

## 12<sup>th</sup> Five Year Plan Approach Paper – IIA's Suggestions For MSMEs

### PREAMBLE:

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economic and social development of the country owing to their contribution in generating employment, exports & GDP. The sector contributes 8% of the country's GDP, 45% of the manufactured output and 40% of its exports. The Sector provides employment to about 6.2 crore people through 2.6 crore enterprises. As such MSME sector is providing food and shelter to almost 1/3<sup>rd</sup> population of the country.

The contribution and importance of MSME sector in India's economic and social development is comparable to Agriculture sector. The condition of Micro & Small entrepreneur is similar to the marginal farmers. However, in our plans & budgets the outlay for MSME sector is negligible compared to Agriculture Sector.

Indian Industries Association therefore suggests that in 12<sup>th</sup> five year plan, MSME sector should be given the same importance as that of Agriculture Sector.

### COMMENTS AND SUGGESTIONS ON CONTINUATION OF 11<sup>TH</sup> FIVE YEAR PLAN SCHEMES/PROPOSALS

Majority of the issues discussed and recommendations made while preparing 11<sup>th</sup> five year plan approach paper for MSMEs are still relevant today. These issues and recommendations are as under:--

- Situation of availability of Institutional Finance to MSMEs is worse. It is evident from the 4<sup>th</sup> all India census of MSMEs wherein it is reported that only 5.18 % MSMEs are availing Institutional finance and 92.77% use their own finance.
- There is still a wide discrepancy in Taxes and duties within the country. Even after implementation of VAT, Commercial Tax rates in different states for many items are different.
- Situation of Infrastructure such as availability of land and power has not improved.
- Not much headway in fulfilling Technology Modernization needs of MSMEs is achieved till date.
- Single Window clearance of the applications of the entrepreneurs is still on paper.
- MSMEs are still loaded and burdened with legal requirements through more than 35 ACTS applicable on them. The need to relax legal requirements on MSME was realized in 2006 but is not fulfilled till date.
- Business risks for start ups are required to be mitigated. It was suggested that large number of well managed business incubators in the identified thrust areas of manufacturing may be set up. Situation has not improved as yet.
- MSMEs are to be liberated from the Inspector Raj.
- Purchase preference policy for MSEs to be effectively implemented. Progressive Associations of MSMs should be associated with monitoring implementation of the policy.

- Simplification of Labour Laws:-
  - Manufacturing Micro enterprises to be exempted from all Labour Laws except the Minimum Wages Act.
  - A separate and simple legislation on Labour related matters should be enacted for MSMEs employing less than 100 workers.
- Strengthening of database pertaining to MSMEs.
- Collateral Security/ third party guarantee continues to be one of the main impediments to the credit flow to MSEs.
- MSME sector still remains insulated from venture capital.
- SIDBI has been providing multi-dimensional support to the MSMEs however such efforts of SIDBI had only limited impact on the sector. SIDBI should come forward as a true leader of delivery of credit and associated services to the MSMEs.
- There is a need for capacity building of MSME associations so as to make them more effective at ground level and strengthen them to become effective partners in the promotion and development of MSMEs.
- Separate Trade fair Authority for MSMEs.
- Dedicated T.V. Channel for awareness to MSME.

**We recommend that the above issues and recommendations may be considered for effective redressal during 12<sup>th</sup> five year plan.**

During 11<sup>th</sup> five year plan, few flagship Schemes/Programme were implemented which needs to be continued. However these schemes are required to be remodeled incorporating the experience gained and plugging the loopholes. Few such schemes along with IIA's suggestions are given as under:-

- **Effective implementation of PMEGP**

During 11<sup>th</sup> five year plan, one of the flagship schemes of Ministry of MSME is PMEGP with a target to generate 37 Lakh self employment opportunities. The design of the Scheme is good; however, its implementation has many loopholes. The scheme should be continued in 12<sup>th</sup> five year plan by plugging the following loopholes:-

1. Identifications and selection of beneficiaries lack transparency

To plug this loophole MSME Associations should be involved in identification and selection of potential entrepreneurs and applications received through the MSME associations may be dealt on priority.

2. Support for preparing bankable project reports, not available to the beneficiaries

This bottleneck can also be minimized with active involvement of MSME Associations who have sufficient MSME support staff and infrastructure. Nodal agencies and Financial Institutions can also play an important role in helping

beneficiaries to prepare bankable project report rather than only inspecting and rejecting it.

3. The budget allocation for this programme is insufficient

It may be enhanced substantially.

4. Subsidy sanctioned does not reach the beneficiary in full

Beneficiaries are required to run around Nodal agencies and Banks for approval of the projects and release of the subsidy- A transparent system for approval and release of the subsidy is required to be put place.

