

## MSME POLICY DRAFT CONSULTATION PAPER

*Comments by CUTS International*

*15<sup>th</sup> January, 2015*

### **INTRODUCTION**

The Micro, Small and Medium Enterprises (MSMEs) contribute 45 percent in the manufacturing output, 40 percent to the total exports in the country and 8 percent to the country's Gross Domestic Product (GDP). This sector provides employment to close to 60 million people in over 30 million units which together produce more than 8,000 products<sup>1</sup>. The significance and value of this sector is evident from the statistics above, however there are considerable issues plaguing this sector which hamper their growth.

Some of the key challenges faced by this sector are the unavailability of adequate and timely credit at affordable costs, outdated technology, lack of innovation, dearth of skilled workforce, absence of proper training and guidance, inadequate infrastructure, marketing and procurement hurdles. Some estimates suggest that close to 96 percent of the enterprises are not registered, which means they do not have access to the promotions and schemes launched by the government<sup>2</sup>. However, this sector plays a crucial role in employment generation, providing greater production possibilities, enhancing the growth of the economy and is often termed as the *backbone* of the Indian economy. It is one of the finest means of achieving faster, sustainable and more equitable growth.

Thus, to address the concerns of this sector the Ministry of Micro, Small and Medium Industries has initiated the development for a specific policy for this sector. The Ministry has released the Draft Consultation Paper for suggestions from stakeholders in this regard. Consumer Unity & Trust Society (CUTS) through this submission intends to respond to the issues raised in the Draft Consultation Paper.

Any policy designed for the MSME sector must work towards creating an enabling environment to support the enterprises to prosper and grow. Additionally the government must also undertake measures for the socio-economic development of the nation. It should not only improve the business environment but also focus on enabling the enterprises to grow further.

Some of the aspects brought forth in the Draft Consultation Paper have been addressed below:

### **I) THE REGULATORY REGIME**

Several MSMEs are functioning in the local market with low level of technology and few employees who handle all the activities of the units, thus limiting the amount of time and efforts for technology upgradation and innovation. Apart from this the unit also has to meet all the regulatory obligations,

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<sup>1</sup> [http://www.business-standard.com/content/budget-2014/solve-funding-issues-to-finance-smes-growth-plans-114070200669\\_1.html](http://www.business-standard.com/content/budget-2014/solve-funding-issues-to-finance-smes-growth-plans-114070200669_1.html)

<sup>2</sup> <http://www.smetimes.in/smetimes/editorial/2014/Apr/01/msme-definition-do-we-need-a-new-one29138.html>

some of which are not only cumbersome but also overlapping which places additional burden on the enterprise. Any regulatory structure should not be seen as a burden but should create an enabling environment.

**Expectations:** Thus, the regulatory framework should aim to –

- Φ Limit the regulatory overlaps
- Φ Reduce the compliance burden on MSMEs
- Φ Develop innovative alternatives to regulations, employing them only as a last resort
- Φ Minimise the set of rules and simplify the procedures
- Φ Ensure fairness and transparency in the system

*The Micro, Small and Medium Development Act, 2006 (MSMED Act, 2006) provided for the establishment of **National Board for Micro, Small and Medium Enterprises**. The main functions of this Board were to evaluate the factors impacting the development of MSME sector, provide recommendations and advice on the use of Funds. This group which consisted of 47 members was to meet once every 3 months, however the last meeting was held in October, 2008. Thus, implementation is lacking which severely impacts the growth of the sector.*

**Action Points:** Any regulatory framework should (i) drive the setting up of new industries, (ii) maximise the growth of existing units, (iii) arrest the sickness of MSMEs and (iv) rehabilitate viable units.

- \* **Creating a facilitation agency:** This could be the support arm of the government and assist the MSMEs in all aspects of business. They could play an advisory role in their development and also act as a grievance redressal cell. Any issue brought forth must be dealt with in a timely manner.
- \* **Enhancing the process of Government Procurement:** In a recent mandate by the government, all Public Sector Units (PSUs) have to ensure that 20 percent of their procurement is from MSMEs<sup>3</sup>. Government procurement forms a regular demand for the MSMEs. However, the process needs to be more transparent while making it easier and simpler to do business with the government. The tendering process should be improved and data requirements kept to a minimum for smoother functioning of the process.
- \* **Easier norms for Entry and Exit of units:** The regulations pertaining to the entry and exit of firms should be made simpler and easier to adopt. This should not be seen as a burden and the agencies involved should assist the units with the procedures.
- \* **Greater decentralization:** The government should work towards creating more state/ regional level divisions to achieve greater efficiency in implementation of the schemes, policies etc.
- \* **Adopting Best Practices:** Regular efforts should be made to study best practices not just in India but also globally and to implement the same in order to improve our own processes. The emerging challenges should also be understood to take proactive steps to counter them.

