diagnostic study, capacity building, marketing development, export promotion, skill development, technology up gradation, organising workshops, seminars, training, study visits, exposure visits, etc.), Hard Interventions (setting up of Common Facility Centres) and Infrastructure Up gradation (create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSEs). The funds for this purpose are directly released to implementing agencies which are mostly undertakings of State Governments.

National Manufacturing Competitiveness Programme (NMCP)

The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. Conceptualised by the National Manufacturing Competitiveness Council (NMCC), the Programme was initiated in 2007-08. There are ten components under the NMCP targeted at enhancing the entire value chain of the MSME sector. These components are Lean Manufacturing Competitiveness Scheme; Promotion of Information & Communication Technology in MSME sector; Setting up of New Mini Tool Rooms under Public Private Partnership Mode; Enabling Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools; Support for Entrepreneurial and Managerial Development of SMEs through Incubators; Design Clinic Scheme for Design Expertise to MSME sector; Technology and Quality Upgradation Support to MSMEs, Schemes for Marketing Assistance and Technology Upgradation in MSMEs and Financial Assistance on Bar Code; and Building Awareness on Intellectual Property Rights for MSMEs.

MINISTRY OF TEXTILES

Technology Up gradation Fund Scheme (TUFS)

The Technology Upgradation Fund Scheme (TUFS) was launched in 1999 and provides for interest reimbursement/capital subsidy/margin money subsidy for textile units seeking credit for technological up gradation. The scheme provides interest subvention of 4%-5% or margin money subsidy of 20%-25%. The scheme is administered through 3 nodal agencies, 36 nodal banks and 108 co-opted lending institutions.

Scheme for Integrated Textiles Park (SITP)

The ‘Scheme for Integrated Textile Parks (SITP)’ was approved in the 10th Five Year Plan to provide the industry with world-class infrastructure facilities for setting up their textile units. The Scheme is implemented through Special Purpose Vehicles (SPVs), where Industry Associations/Group of Entrepreneurs are the main promoters of the Integrated Textiles Park (ITP). Government provides grant or equity support of not more than 40% of the project cost. The combined equity stake of GOI/State Government/State Industrial Development Corporation, if any, does not exceed 49%.

DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP)

Industrial Infrastructure Up gradation Scheme

The Industrial Infrastructure Up gradation Scheme (IIUS) was launched in 2003 to enhance competitiveness of industry by providing quality infrastructure through public-private partnership for selected functional clusters. On the basis of an independent evaluation, the norms of the scheme were recast in 2009. Central assistance is provided by way of one time grant-in-aid to the Special Purpose Vehicle (SPV) formed by the cluster association for development of the infrastructure. The assistance is restricted to 75% of the project cost subject to a ceiling of Rs. 50 crore. The remaining 25% is financed by other stakeholders of the respective cluster/location with a minimum industry contribution of 15% of total project cost. A total number of 39 projects were sanctioned during 10th and 11th Plan periods, 17 projects were completed and remaining 22 projects are under implementation at different stages of completion. The Scheme is being continued in the 12th Five Year Plan (FYP).

Delhi–Mumbai Industrial Corridor Project

In pursuance of an MOU signed between the Government of India and the Government of Japan during the Hon'ble Prime Minister's visit to Tokyo in December 2006 to promote investments and explore opportunities for mutual cooperation, Government of India accorded 'in principle' approval to the project outline of Delhi- Mumbai Industrial Corridor (DMIC) Project in August 2007. The DMIC project is proposed to be implemented on both sides of the 1483 km long Western Dedicated Rail Freight Corridor between Dadri (UP) and JNPT (Navi Mumbai). The project seeks to create a strong economic base with a globally competitive environment and state- of-the-art infrastructure to activate local commerce, enhance investments and attain sustainable development. The DMIC project covers the six States of Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan, Gujarat and Maharashtra. The DMIC Development Corporation (DMICDC) was incorporated in January 2008 for project development, coordination and implementation of the numerous projects. Initially, eight nodes/cities in the six DMIC States have been taken up for development.

