FISME's Memorandum for Union budget

Budgeting for

'Make in India' through MSMEs

Background

Whatever the yardstick one chooses the importance of Micro Small and Medium Enterprises (MSME) sector in India and its contribution cannot be overlooked. Accounting for roughly half of India's Industrial production and exports and employing the largest number of people after agriculture, its achievements are gigantic. What is not appreciated much, however, is that it is producing these results much below its potential. Bracing with a challenge of providing gainful employment to 12 million people coming out in job market every year, for India there is no sector as promising as MSME sector to meet it.

What is holding it back?

In the context of Union Budget, the memorandum highlights some of MSMEs' key concerns in the following heads:

a. ACCESS TO FINANCE

1. Right segmentation of MSME sector to target the needs effectively

Different government reports suggest that the number of MSMEs having access to institutional credit ranges between 5~10 %. Obviously there is yawning gap between the demand and the supply of finance to MSMEs. But the gaps are not only quantitative but qualitative also. MSME sector is not homogeneous and is actually composed of several segments. There are a number of financial products which are required by specific segments within the MSME sector and which are either not available or are not packaged/ priced right. Because of this reason a large number of deserving segments in MSME sector go underserved.

Suggestion:

FISME proposes that the MSME sector should be segmented on the basis of quantum of need of funds. This would greatly help target the right segments with right products. We propose five layered segmentation:

	Segments	
	Sub-groups	*Quantum of Funds required*
1	Sub-Micro	Rs. 1000~ 10,000
		Rs. 10,000~1 Lac
2	Micro	Rs. 1~10 Lac
		Rs. 10 Lac ~ 1 Crore
3	Small & Big Small	Rs. 1~10 crore
4	Lager of Small and Medium	Rs. 10 ~100 crore

2. Lending to MSME sector by banks

i. With elongated **working capital cycle** and limited availability of trade credit to MSMEs operating in a B2B environment, the working capital needs assessed at 20% of turnover[1] is inadequate when compared with the actual needs. Often the projected turnover by the banks is calculated backwards based on security margin availability, and is not based on assumptions related to actual potential and orders in hand.

[1] Nayak Committee recommended working capital assessment to a minimum of 20% of the projected turnover in the backdrop that the working capital cycle was 3 months and banks can finance upto 80% of the total working capital needs and the balance 20% needed to be brought in as the promoter’s contribution.

Suggestion:

There is a need to increase the minimum working capital assessed to a minimum of 26% (80% of 33% based on elongated working capital cycle of 120 days).

ii. The requirement of **collateral security being linked to risk assessment** made by CRAs under the standardized approach adopted under Basel 3 norms, and usage of common rating scale for all types of entities, be it large conglomerates or SMEs, leads to a regulatory handicap for SMEs in accessing debt capital from banks.

Suggestion:

Given that there is a need for alignment with the global best practices that can be suitably adjusted for country-specific needs, it is recommended that the retail credit threshold specified by RBI at Rs. 50 million be increased to Rs. 250 million that would help Indian MSMEs greater access to debt capital.

(The above is also recommended given that the Basel 3, through reliance of greater collateralization based on risk assessment by non-stakeholders viz. CRAs[2], has created an environment which incentivizes investment in unproductive assets (through investment in real estate – lands or flats not used in the business operations, fixed deposits, jewelry, etc. that can be offered as collateral security), with no direct relationship with the business risks and future growth potential.)

iii. Easing access to additional funds without collaterals

One of the handicaps that the fast growing MSMEs suffer is because of their inability to provide additional collateral in tandem with rise in need of funds.

Suggestion:

Government may ask the Banks to give higher weightage

[2] CRAs adopt a conservative risk while undertaking credit risk rating of entities, in order to avoid type-2 credit rating default risk of assessing a bad type credit asset as good in preference over type-1 credit rating default risk of assessing a good type credit asset as bad. In other words, CRAs are more comfortable with a conservative approach of rating a business entity having lesser credit risk as having a higher credit risk, so as to avoid reputational risk that may arise from the event of credit rating default i.e. rated entity with investment-grade rating defaulting in its debt servicing obligations.

to information based collateral and track record of the enterprises obviating the need for more asset based collateral.

iv. Trade credit:

Trade Credit plays a critical role in financial intermediation, credit leveraging, credit redistribution and level of market liquidity. The impact of Trade Credit in terms of credit volume, activities, reach and inclusiveness is far bigger than the banking sector. It provides last-mile links in the credit distribution chain. Bank credit and private savings are redistributed by large firms to credit-constrained businesses through Trade Credit. However, it has been shrinking in India leaving MSMEs starved of cash.

