

Report of the Prime Minister's Task Force on Micro, Small and Medium Enterprises

Executive Summary

1. The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of Entrepreneurship, often driven by individual creativity and innovation. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

2. The MSME sector in India is highly heterogeneous in terms of the size of the Enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number Established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation.

3. The representatives of 19 prominent MSME Associations met the Hon'ble Prime Minister on 26th August 2009 to highlight their concerns and issues regarding MSMEs. The Prime Minister announced the setting up of a Task Force to reflect on the issues raised by the associations and formulate an agenda for action within a period of three months after discussions with all stakeholders. Accordingly, a Task Force under the chairmanship of the Principal Secretary to Prime Minister was constituted to address the issues of the MSME sector.

Major issues concerning the MSME sector

4. Although Indian MSMEs are a diverse and heterogeneous group, they face some Common problems, which are briefly indicated below:

- Lack of availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Limited access to equity capital;
- Problems in supply to government departments and agencies;
- Procurement of raw materials at a competitive cost;
- Problems of storage, designing, packaging and product display;
- Lack of access to global markets;

- Inadequate infrastructure facilities, including power, water, roads, etc.
- Low technology levels and lack of access to modern technology;
- Lack of skilled manpower for manufacturing, services, marketing, etc.;
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws.
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and Issues relating to taxation, both direct and indirect, and procedures thereof.

5. During the past, several Committees/Study Groups had looked into issues relating to MSMEs. These, inter alia, include: (i) Committee to Examine the Adequacy of Institutional Credit to SSI Sector under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor (1991); (ii) 'Expert Committee on Small Enterprises' under the chairmanship of Shri Abid Hussain, Former Member, Planning Commission (1995); (iii) High Level Committee on Credit to SSI under the chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India (1998); (iv) 'Study Group on Development of Small Scale Enterprises' under the chairmanship of Dr. S.P. Gupta, the then Member, Planning Commission (1999); (v) Working Group on Flow of Credit to SSI Sector under the chairmanship of Dr. A.S. Ganguly (2003); and (vi) Working Group on 'Rehabilitation of sick SMEs' under the chairmanship of Dr. K. C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank (2007). The Government had also constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS) in September 2004 to examine the problems confronting enterprises in the unorganized sector and make appropriate recommendations to provide technical, marketing and credit support to the enterprises. The NCEUS submitted eleven reports.

6. The Task Force classified the common issues into 6 major thematic areas and constituted separate Sub-Groups for detailed examination. These thematic areas covered (i) credit, (ii) marketing, (iii) labour, (iv) rehabilitation and exit policy, (v) infrastructure, technology and skill development and (vi) taxation. A separate Sub-Group was also constituted to look into the development of MSMEs in the North-East and Jammu & Kashmir. Each of the Sub-Groups examined the specific issues over a series of meetings, and after detailed deliberations with all the stakeholders, including MSME Associations, submitted their reports to the Task Force. The recommendations of the previous Committees, Working Groups and Study Groups, which are relevant in the current context, have been taken into consideration by the Task Force and its sub-groups.

Summary of Recommendations

7. The following measures are suggested to provide relief and stability to MSMEs, especially in the aftermath of the recent economic downturn.

A. Measures that need immediate action

i. The government should extend, for a further period of one year, beyond March 31, 2010 the components of the 'stimulus package' which are specific to MSMEs.

ii. The government should ensure strict adherence to the stipulated targets by the commercial banks for the micro enterprises (viz. 20% year-on-year growth for micro and small enterprises lending with 60% apportionment for micro sector).

iii. A separate fund may be created with SIDBI, using the shortfalls, if any, against the MSE credit targets set for the commercial banks. This fund named 'Special Fund for Micro Enterprises' should be utilized exclusively for lending to the micro enterprises.

iv. A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development 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 (MSEs), and mandate them to report their achievements in this regard in the annual reports.

v. The Offset policy of the government, particularly in the defence and aviation sectors, should give priority to MSMEs [Ref. Chapter XIII Para 6 (a) A permanent guidance mechanism under the Raksha Utpadan Rajya Mantri (RURM) with Secretaries of Defence Production, MSME and Civil Aviation and CEOs of Defence PSUs should be considered for this purpose.