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<sup>3</sup> <http://www.smetimes.in/smetimes/news/top-stories/2014/Oct/10/govt-to-ensure-all-psus-procure-20-pc-from-msmes631595.html>

- \* **Communication:** The communication activities should be more targeted and easy to understand for the enterprises. The process for all regulations to be followed must be clearly articulated in order to simplify the process for these units.
- \* **Monitoring and Evaluation:** In order to evaluate the impact of any regulation or activity, monitoring is critical. Thus, monitoring and evaluation should be done regularly not only to understand whether the rules are being implemented but also if the procedures are creating bottlenecks and need improvement.
- \* **Better coordination of government efforts:** Greater coordination of different government agencies is required in terms of regulations as well as implementation. Increased communication will assist in developing a more synchronised approach.
- \* **Simplifying Procedures:** Regulatory overlaps place an additional burden on the enterprises in terms of costs. There is also a need to minimise and simplify the rules and procedures and adopt single window clearances. There cannot be a one size fits all policy, thus different sectors would need to be dealt differently. For instance, a non-polluting unit could be allowed to run in a residential area.
- \* **System of Inspections:** At present a unit is liable for multiple inspections with hardly any coordination among the different departments. This system is cumbersome and demanding for the units and these should be minimised. Another option which can be explored is self-certification by firms.
- \* **Prioritise sectors:** Priority sectors should be identified for a more focussed approach for them. These could be evaluated in terms of level of employment, growth trajectory, turnover etc. Additional subsidies or promotions could be provided for enhancement of these sectors.
- \* **Registration of Units:** In order to avail benefits of any government policy or scheme the said unit must be a registered MSME. However, a majority still remain unregistered which negates the positive work done in the sector as many still cannot avail the benefits. The transition from informal to formal economy is riddled with many hurdles; one of them being the highly complicated procedure for registration of enterprises. The process of getting clearance certificates from a number of authorities and compiling information is a daunting task. The procedure needs to be streamlined and made more accessible and entrepreneur friendly.
- \* **Regulatory Impact Assessment:** A regulation is created in order to achieve certain objectives; however a substandard regulation could have adverse impacts such as increase in compliance costs, create greater regulatory uncertainties among others. In order to create an effective regulation it is essential to systematically identify and evaluate the probable effects of the regulation, develop and compare alternatives to select the most effective solution. Regulatory Impact Assessment (RIA) is a tool to conduct cost-benefit analysis and is used in many countries to improve the quality of regulation and in turn its effectiveness and efficiency.

## II) THE SUBSIDY/ PROMOTIONS REGIME

The impact of the MSME sector on the socio-economic development of a nation is well known. Thus, entrepreneurs need to be encouraged to start their business rather than opting for a wage employment. With schemes such as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) even low skilled workers can get gainful employment. These along with the complex policy and regulatory regime in the country become disincentives for first-time entrepreneurs for whom wage employment could be a safer option. Thus, subsidies can become a necessary support for entry into the sector, promote innovation and growth of the units. However, once the purpose has been achieved these should be gradually removed before they become a crutch for the producers and hamper their growth from a micro enterprise to small to a medium enterprise.

**Targeted Entrepreneurs:** The beneficiaries of subsidies should be carefully evaluated to ensure support is provided to the most deserving. This could include enterprises established by women, persons belonging to scheduled caste, scheduled tribes, other backward classes, unemployed persons, persons employing laid-off workers or disabled workers, minority or ethnic communities.

**Targeted Areas or Sectors:** Another essential task is to ensure balanced regional development in the country. Thus, additional subsidies may be provided in underdeveloped regions, backward areas, border areas, insurgency prone zones, etc. Certain priority sectors which contribute to greater socio-economic development can be provided with subsidies to further promote their growth.

**Types of Subsidies:** The subsidies provided could be of different forms in order to achieve a specific purpose or induce a behaviour change.