Suggestion:

In a B2B environment in which most MSMEs operate, movable assets in the form of debtors could be delinked from the conventional lending of cash credit; by allocating the credit risk on the purchaser's repayment obligation (typically from large sized customers of MSMEs) and the same can be provided without any collateral security or security margin associated with cash credit limits. If the suggestion is accepted, it can alleviate much of the credit pains experiences by MSMEs. Incidentally, private sector banks have been offering such products selectively to a few of their larger MSME clients. For a large scale adoption, an online Central Registry of Securities can be created to avoid double financing of the same assets or could be linked to the CERSAI.

3. Credit Guarantee institutions for smaller loans (Micro & Small) :

Access to collateral free loans is sine-qua-non to facilitate creation of self-employment opportunities in mass scale. Creation of the Credit Guarantee Trust Fund (CGTMSE) has filled a critical gap in the Financial architecture for MSMEs. However, there is an urgent need to scale up CGTMSE and also create other institutions as the millions of enterprises need to be created. Following initiatives could be taken in the Budget:

Suggestions:

i. The capitalization of CGFTMSE has fallen below 10% of the outstanding guarantees and its sustainability is becoming suspect. As the scheme is leveraged almost 30 times, there is need to urgently augment the corpus by at least Rs. 6 billion. Its corpus amount needs be increased to Rs. 6000 crore from the present level of Rs. 2500 crore to be contributed by GOI and SIDBI but after a detailed review of the scheme.

ii. The field for Credit Guarantees especially for loans in smaller denominations needs to be opened up (may be through existing Insurance companies) to create competition for CGTMSE.

iii. Flexibility may be accorded to Credit Guarantee Institutions to price their products based on past performance (bouquet pricing- lower the defaults on loans from an institution, lower the guarantee fee). The upper limit of guarantee (or insurance as suggested above) can be removed and should be linked to eligibility purely based on MSME qualification.

iv. The Credit Guarantee umbrella needs be further expanded. Not only should it cover all major segments of finance providers to MSMEs such as LABs, cooperatives, NBFCs etc, but also allow entrepreneurs to approach Credit Guarantee Funds directly. Scheme should provide for risk-based pricing structure (move from a guarantee structure to insurance or insurance-like products) enabling MSMEs shop around for loans at competitive pricing from banks based on guarantee issued by CGFTMSE

4. Factoring

Globally Factoring of MSME bills is a financial instrument of choice to ease their sales realization woes. However, in spite of the passage of the Factoring regulation Act, 2011 hardly any of the Scheduled Commercial Banks has commenced factoring services. With the step-in rights as a creditor available to factors, the banks with maximum coverage of financing receivables for their clients, the realization can improve without individual enterprises being singled out by their vendors (from future business orders point of view). Also with a direct control over the sales register of the small enterprise, it provides factoring banks with a better information and control over the financials of the small enterprise and an additional avenue for fee based income which the small enterprise wouldn't mind paying against early liquidation of his sales dues.

Suggestions:

Following steps can address the problem and help popularize the Factoring in the MSME sector:

a. The need for 'NoC' required by Factoring Agency from banks should be done away with.
b. Buyers need to be encouraged/ coaxed to assign ownership of goods to Factors whenever they get a request to do so.

5. Credit Linked Subsidy Scheme (CLCSS)

The Credit Linked Capital Subsidy Scheme (CLCSS) has proved be a demand driven scheme. Keeping in view the need for a large number of MSMEs to upgrade technology, the scheme should be expanded both in terms of coverage and outlay.

Suggestions:

i. From its coverage of projects of upto Rs. 1 crore at present, there is a case for increasing the project limit to Rs. 2 crore because of inflation. (The quantum of subsidy may be retained at 15%)

ii. It should allow import of second hand machinery (with a certificate of residual life of at least 10 years from reputed international inspection agencies).

iii. The present practice of allowing subsidy only for adoption of certain 'approved' technologies only should be immediately done away with. Due to cumbersome process a large number of beneficiaries are dissuaded to take advantage of the scheme. In its place a negative list containing machinery/ technologies not to be covered under the scheme could be published.