- **Cluster Development Programme**

Cluster development programme for Micro & Small Enterprises should also continue in 12<sup>th</sup> five year plan with substantially higher budget allocations and involvement of MSME Associations. The emphasis should be on performance and outputs from the clusters rather than number of clusters and money spent.

- **Effectiveness of MSME Development Institutions**

Majority of the autonomous and development institutions operating under the Ministry of MSME have failed to serve their objectives. Their performance should be evaluated in terms of number of MSMEs benefited. Beneficiaries should be made to record the gains whether it is related to technologies made available/ technical problems solved/ improvement in manpower skills etc.

The management of these institutions should be on the pattern of Institute Management Committees (IMCs) as has been done for ITIs by the Ministry of Labour. In IMCs, involvement of Industry representatives is ensured. In case of MSME Development Institutions, prominent MSME Association may be involved in the management.

- **Awareness about National Manufacturing Competitiveness Programme**

National manufacturing competitiveness programme launched in 11<sup>th</sup> five year plan has not penetrated to the MSME masses. This programme is required to be published and supported more vigorously.

### **IMPLEMENTATION OF PRIME MINISTER'S HIGH LEVEL TASK FORCE RECOMMENDATIONS**

During 11<sup>th</sup> five year plan period, Hon'ble Prime Minister appointed a High Level Task Force to examine ways to overcome the handicaps in the growth to MSME Sector. President, Indian Industries Association was a member of this High Level Task Force. The Task Force has submitted its recommendations in January 2010. Some of these recommendations are yet to be implemented e.g.

- "Public Procurement policy for MSMEs as envisaged in the MSMED Act 2006 may be introduced at the earliest. The policy may set a goal for government departments and PSUs to reach, over a stipulated period, a target of at least 20% of their annual volume

of purchases from Micro and Small enterprises (MSE's) and mandate them to report their achievements in this regard in the annual report.”

Though this recommendation was suggested for immediate action yet it has not been implemented as yet. Similarly, there are other short term and midterm recommendations which have not been implemented.

We suggest that all the recommendations of High Level Task Force which are not implemented as yet as well as those which have been implemented and are of continuous nature may form a part of 12<sup>th</sup> Five year Plan.

### **OTHER RECOMMENDATIONS/SUGGESTIONS**

- **Less regulations and more facilitation**

The regulatory mechanism applicable on MSME is required to be simplified so that MSME entrepreneurs are able to understand and implement the rules and regulations properly. Simplification of Labour Laws for MSME is being talked about for decades now but nothing concrete could come out till date. Inspector Raj is one of the biggest worries for MSME and maximum time & energy of MSME entrepreneur is spent on dealing with the inspectors. This not only hinders the growth of MSMEs but aggravates corruption in our Society.

IIA therefore suggests that 12th Five year plan approach paper may include the provision for “Less regulations and more facilitation for MSME”.

- **Ways to attract youth for setting up MSME Ventures**

MSME Sector is risky and litigation prone, therefore the mortality rate is very high. It is evident from the Govt. census that 1/3rd MSME are either closed or are seriously sick. The repercussions are that the children of MSME entrepreneurs are shying away to join the venture of their parents mainly in Manufacturing activities. It is happening due to hardships being faced by the MSME entrepreneurs in running and sustaining their business. Even first generation entrepreneurs are not enthusiastic to launch a manufacturing unit. This situation is frightening for the MSME sector.

Therefore young entrepreneurs are required to be attracted to opt for setting up MSME Ventures. This can be achieved by highlighting the contribution of MSME sector. Success stories and achievements of the MSME sector are to be highlighted. Facilitating environment is to be created. Few states in India are pioneering the efforts; the examples are to be replicated all over the country.

- **Effective and time bound assistance to MSME for insurance and treatment of failure**

Data shows that 92.77% MSME are self financed. Hence in case of failure, the MSME entrepreneur loses everything. A suitable Business Insurance scheme for MSME is therefore required to be launched .

Dealing with MSME failure is required to be handled at three different levels i.e.:

- (i) Measures to avoid MSME failure / Sickness
- (ii) Timely rehabilitation of sick/failed units.
- (iii) Provide exit route to un-viable sick units.

Hence effective and time bound assistance to MSME for insurance and treatment of failure is required to be put in place.

- **MSME Sector to be recognized at par with agriculture Sector**

1/3rd Population i.e around 39 Crore people are directly dependent on MSME Sector [(2.6 Crore Units + 6 Crore employees)x average 4.5 Member family size = 38.7 Crore] As such MSME Sector deserves Concessions at par with agriculture Sector at least for interest rates for loans and warier of loans.