- \* ***Taxation Subsidies:*** These could include deferment of government taxes, subsidy on VAT/ CST, exemption from entry tax, electricity duty among others. These could help reduce the tax burden on micro enterprises; however care should be taken for timely removal of such subsidies.
- \* ***Subsidies on Resources:*** Subsidies on acquiring resources such as land could be employed and stamp duty exemption; in part or full; could be instituted. Along with this power and water subsidy or part-reimbursement of cost could also be given to enterprises. Another aspect that could be considered is subsidies on capital investment or factory rent.
- \* ***Subsidies on Skill Development:*** In order for enterprises to grow, skill enhancement of employees is essential. However, due to lack of funds this area is usually neglected which eventually hampers the growth. Thus, subsidies in terms of skill upgradation and training could be provided to firms.
- \* ***Subsidies on Procurement of know-how:*** Any business wanting to grow would need upgradation of not just skills but also technology and production activities. Thus, subsidies can be provided for procurement of knowledge from experts or a research and development organisation.

- \* **Sector specific Subsidies:** The requirements for all sectors are different and the key bottlenecks of the sector could be addressed through the subsidy route. For instance, transport subsidies provided to firms for movement of perishable items.
- \* **Subsidies on Registration:** As mentioned earlier a large majority of the MSMEs in the country are not registered and as a result cannot avail the benefits of public policy. Thus, in order to encourage more firms to register, along with simplification of process, any fees applicable should be reduced or removed.
- \* **Others:** In order to encourage greater reporting by the enterprises, a subsidy on payment made towards preparation of such reports, could be provided. Additionally, any investments made by the unit in any activity or technology for growth could be subsidised. The purpose of any subsidy should be to help the firm grow and limit the impact of any aspects hindering the growth of the business.

### III) THE START-UP REGIME

The two key major stakeholders playing a promotional role in the start-up framework are (i) Government and (ii) Financial institutions. These two together can help build or end a business idea.

The key instruments required for creating an enabling environment for start-ups are mentioned below:

**Access to finance:** One of the main limitations for an MSME start-up is access to finance. According to an International Finance Corporation (IFC) report the financing gap in the sector is close to Rs 2.93 trillion<sup>4</sup>. Thus, any policy developed should support the new enterprises by providing access to adequate and timely funding. This can be in the form of soft loans, seed money, collateral provided by government on behalf of the unit and creating a fund for MSME financing among others.

**Entrepreneurship Education:** The education and training provided to entrepreneurs should be a priority area. Though they have developed a business idea, they may not have clarity on the finer aspects of running a business. Thus, an effective training programme is essential and the curriculum should be carefully designed with expert advice.

**Supportive Structure:** A specific agency at the state/ regional level should be created for mentoring the entrepreneurs and also assisting them to comply with the necessary procedures.

**Generating Awareness:** Unless the various programmes and promotions for start-ups are not effectively communicated to the target groups their success will remain minimal.

**Support of Civil Society Organisations (CSOs)/ Associations:** The government should regularly engage with CSOs and Associations to assist them in the development of the MSME sector. They could help generate awareness, provide consultative services and even act as an implementing arm of the government.

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<sup>4</sup> [http://articles.economictimes.indiatimes.com/2014-11-24/news/56420746\\_1\\_sme-sector-capital-loan-debt-financing](http://articles.economictimes.indiatimes.com/2014-11-24/news/56420746_1_sme-sector-capital-loan-debt-financing)

#### IV) REVIVAL AND EXIT POLICY

At present there is no national exit policy for MSMEs which results in wastage of human resources, capital and physical resources and the Draft Consultation Paper rightly mentions the need for such a policy. The need of the hour is to design a policy which enables revival of a sick unit or if the case may be, a time-bound exit for a unit.

**Revival of Sick Units:** The reasons for a business making losses can be manifold, ranging from obsolete technology, lack of skilled manpower, inefficient management, marketing challenges to macro-economic issues of recession or economic slowdown. Some of the critical aspects in relation to this are-

- \* ***Diagnostic Study:*** In order to ascertain the causes, an evaluation of the current scenario is essential. The government could also provide subsidy to the unit to get such a study conducted through a third party. This process should be conducted swiftly to ensure timely implementation.
- \* ***Rehabilitation of the unit:*** Once the reasons for the losses are clear and if there is scope for rehabilitation, the government along with the financial institution can together devise a strategy for revival. There could be financial or managerial issues which would need to be addressed and grace period given to the unit for revival. Some of the measures which can be considered are a rehabilitation package for the unit, interest free loans for a specific period, a fund created to assist such units, holding off of creditor action for a period, insurance against disasters or rebate on delayed payment. In case the reasons for losses are not financial, the government could propose change in management, training, or assistance in marketing activities.
- \* ***Delayed Payments:*** This is a serious cause for concern for this sector as the regular cash flow is essential for the everyday functioning of the unit. Thus, provisions of penalty on delayed payments or interest on time delay should be instituted and implemented.