vi. The government should earmark additional public spending to the tune of Rs.5, 000 -5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set up. These funds may be used to: (a) support the establishment of Rehabilitation Funds in the States for the revival of potentially viable sick units; (b) assist MSMEs in the acquisition and adaptation of modern clean technologies as well as creation of Technology Banks and product-specific Technology Development Centres; (c) promote establishment of business incubators in educational institutions of repute; (d) renovate existing industrial estates and develop new infrastructure for MSME sector, with sustainable urban governance mechanisms; (e) re-engineer, strengthen and revitalize District Industries Centres to enable them to play a more active role in advocacy and capacity building for MSMEs and as appropriate, in their rehabilitation; (f) strengthen NSIC's equity base for enhanced market support to MSMEs; and (g) up-scale the existing programmes of entrepreneurship and skill development targeted at MSMEs. It is further recommended that while the detailing of the schemes would be done on the basis of further examination, to avoid procedural delays in implementation of these schemes, a line entry may be incorporated in the Annual Plan 2010-11 of the Ministry of MSMEs.

vii. The government should take steps to create an overall enabling environment using appropriate legal and fiscal instruments, to incentivize the transition of MSMEs from the unorganized to the organized sector as well as for their corporatization as entities. It should also encourage higher investments for innovative and knowledge based ventures as well as for research and development through greater partnership between the industry and academic institutions.

viii. The ongoing exercise to introduce a new Direct Tax Code and GST should specifically seek to achieve these policy objectives through appropriate provisions for graded corporate tax structure, tax pass through for angel and venture capital funds and incentives for R&D.

B. Medium Term Institutional Measures

8. The overall approach suggested above should be accompanied by institutional changes and detailing of programmes, to be achieved within a year or so. These include:

i. Government should set up an independent body at the national level for the promotion and development of MSMEs. This body may provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganized sector, promote technology development (including clean technologies), provide marketing support and coordinate & disseminate information relevant to MSMEs. Currently, the Development Commissioner (MSME) is the focal point for all policy matters, formulation of various promotional and developmental schemes as well as channelizing certain incentives and subsidies to the MSME sector, the Small Industries Development Bank of India (SIDBI) is the principal financial institution for financing and related promotional and development work for MSMEs, while the National Small Industries Corporation Limited (NSIC) has been set up to facilitate MSMEs in procurement of raw material and helping in marketing of their products. In addition, various Ministries/Departments of the Government have promotional policies and developmental schemes for the MSMEs in their specific sector. The proposed independent body could use the existing structures of aforesaid organizations with appropriate changes in their charter and mandate. The experience of other countries with such institutions (such as the Small Business Administration, in the United States) may be considered while deciding on the mandate and structure of the National level institution.

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

iii. A Standing Review Committee under Member (Planning Commission) should be set up to monitor flow of credit to MSME sector and its apportionment to the more vulnerable sections like micro enterprises and the unorganized sector. iv. Government should encourage Micro Finance Institutions (MFIs) to form self-help groups and finance micro enterprises in unbanked/identified excluded rural/semi-urban areas at reasonable rates. Banks may also be encouraged to formulate schemes for refinancing loans taken by the MSEs from non-institutional sources/moneylenders.

iv. Financial outreach is likely to prove an effective means to formalize the unorganized sector. Suitable incentives, including tax concessions, should be extended to MFIs to encourage them to work as business correspondents and business facilitators for banks to service micro enterprises.

v. The District Industries Centres (DICs) should be strengthened with provision of modern IT-enabled communication facilities and re-training of human resources available with these institutions. As the DICs form the bedrock of MSME promotion, they should be urgently strengthened, revitalized and transformed to play a more active role in advocacy and capacity building for potential and existing entrepreneurs. Wherever viable, active involvement of the private sector for revamping the DIC network should be considered. Such re-engineering of the DICs may be supported by the Central Government.

vi. States should be supported by the Central Government to set up Rehabilitation Funds and operationalise appropriate schemes for the rehabilitation of units temporarily rendered sick due to circumstances beyond their control. It is recommended that the state governments may establish a mechanism at the district level, in the DICs, to re-examine the viability of sick units in coordination with the banks and implement rehabilitation packages in a time bound manner.