6. **Review Credit Rating schemes/ requirements**

While theoretically there may be a desirability of external Credit Rating Agencies (CRAs), based on our present experience, we emphatically disagree that CRAs in its present form are of any help in accessing bank facilities. In fact the ratings have proved to be a stumbling block in accessing credit in many cases. With regards to MSMEs in India, ratings are of following two types: Non-mandatory/promotional and Bank Loan rating (BLR). FISME's views on the both types of CRAs are as follows:

i. Non-mandatory Performance and Credit Rating (scheme run by NSIC subsidized by GoI)

The objective of the rating is to assist MSMEs improve their operations and access credit at cheaper rates. The rating reports provided to the subjects do not contain any guidance to achieve improvement in any area. Besides, no bank dispenses with the task of appraising a firm that may have been already rated by CRAs. Admittedly, some PSU banks and institutions do claim to charge concessional rates to the rated borrowers. But it is more in the nature of supporting a Government sponsored scheme and not due to any intrinsic value attached to the ratings. It is for this reason that hardly any non PSU Bank gives interest concession based on the External Ratings.

Suggestion:

As such the exercise is redundant and wasteful of government subsidies for the purpose. The Funds could be better utilized for other schemes.

ii. Bank Loan rating (BLR) (Promoted by RBI)

Following guidance from RBI, Indian banks are asking their borrowers to get them rated for Bank Loans (BLR) through RBI approved Credit rating Agencies (CRAs). As the threshold has been revised downward to bank facilities of Rs.5 Cr - fund and/or non-fund based, a very large number of even fairly small units participating in public procurement or tender business have also come under its purview because of their huge non-fund based requirements for bid-bonds, performance/ bank guarantees etc.

Besides paying substantial rating and surveillance fee to CRAs, our MSME members are realizing that the rating processes are opaque, ratings are highly subjective except for comments on financials and are prepared by inexperienced analysts with scarce access to domain knowledge. As the practice of rating enterprises for Bank Loans by external agencies is relatively new, appropriate processes have not been developed so far in the absence of which legacy practices for rating instruments etc are being used by the CRAs for BLR also. This is resulting in MSMEs being further discriminated against. Many MSMEs with high ratings from their banks –who may be observing their conduct, business trends and work ethics for years- are losing out with CRA awarding them below investment grade ratings. The scale of operations (size of entity) has a significant bearing on the credit ratings assigned by the CRAs, though never admitted as the guiding rule observed by CRAs. These units are either not being sanctioned desired facilities or are charged much higher interest rates to compensate for the higher risk weightage due to lower rating of CRAs.

As mentioned above, the key reason for poor ratings from CRAs (other things remaining same between in a large entity vis-à-vis medium or small sized entity) is their excessive thrust on size of an enterprise in its industry, expressed in terms of turnover, even though it may be performing well and showing good financial ratios. Besides, the CRAs may have views on sectors which may not be in line with the outlook of the Government and RBI.

Suggestion:

Government may persuade the RBI to withdraw the guidance on BLR and the banks be asked to strengthen their internal evaluation processes.

7. Risk Capital for 'Make In India'

At present there is hardly any institutional mechanism (especially for manufacturing MSMEs) for raising risk capital. For realizing vision of Make In India, one of the critical institutional supports needed is in the arena of risk capital. An Equity Fund for MSME Start-ups through institutions with budgetary support could be set up. Similar funds or Risk capital funds announced by the GOI in the past have not been allocated as budgetary support from GOI. Instead these have been set up under SIDBI and largely used for lending to MSMEs on longer tenure and thus utilized only in supplementing debt to MSMEs. Extending risk capital out of borrowings would have been financially imprudent on part of SIDBI and affected its rating and sustainability.

Suggestion:

In view of this, it is recommended that budgetary support for Equity Fund with a corpus of Rs. 1000 crore for MSME Start-ups be provided and the fund should be used exclusively for direct seeding of MSMEs starting projects or businesses. Mentoring support also could be provided through Small Enterprises Finance Centres. The fund can be earmarked for micro, small and medium sub-groups in the ratio of 45:35:20.