North East Industrial and Investment Promotion Policy (NEIIPP)

For developing industrialization in the remote, hilly and inaccessible areas, Central Government has formulated and notified North East Industrial and Investment Promotion Policy (NEIIPP), 2007 for the eight states of North East Region and Transport Subsidy Scheme, 1971 which in addition to the eight states of North East Region, also covers Himachal Pradesh, Uttarakhand, Jammu & Kashmir, Darjeeling district of West Bengal, Andaman & Nicobar Administration and Lakshadweep Administration. Benefits/incentives available under different schemes include Capital Investment Subsidy, Interest Subsidy, Reimbursement of Insurance, 100% Income Tax Exemption and Excise Duty Exemption based on value addition norms specified by the Department of Revenue, Ministry of Finance. Besides, transport subsidy ranging from 50% to 90%, is provided on the transport cost for transportation of raw material and finished goods to and from the location of the unit and the designated rail-head or port as the case may be. Transport subsidy also covers movement of raw materials/finished goods from one State to another within the North Eastern Region. The Government has recently approved revision in the Existing Transport Subsidy Scheme, 1971. The Revised Scheme called Freight Subsidy Scheme was notified on 23 January 2013.

MINISTRY OF FOOD PROCESSING INDUSTRIES

Mega Food Processing Parks Scheme

Mega Food Parks' component aims to provide a mechanism to bring together farmers, processors and retailers and link agricultural production to the market so as to ensure maximization of value addition, minimization of wastages and improving farmers' income. The primary objective of the scheme is to facilitate establishment of an integrated value chain with processing at the core and supported by requisite forward and backward linkages. The scheme envisages financial assistance in the form of grant-in-aid @ 50% of the eligible project cost in general areas and @ 75% in NER and difficult areas subject to a maximum of Rs. 50.00 crore per project.

Scheme for Cold Chain, Value Addition and Preservation Infrastructure

To encourage setting up of cold chain facilities and backward linkages in the country and to provide integrated and complete cold chain and preservation infrastructure facilities without any break from the farm gate to the consumer, Ministry of Food Processing Industries has launched a Plan Scheme during 11th Plan to provide financial assistance to project proposals received from public / private organizations for integrated cold chain infrastructure development. The organization setting up infrastructure specified under the scheme is eligible to draw assistance of up to 50% of the cost in general areas and 75% in difficult and North-East region, subject to a ceiling of Rs.10 crore.

DEPARTMENT OF COMMERCE

Marketing Development Assistance (MDA) Scheme

To facilitate various measures being undertaken to stimulate and diversify the country's export trade, the MDA supports the following activities:

- Assist exporters for their participation in approved EPC/Trade Promotion Organization led export promotion events abroad.
- Assist Export Promotion Council (EPCs) to undertake export promotion activities for their product(s) and commodities.
- Assist approved organization/trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts.
- Assist Focus export promotion programmes in specific regions abroad like FOCUS (LAC), Focus (AFRICA), Focus (CIS) and Focus (ASEAN).

Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme

The ASIDE scheme was launched on 13.3.2002 to develop export related infrastructure. The objective of the scheme is to involve States / UTs in export effort by providing assistance to the State Governments / UT Administrations for creating appropriate infrastructure for development and growth of exports. Such involvement is based on the projectised approach and projects are prioritized by States /UTs to address the critical link both at the point of production and the point of evacuation in the industrial cluster, largely within the contour of the first mile and the last mile consideration. Under the scheme, Central Government bears 20% of the project cost while the State Government provides the balance 80%.