**Exit Policy:** In case the rehabilitation of the unit is not possible, or the entrepreneur wants to move out of the business, exit norms must be in place to assist the smooth closure for the unit.

- \* Schemes for unlocking of resources such as land, machinery among others
- \* Separation of business assets from personal assets
- \* Swift winding up of cases
- \* Ensure safeguarding the interest of the creditors

**Facilitation Cell:** In order to simplify the process and procedures for an entrepreneur a facilitation cell could be created in order to address any concerns of loss-making units and enterprises which want to close.

#### V) FINANCIAL FRAMEWORK

Capital forms the backbone of any business and lack of it can result in closure of the unit and this is true for the MSME sector as well. Especially during the initial phases, a unit largely depends on loans from banks and other financial institutions. Financial assistance is required not only to start a

unit but also for diversification, modernisation and expansion. In the case of MSMEs credit support is also needed when a difficult situation arises such as delayed payments, getting a large order, return of consignment among others. According to a study by US-based Entrepreneurial Finance Lab (EFL), close to 92 percent of MSMEs lack access to formal sector finance<sup>5</sup>.

### **Challenges**

- Φ Difficulty in obtaining working capital
- Φ Lack of collateral to pledge
- Φ Loans provided to MSMEs seen as costly by financial institutions due to intensive fieldwork and scrutiny required for each application
- Φ Inability of financial institutions to effectively assess the potential of MSMEs
- Φ Non-transparent credit pricing mechanisms
- Φ High risk perception of MSMEs
- Φ Inadequate financial records of MSMEs result in difficulty in evaluating creditworthiness
- Φ High administrative/ transaction costs of lending small amounts to MSMEs
- Φ Refusal to lend to industries with negative past experience

### **Action Points**

- \* ***Undertaking Research:*** The government agencies should undertake research to develop an understanding of the financing pattern and requirements of the MSME sector.
- \* ***Government Support:*** The government can facilitate the framework by taking measures such as partly financing cost of loans, providing collateral on behalf of the MSMEs, directly introducing public funds into the banking sector to provide low interest loans among others. They can also provide concessional interest rates, lower financing fees as measures to reduce the cost of loans.
- \* ***Funds Support:*** The government can create special funds to support the development of the sector which can either entirely fund or provide part of the funds for the units. There could also be special funds created for specific tasks such as research, innovation, marketing which would assist the MSMEs to reach a specific goal.
- \* ***Financial Consultancy:*** Most MSMEs require support in handling financial matters, applying for loans, maintaining records, obtaining necessary documentation etc. and such an agency can assist them with such matters. It can act as a one-stop-shop for all financial concerns where they can also receive guidance and direction; however the action needs to be taken in a time-bound manner. The Facilitation Councils were set up to address some of these issues; however their implementation still leaves room for improvement. In many states these have not yet been created and in states where they are functioning, the meetings are not conducted regularly.
- \* ***Innovative Financing Measures:*** In order to inject greater funds in the sector the government must consider and develop innovative funding frameworks to encourage, not only banks but individuals to invest in these ventures. Developing attractive venture capital schemes, micro finance trusts, incentivising individuals to directly invest in the sector, tax deductions for angel

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<sup>5</sup> <http://www.thehindubusinessline.com/economy/there-is-a-credit-gap-of-56-in-the-msme-sector/article6170666.ece>

investors among others. Utilising the online space to help facilitate loans for MSMEs could also be considered.