8. Supporting SME Exchange

Though the institutional and legal framework for SME exchanges have been created for over two years, the response from markets has largely been subdued. FISME's Research Paper 'SME Exchanges in India:

Review and Suggestions' outlines several reasons for the lackluster performance of SME Exchanges such as high cost of regulatory compliances for raising the capital and lack of enthusiasm on part of private investors/HNI to participate in the issues on SME exchanges

Suggestion:

To push start the concept of Capital Markets for SMEs the Government needs to advise the Banks / Financial Institutions / Insurance Companies to set aside a small portion of their funds earmarked for investment in capital market for investing in the issues on SME exchanges. This would help create the necessary ecosystem giving buoyancy to good SME IPOs and SME Exchange.

Secondly, a Fund needs to be created for the Merchant Bankers whose role is critical as they are required to do due diligence of offer, underwrite the issue, market making, tie-up with various intermediaries etc. Fulfilling these responsibilities require additional funds which coupled with future uncertainties are scaring away Merchant Bankers.

Thirdly, to substantially reduce the cost of publicity and advertising, it is suggested that instead of releasing advertisements in Newspapers, SMEs could be allowed to release information related to statutory disclosures and announcements through the websites of SEBI, Merchant Bankers, SME Exchanges and their own websites.

9. Export Insurance and Export Finance

Though MSMEs account for almost half of India's exports (direct and indirect), only a minuscule percentage of MSMEs- less than 1%, actually participate in exports. Some of the reasons are uncertainties of international markets and a fear of default. All major exporting countries- USA, South Korea, Taiwan, Germany, Japan and China, have created strong SME support institutions to enable exports from SMEs. FISME suggest measures for two major institutions engaged in export support viz. ECGC and EXIM Bank

i. ECGC

ECGC was established to address concerns of defaults. International Trade has gone a sea change in last decade. For example, trade has moved to open credit (based on invoices) today and trade instruments are no longer used for extending credit to overseas buyers. SMEs having limited risk appetite are obviosuly at greater risk. Even the Berne Union has identified special dispensation for SMEs and several countries have taken measures to assist SMEs. There is a need to review the ECGC portfolio especially in MSME context.

Suggestions:

a) ECGC should give an open cover both for pre and post shipment, enabling smother claim settlement irrespective of status of shipment

b) ECGC can explore taking the micro exporters policy online, in line with global trends

c) ECGC currently only provides short-term cover (one year). The possibility of medium term cover through ECGC can also be explored

d) Expanding ECGC programs by providing broader coverage through tie-ups with banks can be explored. This can be further expanded into the bancassurance model which is currently small in size for ECGC

e) A tie-up between CGTMSE and ECGC can be explored whereby clients who need to apply to both CGTMSE and ECGC can do so via a single common application.

ii. Exim Bank of India

The Exim Bank of India (Exim Bank), a specialised financial institution for supporting exports by providing both business and financial advisory services as well as specialized financial services including export finance for consultancy and technological services, capital equipment finance and letters of credit/ guarantees. It also extends 'export capability creation'. However, SMEs have not been able to take advantage of EXIM bank services.

Suggestion:

The service portfolio of EXIM bank needs a thorough review and after a detailed MSME need assessment exercise, EXIM bank should develop and offer products needed by MSMEs to penetrate foreign markets especially in Africa and ASEAN.

10. Non-Fund Based Finance

MSMEs need both fund based (loans, working capital etc) and non-fund based financial instruments (bid-bonds, bank guarantees, Letter of Credit etc). Increasingly, MSMEs' inability to access non-fund based finance is rendering them uncompetitive against both large and foreign suppliers even for projects in India. Banks treat fund based and non-fund based financial products alike and club them together to calculate eligibility for extent of credit limits and also quantum of collateral required. (Distinction needs to be made among various non-fund based products such as earnest money- which hardly carries a risk and performance guarantee which may have a risk element).

As in a highly competitive bidding process, one has to bid for more and more projects to increase one's chances, MSMEs cannot even bid because their limits get exhausted soon in bid-bonds, bank-grantees and performance guarantees. There is a need to expand MSMEs' access to non-fund based finance. Its importance is further increased in view of the Public Procurement Policy which mandates 20% procurement by Central agencies from MSEs. Inability to access adequate and competitively priced non-fund based finance is becoming a new entry barrier for MSMEs in market access.