Annexure-1

Shares of Manufacturing Sub-Sectors in Gross Value Added				
N	**Code**	Mar-05	Jan-13	Diff.
	DESCRIPTION			
15	Food products and beverages	9.6%	11.8%	2.2%
16	Tobacco products	2.1%	1.5%	-0.6%
17	Textiles	8.2%	6.1%	-2.1%
18	Wearing apparel; dressing and dyeing of fur	3.7%	3.6%	-0.1%
19	Luggage, handbags, saddlery, harness & footwear leather prod.	0.8%	0.5%	-0.2%
20	Wood & products of wood & cork, articles of straw & plating	1.4%	1.0%	-0.4%
21	Paper and paper products	1.3%	1.0%	-0.4%
22	Publishing, printing & reproduction of recorded media	1.4%	1.4%	-0.1%
23	Coke, refined petroleum products & nuclear fuel	8.9%	6.6%	-2.3%
24	Chemicals and chemical products	13.3%	9.1%	-4.2%
25	Rubber and plastics products	2.7%	2.6%	-0.1%
26	Other non-metallic mineral products	5.7%	5.1%	-0.6%
27	Basic metals	15.0%	15.7%	0.7%
28	Fabricated metal products, except machinery & equipment	4.1%	4.1%	0.0%
29	Machinery and equipment n.e.c.	5.0%	5.6%	0.6%
30	Office, accounting & computing machinery	0.4%	0.2%	-0.2%
31	Electrical machinery & apparatus n.e.c.	2.6%	5.3%	2.7%
32	Radio, TV and communication equipment & apparatus	1.3%	5.6%	4.3%
33	Medical, precision & optical instruments, watches and clocks	0.8%	0.4%	-0.3%
34	Motor vehicles, trailers & semi-trailers	5.4%	7.2%	1.9%
35	Other transport equipment	2.4%	3.2%	0.8%
36	Furniture; manufacturing n.e.c.	4.0%	2.5%	-1.5%
	TOTAL	**100.0%**	**100.0%**	**0.0%**

Annexure-II

Position of Scheduled Commercial Banks with regard to their outstanding credit to MSE Sector, within that to Micro Enterprises sector and NPA therein (Source: RBI)

Name of the Bank	Year ended, March	Total MSE Amt. O/s (Rs. crore)	Micro Enterp Amt. O/s (Rs.crore)	NPA in MSE Amt. O/s (Rs.crore)	% of NPA in MSE to Total MSE	NPA in Micro Enterp Amt. O/s (Rs.crore)	% of NPA in Micro entrp to Total Micro Entrp	% of NPA in Micro entrp to Total MSE
SCB	2009	256128	99431	13945	5.44	8036	8.08	3.14
	2010	362291	149545	20067	5.54	11885	7.95	3.28
	2011	478527	200528	21259	4.44	12687	6.32	2.65
	2012	527685	217772	26313	4.99	13079	6.01	2.48
	2013	684797	281628	31478	4.60	16826	5.97	2.46

Annexure-III

Position on Sick and Potentially Viable Units (Source: RBI)

(Amount outstanding in Rs. Crore)

As at end of March	TOTAL SICK MSES		Potentially viable		Viable enterprises under nursing	
	Number	Amount	Number	Amount	Number	Amount
2005	138041	5380	3922	435	2080	260
2006	126824	4981	4594	498	915	234
2007	114132	5267	4287	427	588	269
2008	85187	3083	4210	247	1262	127
2009	103996	3620	8168	732	2330	424
2010	77723	5233	9160	965	2360	479
2011	90141	5211	7118	1113	4698	518
2012	85591	6790	10315	1721	6648	468
2013-P	249903	12800	12779	3926	4599	3224