- \* ***Simplifying procedures:*** Cumbersome regulations and documentation can become a constraint for entrepreneurs and this needs to be overcome through streamlining procedures. Additionally, bankers must also be supportive and cooperative in assisting them through the process.
- \* ***Role of Banks:*** Some bankers do not have sufficient training in terms of handling requests for this sector and lack of accountability results in many entrepreneurs not having secured loans. Also, lack of incentives to provide loans to this sector deters the managers to provide funding. Thus, training of bankers to sensitise them to deal with the sector could be a positive measure. Some banks have taken positive steps to set up branches specifically for the MSME sector, close to regions with greater number of units. The government can play a supportive role in providing infrastructure facilities and resources at a concessional rate for these dedicated branches.
- \* ***Delayed Payments:*** This is a major cause of concern for a cash striven sector as mentioned in the earlier sections and in many instances these delays occur with the Public Sector Units (PSUs). Though under the MSMED, Act 2006 MSMEs can refer any delay of payments to the Micro and Small Enterprises Facilitation Councils which have to resolve the issue in a time bound manner. They can either conduct the conciliation/ arbitration or further refer to an institution conducting conciliation/ dispute resolution. Though the Act provides for interest to be accrued on delayed payments, the main issue however remains unchanged; as these councils lack the necessary authority.
- \* ***Effective Communication:*** As indicated earlier, lack of effective communication will limit the impact of any policy, scheme or regulation.
- \* ***Proper Valuation of Products:*** In order for the MSMEs to obtain the correct price for a product, a proper valuation should be conducted and schemes developed for the same. Additionally, advance amount which is proportionate to the goods produced can be provided in order to overcome the scarcity of working capital.
- \* ***Non-banking Financial Companies (NBFC):*** Access to NBFCs should be improved for the MSME sector along with providing regulatory incentives for participation in this sector. Additionally, credit guarantee support could be provided to NBFC's for offering loans to MSMEs.

## **VI) CONSULTATIVE MECHANISM**

In order to create an effective policy for the sector it is essential to adopt a consultative mechanism.

**Creating a Support Agency:** The purpose of such an agency would be to understand the critical aspects of the sector and devising mechanisms to address their major concern areas. In order to undertake such a task effectively, regularly gathering stakeholder opinions is paramount. Another key aspect would be to improve support and cooperation among government bodies, industry associations, support institutions etc. This could also act as a dedicated agency to streamline, coordinate, monitor and evaluate all initiatives developed.

**Industry Associations and CSOs:** These institutions can play a dual role of assisting the MSME units in relation to their queries along with advocating their interests and concerns to the specific government departments.

**Comprehensive Online Portal:** Such a website can be a source of all information related to the sector in terms of latest developments, policies, grievance redressal along with expert advice provided to entrepreneur queries.

Apart from the major frameworks addressed above, other critical aspects which address the major factors for growth are detailed below:

### **1) ENVIRONMENTAL COMPLIANCE**

Environment protection has become a global issue and in order to effectively address the climate change concerns it becomes imperative to also involve the MSME sector to play an active role. Some of the schemes/ policies in relation to these have been indicated below-

- \* Units should be encouraged and assisted to adopt cleaner mechanisms such as better waste management, pollution prevention, energy conservation among others.
- \* Providing support to units utilising green technology and adopting steps to preserve the environment such as pump-sets using renewable energy, water harvesting, energy conservation, etc.
- \* Innovative financing mechanisms to support green technology adoption, such as venture capital fund, government fund, etc.
- \* Financial support provided to units for undertaking audits for energy/ water etc.
- \* MSME clusters could be approached to adopt green mechanisms for activities impacting the areas such as waste management, water conservation etc. Additional support and part funding could also be provided for these initiatives.
- \* The Government should focus on developing greener production mechanisms and sustainable production patterns and then advocating the same.

### **2) NEW PRODUCT DEVELOPMENT**

In order to stay competitive this aspect is also crucial. However, owing to the afore-mentioned constraints this becomes an often neglected aspect which required greater attention.

- \* **Financial Support:** For enterprises undertaking new product or technological development, financial assistance can be provided to these units. Innovative measures could also be developed such as venture capital assistance.
- \* **Cooperation with Academia:** The government should encourage linkages and cooperation between MSMEs and research institutions and institutions of higher education. This would help promote industrialization of scientific and technological developments.

- \* **Design Clinics:** The government should strive to encourage cooperation between manufacturers and design professionals to provide assistance and solution to design issues along with value addition to existing or new products.
- \* **Creating Incubators:** These institutions can assist in the entire process of developing an idea into a product, its production and commercialization. This can be executed more effectively through incubators and more such institutes should be developed.
- \* **Developing new products/ designs:** New products/ designs developed can be provided to the MSMEs for production along with the technical know-how.

### **3) KNOWLEDGE & INNOVATION FRAMEWORK**

To achieve greater growth, adoption of newer methods of production, technology and innovation form key aspects and should be addressed through any policy designed for the MSME sector.