- **MSMEs strongly oppose the proposal to enforce reservations in MSME**

51.28% MSME unit in India are run by SC/ST/OBC entrepreneur. The percentage of SC/ST/OBC/ other weaker Section employees in MSME Sector is more than 60%. In recent past there has been proposal for enforcing reservations in MSME Sector also. MSME Sector by virtue of its nature absorbs / will keep absorbing SC/ST/OBC employees more than the proposed stipulated targets. Hence enforcing reservations on MSME Sector will be a futile exercise at the same time will burden MSME with another unwanted regulation.

- **Facilitate / Motivate all MSME to get registered**

About 94% MSME in India are not registered. Hence plans are made on assumptions. There is no consistency of data available from different sources. Through MSMED Act 2006, a new format for registration of MSME was prescribed. The earlier SSI registrations were declared un-valid. Though MSMED Act 2006 envisaged a simple and easy method of registrations yet the process loaded MSME with another burden because of the following reasons:-

1. DIC's are not proactive rather in, most of the cases getting Acknowledgement of E.M. Number is very difficult. Hence MSME get registered only when it is absolutely necessary for them.

2. The EM Number acknowledgement contains a note as under:-

“THE ISSUE OF THIS ACKNOWLEDGEMENT DOES NOT BESTOW ANY LEGAL RIGHT-----COURT ORDERS.” This “NOTE” has created ambiguity and is a statement in itself of non-utility of the E.M. Number.

IIA therefore recommend that DIC's may be made responsible to get all MSME registered, update their details annually and make district wise, category wise, block/area wise contact & other details available on Website.” This information should be linked to Minister of MSME Govt. of India Website also.

IIA also recommend to delete un-necessary “NOTE” as Stated at 2 above from the E.M. Number Acknowledgement form.

- **Selection of MSME Associations for consultation / strengthening by Govt. of India Ministries / Commissions / Departments**

Large number of Industry Associations is operational all over the country. All of them are projecting themselves as protector and well wishers of MSME. The fact is that all of them are not working for MSME Sector. Large number of such Associations are one man show and do not have significant direct membership base. Few Industry Associations have representation of big corporate but are pretending to be the well wishers of MSME without knowing the ground realities. IIA understands that Govt. might be finding it difficult to identify the effective and meaningful MSME association. One of the potential strategy stated in the 11<sup>th</sup> Five Year plan was to strengthen MSME Associations so that these Association's may collaborate well with Govt. efforts and be a partner in the process of development and promotion of MSME's. This will be possible only if MSME Associations identified are the real players.

IIA recommends that Govt. may define eligibility criteria's for selecting MSME Associations to be partner with the programme/Scheme/Policy making/ data collection etc.

- **Social Security system for workers in MSME Sector**

For so many decades we are struggling with two main issues i.e. availability of Social Security to all workers and simplification of Labour Laws for Micro and Small Sector. Both the issues are important but in political circles these are looked upon as contradictory to each other. Hence despite several rounds of discussions over the years only a small fraction of the total workforce Employed in MSE Sector is covered under the EPF and ESIC Schemes and MSE entrepreneurs are also burdened with several Labour Laws.

IIA therefore propose a solution to the problem as under:-

1. A Social Security tax i.e certain percentage of the sales turn over may be levied.
2. MSE's may then be exempted from payment of EPF, ESI, Gratuity , Bonus and submission of the related reports and returns except for proposed Social Security tax.
3. Every Worker may be issued an identification card which should be valid even on switching over the job. All the benefits may be provided to the worker and his/her family based on this card.

IIA is carrying out a detailed study on this proposal which is likely to be completed by June 2011. It will be submitted to the Planning Commission as well as Ministry of Labour and Ministry of MSME.

- **Improvement in media coverage and awareness**

The coverage of MSME sector in print and electronic media is less than 2% compared to total industrial news.. Few MSME Association are making efforts to publish MSME News Magazines / News Letters. These publications however lack professional touch and investigative reports. This is mainly due to limited resources available with MSME association. It is therefore proposed that efforts of such MSME Associations should be supported by the Govt. through advertising MSME schemes and programme regularly.

Dedicated T.V Channels / News portal / Radio Channel for MSME should be launched by Ministry of MSME in PPP mode with prominent MSME Associations in all regions of the Country.

**Apart from the above, the existing schemes and programmes related to Access to Markets, Technologies, Finance and Infrastructure should be continued and strengthened. MSMED Act 2006 need review for effective implementation of the provisions such as delayed payments of Mses and procurement by Govt. departments from Mses etc. Talent attraction and retention in MSEs is a problem where this sector needs substantial help.**