Suggestion:

i. To distinguish between fund-based and non-fund based limits and to allow special dispensation for MSMEs (PSU banks begin this straight away)

ii. To allow entry of Insurance companies to provide non-fund based guarantees to create competition in the market which would bring down pricing of these products

11. Increasing liquidity for MSME sector: MSME Bonds

As has been brought out in news papers, a challenge in today's world is a surplus of savings in some parts of the world with no clue where to deploy them profitably and securely. The government should catalyse a flow of these external savings to a specified corpus that invests in bonds issued by SMEs.

Suggestion:

Institutions such as SIDBI may be allowed to tap the global pool of savings to create a large corpus for buying bonds issued by SMEs.

12. **Central repository of Information on large Credits**

Under the aegis of RBI, Joint Lenders' Forum has created a framework to identify incipient stress in the accounts by creating three sub-categories as the Special Mention Account (SME): SME-0, SME-1 and SME-2. However, the net based mechanism is opaque. Neither are the borrowers ever informed of mention of their names at the online reporting facility nor they themselves can go and check if their name figures in it. A few cases have already been reported where names of the borrowers are wrongly notified in the facility jeopardizing their chances to choose another banker. There is no safeguard for such misreporting.

Suggestion:

Government may direct Banks to allow the borrower to see if its names figures in that reporting system.

13. Cheque bouncing

Dishonouring of cheques has become a recurrent pain point. It is one of the reasons for diminishing trust in trade transactions and reduction in trade credit.

Suggestion:

Government may ask Banks to mark a lien (in favour of the payee) to the extent of the amount of the bounced cheque in the account of its constituent-drawer when a cheque issued by him bounces. Once the court issues decree, the amount frozen may be paid to the decree-holder. (Similar practice is in vogue in Ireland.) CIBIL may also be strengthened to enlarge its operations to capture bouncing of cheques.

b. DIRECT AND INDIRECT TAXES

Direct Taxes:

1. To give boost to 'Make in India' initiative extend Income Tax exemption to MSMEs

The increasingly hostile eco-system and dismal risk reward ratio the entrepreneurs are facing is not only deterring young workforce from opting manufacturing as vocation but forcing even established entrepreneurs to give up manufacturing and shift to trade or services. On the other hand manufacturing –specially in the MSME sector- is one option sure to overcome the huge challenge posed by our demography of creating additional jobs in millions. While numerous hurdles in the way of 'doing business' have to be removed, we hope the suggested sop will create attraction for entrepreneurs and expand base of much needed manufacturing activity. The measure will also help in capital formation for the existing manufacturers and thus encourage them move forward.

Suggestion:

There is no incentive greater than economic one. To attract large number of people to start businesses, Government may extend the Income Tax exemption to 'manufacturing MSMEs' (on the lines it was done for exports or for Information technology sector).

2. Investment allowance

The Union Budget 2013 notified an investment allowance @ 15% for investment above Rs. 100 crore in plant and machinery which was further brought down to Rs. 25 crore. Leaving out MSMEs from the scheme is a gross error of judgment.

Suggestion:

The anomaly needs to corrected and investment allowance should be given from zero to all including MSMEs.

Indirect Taxes:

3. Central Excise Duty

i. Refund of Central Excise

There are occasions when higher price may have been charged or sales bill deducted by buyer for any reason and lower CED amount paid on the reduced value of goods. In such cases the Assesse should get back the refund expeditiously. At present the concerned Central Excise Officers are totally reluctant to process any request for refund of excess duty. The matter should be carefully looked into – to be fair to the duty payer.

Suggestion:

Rules for refund of excise duty need to be simplified.

ii. **Clarifications sought on the following operational issues:**

The following operational issues are resulting into litigations. Besides, the matter being generic in nature and affecting a large number of industries, the interpretation of the government on the issues may please be clarified through the budget.

a) Demand of Excise Duty on Freight:

Orders received by manufacturers of capital goods such as machines, transformers, conductors etc from their customers are generally on F.O.R. destination basis specifying the Ex Works prices as well as charges for delivery up to the site. Demands have been raised by the department in the recent past that excise duty is leviable on the FOR destination amount i.e. duty is payable on the delivery charges also. The hon'ble courts have decreed against the above stand of the department in a number of cases. But the practice is continuing after the first demand was raised.

b) Demand of Excise Duty payment delayed

In a few cases where the customer delayed payment of goods beyond the contractual period and agreed to pay interest as compensation, the department is demanding excise duty on the amount of such interest received.