- \* Incentives/ Subsidies could be provided to firms adopting innovative mechanisms and newer technologies.
- \* Providing knowledge relating to Intellectual Property Rights (IPRs) and support systems to obtain patents and protection of IPRs.
- \* Research facilities of academic institutions opened to MSMEs to promote innovation.
- \* Providing mechanisms and support systems for activities such as testing, inspections etc. for MSMEs.
- \* Enhance the capability of the state to create a demand and probably act as a client for innovative projects in order to promote innovation in the industry.
- \* Promoting the development and adoption of equipments, technologies and methodologies for improving the efficiency of production.
- \* Encouraging linkages between MSMEs and academia and research institutes.

### **4) MANUFACTURING AND SERVICES “EXCELLENCE” FRAMEWORK**

In order to encourage more enterprises to strive for excellence certain mechanisms could be adopted.

- \* **Awards and Rewards:** Many states have adopted this practice of awarding MSMEs for outstanding work along with certain rewards. This can act as an incentive for the enterprises to innovate and grow.
- \* **Certification and Standards:** In order to make these enterprises more competitive, achieve greater growths and tap into more markets, quality certification can play a major role. However, the government would have to put in place effective mechanisms to promote, build capacity, train and help in the execution of such schemes. Another area that could be explored is standards which would signify greater compliance and responsibility, thus, enhancing their image even in the global markets.

- \* **Technology and Quality Upgradation:** The government, through schemes, subsidies and incentives can promote technology upgradation which would lead to better quality products and in turn, excellence.

## 5) **VALUE ADDITION MECHANISMS**

The government should provide thrust to those industries which are based on value addition of locally available resources. Entrepreneurs should be encouraged and assisted in utilising waste materials for other uses such as biomass gasifier for power generation. The government should aim to encourage forward and backward linkages within the region.

## 6) **EXPORT PROMOTION AND MARKETING**

Marketing is a strategic tool employed by businesses to differentiate and create a brand. However, owing to the structure of this sector, this aspect is often neglected due to issues of lack of information, limited resources, and unorganised means of selling. This sector thus, faces the challenge of retaining existing markets as well as expanding to new markets. Lack of awareness of new avenues also critically impacts the growth of the sector as they are dealing with a highly competitive environment. Thus, more often than not this task is executed with the support of the government.

- \* **Organising Exhibitions and Fairs:** In order to showcase the products, the government should organise regular exhibitions to promote the sector. This is the usual route adopted; however efforts need to be made to expand their scope in order to reach a greater audience.
- \* **Assisting in participation in fairs:** Entrepreneurs should be encouraged to participate in fairs nationally and globally to showcase their products. The government should provide assistance in terms of reimbursement of rent charges of stalls, travel and stay. The government could develop a fund for the purpose.
- \* **Analysis of Export Markets and Promotion:** It is important to understand the export potential of our products as well as countries to target. This exercise should be undertaken periodically and the products identified should be promoted for exports.
- \* **Marketing Assistance Schemes:** As MSMEs grow and explore new markets, the level of competition would also be higher. Thus, in order to match quality and branding, efforts need to be made to utilise means such as packaging and adopting bar codes.
- \* **Innovative Marketing Avenues:** Newer marketing avenues need to be explored in order to further promote these products. Thus, latest avenues such as e-commerce could be one aspect which would further promote the sector.
- \* **Creating a Brand:** To achieve differentiation, it is essential that effective branding exercises are undertaken to develop brands out of these initiatives and also create a Brand India for exports. The government should take assistance of experts to innovate and design branding ideas.

## 7) GROWTH ACCELERATOR FRAMEWORK

Only creating a start-up strategy is insufficient, real success will come from the growth of individual units. The policy devised should be such that it creates an environment in which an enterprise continues to develop and does not remain stagnant. The subsidies and schemes received by micro units should not act as disincentives to move towards greater growth.