ACRONYMNS

ACRONYMN	EXPANDED FORM
BIFR	Board for Industrial Financing and Restructuring
BSE	Bombay Stock Exchange
BIS	Bureau of Indian Standards
CSO	Central Statistical Organization
CII	Confederation of Indian Industry
CGTMSE	Credit Guarantee Fund Scheme for Micro and Small Enterprises
CLCSS	Credit Linked Capital Subsidy Scheme
DEITY	Department of Electronics and Information Technology
DIPP	Department of Industrial Policy and Promotion
DIs	Development Institutes
DICs	District Industries Centres
DTA	Domestic Tariff Area
EV	Electric vehicle
EMC	Electronic Manufacturing Clusters
EMS	Electronic Manufacturing Services
ESDM	Electronic Systems Design and Manufacturing
EM	Entrepreneur’s Memorandum
ECGC	Export Credit Guarantee Corporation
EPCG	Export Promotion Capital Goods
EPC	Export Promotion Council
F&B	Factories & Boiler
FISME	Federation of Indian Micro and Small & Medium Enterprises
FMS	Focus Market Scheme
FPS	Focus Product Scheme
FSSAI	Food Safety and Standards Authority of India
G&J	Gem and Jewellery
IIIF	India Inclusive Innovation Fund
IOVF	India Opportunities Venture Fund
IIUS	Industrial Infrastructure Upgradation Scheme
ICTE	Information and Communications Technology
IPO	Initial Public Offer
ITP	Integrated Textiles Park
MDA	Marketing Development Assistance
MSE-CDP	Micro & Small Enterprises Cluster Development Programme
MSMEs	Micro, Small and Medium Enterprises
MSMED Act	Micro, Small and Medium Enterprises Development Act
MFPI	Ministry of Food Processing Industries
NIC	National Industrial Classification
NIMZs	National Investment and Manufacturing Zones

NMCC	National Manufacturing Competitiveness Council
NMCP	National Manufacturing Competitiveness Programme
NMP	National Manufacturing Policy
NMFP	National Mission on Food Processing
NPE	National Policy on Electronics
NSIC	National Small Industries Corporation
NSE	National Stock Exchange
NPA	Non-Performing Asset
NEIIPP	North East Industrial and Investment Promotion Policy
PPP	Public Private Partnership
RDEs	Rapidly Developing Economies
SITP	Scheme for Integrated Textiles Parks
SEBI	Securities and Exchange Board of India
SIDBI	Small Industries Development Bank of India
SEZs	Special Economic Zones
SPV	Special Purpose Vehicle
TUFS	Technology Upgradation Fund Scheme
WTO	World Trade Organization

SECRET
MOST IMMEDIATE

No. 601/2/1/2013-Cab.III
GOVERNMENT OF INDIA / BHARAT SARKAR
CABINET SECRETARIAT / MANTRIMANDAL SACHIVALAYA
RASHTRAPATI BHAVAN

New Delhi, dated the 4th April, 2013

ORDER

Subject: Setting up of Inter-Ministerial Committee for accelerating manufacturing in MSME sector.

Reference this Secretariat's Order dated 20th March, 2013 on the subject mentioned above. It has been decided to reconstitute the Inter-Ministerial Committee with the following composition:

Shri Madhav Lal, Secretary, Ministry of MSME-	Chairman
Shri Saurabh Chandra, Secretary, DIPP	Member
Dr. M. Sarangi, Secretary, M/o Labour	Member
Shri Rakesh Kacker, Secretary, MFPI	Member
Ms. Zohra Chatterji, Secretary, M/o Textiles	Member

2. The Committee will examine the suggestion received in the meeting organized by the Ministry of Commerce, Industry and Textile on 15.3.2013 regarding Exports of Goods from Micro, Small and Medium Enterprises Sector and support short and medium term measures that may be taken to encourage and enhance manufacturing in MSME sector.

3. The Committee may associate such other members as required.

4. The Committee will be serviced by the Ministry of Micro, Small and Medium Enterprises.

5. The Committee will submit its recommendations within one month.

(Bhaskar Jyoti Sharma)
Deputy Secretary

To,

Shri Madhav Lal, Secretary, Ministry of MSME
Shri Saurabh Chandra, Secretary, DIPP
Dr. M. Sarangi, Secretary, M/o Labour
Shri Rakesh Kacker, Secretary, M/o Food Processing Industries
Ms. Zohra Chatterji, Secretary, M/o Textiles

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(Bhaskar Jyoti Sharma)
Deputy Secretary