vii. It must be ensured that the rehabilitation package is made binding on all stakeholders, including banks and financial institutions. The RBI/Finance Ministry should issue necessary orders in this regard so that discretion at the field level, whether by the field formations or by banks is ruled out. We recognize that the Andhra Pradesh Model may be a good template for this dispensation (Chapter IX Annexure B), which may be examined while finalizing the contours of the scheme.

viii. The government should infuse industrial estates which are currently in a state of decay and neglect, with fresh capital and upgrade them to 'Industrial Townships'. The latter concept has constitutional recognition. This will permit effective municipal administration and a single-stop mechanism for the provision of municipal services.

ix. New clusters for MSEs should be created to meet the requirements of planned development and growth, consistent with the policy of progressively organizing the MSEs. Development of new infrastructure for the MSME sector should be substantially augmented with the government stepping in with viability gap funding to encourage private sector participation.

x. Government should strengthen NSIC's equity base to give a demand side impetus to MSME enterprises in addition to preferential procurement and volume stipulations enunciated earlier. This shall help remove bottlenecks in procurement of raw materials and also step-up marketing support [Chapter-XIII paras 6 (b) to 6 (d)], and provide better backward and forward linkages to the sector.

xi. Government should consider earmarking funds to the tune of Rs. 1500 crore, within the enhanced investment package proposed in A(vi) above, to support clean technology initiatives of different Ministries involved with MSME growth, particularly in the context of the National Action Plan for Climate Change (NAPCC). This amount should be utilized by up-scaling existing schemes or by evolving new schemes to assist existing MSMEs in acquisition, adaptation and innovation of modern clean technologies as well as creation of a Technology Bank/product specific technology centres to enable them to move up the value chain.

xii. The concept of business incubators in educational institutions of repute should be encouraged by setting aside Rs.1000 crore within the overall package set out in A (vi). We have seen that business incubators currently in place in the premier management institutions of the country have facilitated new enterprises with innovative ideas.

C. Legal and Regulatory Structures

9. The legal and regulatory structures and provisions affecting the MSME sector that should be taken up in the medium term (1-3 years) are as follows.

I. Government should expedite the establishment of a SME Exchange which is already under consideration.

ii. Workable legal options should be developed for the securitization of trade credit receivables and for the promotion of factoring services.

iii. Wide publicity should be given to new formats like Limited Liability Partnerships and Single Person Companies, which provide MSMEs with an interim solution in the move from the informal to the formal economy.

iv. The insolvency legislation should be comprehensively reviewed in recognition of the reality of the global market where enterprises continuously get created and destroyed.

v. Labour laws should be simplified, especially those applicable to enterprises in the MSME sector, since the transaction costs for complying with these laws is disproportionately high for these units. While some steps have been taken by the Labour Ministry in this regard, we recommend that a single and comprehensive legislation for MSEs with 40 workers may be worked out. At the same time, keeping in view the large size of the unorganized sector within MSMEs, the labour related issues for this sector should be focused more on welfare rather than legislation by, inter alia, use of the recently promulgated Unorganised Workers Social Security Act, 2008.

D. North-Eastern States and J&K

10. While the Government has introduced special packages and policies for the NER and J&K, there have been intra-state and intra-regional asymmetries in utilization which need to be looked into by the respective state governments. Additionally,

i. Some modifications in the capital subsidy scheme should be made, so as to allow MSMEs to avail of subsidy for their expansion.

ii. The budgetary provisions which have been reportedly inadequate to meet subsidy claims under these schemes may be supplemented so as to clear all pending claims for MSEs Up to 31.3.09.

iii. The J&K Government has been demanding that the incentives available for MSMEs in the State be brought on par with the modified NEIIPP of NER. This demand appears to have some merit. The J&K package may be enhanced and brought at par with the modified NEIIPP of NER for MSMEs.

iv. A Fund of Rs.100 crore within the corpus may be earmarked for implementing a special rehabilitation package on easier terms for identified sick units in J&K.

Conclusion

11. None of these measures will work unless their implementation status is monitored regularly at the highest level. The issues are simply too diverse to be handled by a single line Ministry. The Task Force accordingly recommends the establishment of Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which may oversee implementation of these recommendations on a half yearly basis. The Ministry of MSME shall be the servicing arm for the Council.