- \* **Government Business:** The government should devise schemes to increase direct opportunities for the sector to gain government business. This can be achieved through greater government procurement, targeted supplier panels, government exemptions to purchase directly from these units, preference pricing, listing goods and services for exclusive procurement from MSMEs etc.
- \* **Technical Assistance:** Initiating programmes and strategies to provide assistance and consultative services for MSMEs.
- \* **Building relations between large firms and MSMEs:** The policy should encourage cooperation and business between large firms and MSMEs. This could be in terms of supply of raw materials, semi-processed materials, production activities, marketing among others.
- \* **Partnership between MSMEs:** In order to achieve competitive advantages and economies of scale, partnerships between MSMEs should be encouraged. Contractual partnerships between MSMEs should be encouraged for participation in high value procurements and tenders.
- \* **Cluster Strategy:** This strategy is successful and employed in many regions nationally and globally. The government should encourage a large number of MSMEs to be located in a particular area as the facilities then provided to them could increase substantially. If located near large industries this can also help strengthen ties between them. The government could set aside a fund for the purpose of technology upgradation, new technologies, building infrastructure facilities etc.
- \* **Focus on research, design and innovation:** The policy should also focus on enhancing research and design aspects to build competitiveness and also encourage innovation.
- \* **Private sector a partner:** Steps should be taken to make the voluntary private players a partner in the development of this sector. The government must promote interaction and cooperation between private players and MSMEs.
- \* **Competitive Enhancement:** The policy should work towards increasing competitive advantages of these units which could be through schemes, promotions, subsidies or funds as indicated in sections above.
- \* **Establishing greater Linkages:** One of the strategies to promote overall growth is to build more forward and backward linkages. The government policy must include activities to promote and facilitate greater linkages. For instance, in areas where the Khadi sector is strong, cooperation with the fashion industry can be established to further promote the sector.

## **8) RESOURCES PROVISIONING FRAMEWORK**

Though the Draft Consultation paper included primarily human resources, a policy should address all resource concerns which could deal with land, energy as well as labour.

- \* **Availability of Skilled Labour:** Even though India has a high demographic dividend the proportion of skilled labour is low which results in a mismatch between number of jobs created and skilled labour available. Thus, any policy designed should create opportunities for training programmes for skill development. These could be for skill development, skill enhancement among others. The education policy should increase focus on specialised training and skill development so as to create a workforce ready for employment. The government can also create a labour market for unemployed to find gainful work.
- \* **Availability of Land:** The government could address this concern through creating Land Banks, making land available for industries and clusters with subsidies etc.
- \* **Energy Related concerns:** All businesses require a constant supply of electricity for smooth operations. However, power cuts and price hikes can severely hamper the profitability of these small units. Thus, government should ensure a regular supply of power to these enterprises at a steady rate; provide power subsidies and protection from rate increase.
- \* **Availability of Raw Materials:** The policy should aim to simplify sourcing mechanisms, reserve certain raw materials for MSMEs and ensure that all measures are in place for necessary material availability with MSMEs.

In addition to the aspects mentioned in the Draft Consultation Paper, certain other areas which are also critical for any policy for MSMEs have been highlighted below:

- A) DEFINITION OF MSMEs:** The last revision to the definition was made with the enactment of the MSME Act in 2006 which remains in terms of investments in plant and machinery. However, aside from the inflationary aspect, this does not account for other critical areas such as number of employees and turnover. Many nations define these segments in terms of number of employees, investments and turnover. Thus, the definition in India too must be revised to account for such factors after careful consideration.
- B) GENDER PERSPECTIVE:** The Working Group constituted for the Twelfth Plan on MSME Growth noted that out of the 93 percent of total workforce in the informal economy, 97 percent are women and are active in large numbers as workers, artisans. However, they are unable to participate in the MSME sector as strong stakeholders because of lack of productive resources, opportunities, organisation and representation. Thus, a conducive environment for the women enterprises is the need of the hour.
  - Φ The definition is the starting point which is at preset vague and does not establish a clear criterion of what constitutes as women enterprises.
  - Φ In order for any policy to be formulated, there is a need for credible and cogent data that not only identifies the number of WMSMEs in India but also their

characteristics and factors contributing to or hampering their development. This unfortunately, is missing and should be the starting point for developing a policy.

- Φ At present most advantages to women entrepreneurs primarily deal with providing them a marginally larger subsidy than male counterparts. An unfocussed strategy can only bring about sporadic and unsatisfactory results. Understanding the specific needs of the women, including her family responsibilities will lead to a more comprehensive and targeted policy.
- Φ Initiatives such as schools and affordable and modern day care centres within close proximity of clusters, training programmes at sub district level to minimize travel, availability of credit at affordable rates and other initiatives that are moulded to the needs of women rather than efforts to mould women to the traditional idea of entrepreneurship will yield a more fruitful outcome.
- Φ Access to credit is another struggle for a women entrepreneur which requires special attention. The reason behind this is twofold. One is ownership of assets as collateral and the other is the societal attitude towards them. Lack of segmental focus and a higher risk perception also contributes to the situation.

**C) MONITORING AND EVALUATION:** Many times our schemes fail to deliver the desired results, not due to a flawed design but rather unsatisfactory implementation. Thus, monitoring of the implementation is essential to ensure success of the schemes. Regular evaluation is also critical to understand the gaps in the policies/ schemes and make the necessary changes. A policy thus formulated, must address these aspects.

**D) SUPPORT STRUCTURES:** For any enterprise to operate efficiently an enabling environment is critical.

- Φ Development of infrastructure facilities and upliftment of existing infrastructure facilities is essential and the government must undertake this initiative. The government can also construct premises which can be given on rent to MSMEs.
- Φ Though Facilitation Cells have been initiated in the past, their success has been limited, thus, the need for a more effective and innovative mechanism to support MSMEs is needed.
- Φ Setting up of a Grievance Redressal Body is essential for this sector. Since many are first-time entrepreneurs with little or no knowledge of business a supportive grievance redressal department is a must.
- Φ Greater use of the online platform not only for information dissemination but also implementation, grievance redressal and commerce.
- Φ Effective Dispute Resolution Mechanisms are critical for better functioning of the sector. These need to be swift as well as efficient in their operations.

**E) SOCIO-ECONOMIC DEVELOPMENT:** The government must also address the issues of overall socio-economic development of the nation. Thus, supportive schemes in this regard must also be addressed under such a policy. Some schemes that could be initiated are:

- Φ Workers under the unorganised sector to be covered under schemes of insurance, housing, education, bank assistance etc.

- Φ Financial assistance provided to entrepreneurs employing local tribals and backward classes.
- Φ Part reimbursement on expenditure on account of contribution towards Employee Provident Fund etc.
- Φ Efforts should be made to distribute government purchase order equitably to participating enterprises.
- Φ Steps undertaken to ensure remunerative wages to all workers.

**F) EFFECTIVE COMMUNICATION:** Many schemes and activities though seem effective on paper fail to yield the desired results. This could be due to ineffective implementation or the fact that most people are not even aware of such schemes. Thus, building awareness should be the starting point and effective as well as efficient means of communication must be employed to reach the right target audience. New and innovative means of communication could be used to spread the message and encourage greater participation in such schemes.

## **CONCLUSION**

The Micro, Small and Medium Enterprises play an integral role in the growth of the nation and in order to create an effective policy for the sector, some of the critical areas of focus as mentioned in this document are summarised below–

- \* **Research:** It is important to understand the concerns and requirements of the sector. Thus, research should be conducted to identify bottlenecks for various activities such as financing, marketing, growth etc. along with evaluating the best practices across the globe.
- \* **Simplifying regulations/ procedures and adopting Regulatory Impact Assessment (RIA):** Dealing with multiple and cumbersome procedures are a major hindrance for the sector. Thus, these should be evaluated, overlaps removed and processes simplified. Before introducing new regulations, cost/ benefit analysis should be undertaken. RIA is one of the widely recognised tools for creating an effective and efficient regulation/ policy and should be adopted in India as well.
- \* **Skill development and Enhancement:** This is essential for first time entrepreneurs as well as employees to help the growth of the business.
- \* **Effective Communication:** Even a well-developed scheme or policy could be ineffective if not communicated properly. Thus, greater focus on this aspect is essential and support from Associations/ CSO's could further enhance the effectiveness.
- \* **Facilitation Agencies (State level):** Owing to the nature of these units, they often require advice and assistance in various activities. An effective facilitation agency (state level) must be created which could not only play an advisory role but also assist them in obtaining credit or subsidies, complying with regulations etc.

- \* **Monitoring and Evaluation:** Developing policies, schemes or regulations is only a part of the solution. Until and unless these are monitored and their impact evaluated by an independent/ third party, they will not be successful in achieving their objectives.
- \* **Development of specific MSME sections:** Greater focus towards MSMEs operated by certain sections of society (women, tribal community, backward classes) and in certain areas (underdeveloped regions, border areas, insurgency prone areas) is essential. This should focus on the specific requirements of the sector and should not be limited to only providing additional subsidies.
- \* **Support of Civil Society Organisations (CSOs)/ Associations:** These institutions could be used as the support arm of the government in terms of communication, facilitation, implementation and evaluation, etc.
- \* **Addressing the issue of delayed payments:** This is another extremely critical aspect and requires immediate attention. Delayed payments can have severe impacts, especially for this industry and regulations in this regard should be created.

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