c) Computation of Excise duty leviable in cases of variable price

There is a practice in some industries of placing orders on variable prices. In such cases 'Base Prices' of certain inputs are declared by the buyers at the time of inviting offers/placing orders a PV formula is also given for working out the effect on the price of goods due to any change in the prices of those inputs. Accordingly the price of the finished goods stands increased or decreased depending upon change in the price of the given inputs. As these changes are approved by the buyers subsequent to clearing of the goods, excise invoices are raised separately for the additional prices charged on applying the formula. Excise Duty is paid on such additional value while issuing the supplementary invoices. The department has been claiming interest on excise duty amount from the date of clearance of goods to the date of supplementary invoices.

4. **Service Tax on Electricity:**

Electricity is an important input for all industries but for some sectors it is the single biggest raw material. If service tax is levied on electricity, it would strengthen GST value chain and would also help bring down cost of electricity.

Suggestion:

Service Tax may be levied on electricity to complete the value chain.

5. Central Sales Tax

GST is one reform for introduction of which MSME sector in particular is waiting anxiously. The belief is that as a result a common market will come into being, distortions due to tax concessions including location based will be eliminated and tax regime will get simplified and rationalised. Until GST is introduced and become operational the following amendments may be considered in CST regime.

Suggestions:

i. Buyer be made responsible for CST form:
   At present there is nothing in the CST Act Rules that can help the selling dealer to make the buying dealer issue the required form. As principally the burden of tax is of the buying dealer, in case form 'C' is not issued he should be made liable to pay /reimburse the selling dealer, the difference in tax along with interest and penalty. The Act / rules need to be amended in this respect so that the life of the selling dealer does not become miserable for somebody else's omission. The amendment requested above should be with retrospective effect.

ii. Period of Submission of 'C' Forms:
   For the reasons stated above, the new stipulation that form-C should be deposited with the Account Officer within 6 months of transaction, needs to be withdrawn and deposit of Forms allowed until assessment / Appeal as it is not feasible to comply with the existing rules

iii. CST form for supplementary invoice

   In a contract wherein price is variable dependent upon increase/decrease of the prices of inputs, such increase in the sale value becomes due upon the supplier submitting proof of price escalation and is claimed by raising supplementary bills for the amount obviously after the goods have been shipped. Many customers refuse to issue C form against the supplementary invoice. On the other hand the assessing officers of the seller, levy difference in sales tax on the supplementary amount not covered by C form together with interest and penalty. The seller is thus punished for no fault of his. The situation should be remedied by giving clear instructions whether C form has to be issued against supplementary invoices or not.

6. Customs Duty:

a) To realize 'Make In India' dream increase Customs duties:

Enterprises in India are burdened with huge hidden costs due to multiplicity of taxes, absence of GST, lack of quality infrastructure (power, roads, ports..), higher interest rates and mal-functioning legal and regulatory framework making them highly uncompetitive vis-à-vis their counterparts in many countries. As a result indiscriminate lowering of tariff (especially through FTAs) has led to massive substitution of manufactured goods by imports. Sectors such as Electronics have been decimated due to lowering of tariffs with total disregard to the inherent capabilities of Indian manufacturers to match the competition under the then prevailing eco-system. The trade policy therefore has to necessarily follow the realism in the manufacturing marketplace as otherwise many other sectors may meet the fate of electonic sector with disastrous consequences. It is the burgeoning imports that resulted in Trade deficit reaching such unsustainable levels.

The Indian industry has come a long way from the time of Independence. Impetus on import substitution in the background of high tariff during the above period encouraged proliferation of manufacturing which shows up in the present state of MSME sector. With the manufacturing not being a preferred vocation, some protection in form of reasonable level of tariff will improve margins and attract young talent to manufacturing. In due course when the domestic enterprises are able to find their feet, these tarrifs can be calibrated downwards once again.

Suggestion:

Government may exercise intelligent discretion in setting tariff levels and increase them especially on goods manufactured by MSMEs. However, tariff has to continue to be low on basic inputs in the nature of building blocks of economy such as Iron, Steel, Copper, Aluminum, Petrochemical based raw material etc. and in which the country has already attained global competitiveness.

b). Compliance of quality control order on CRGO steel imports

CRGO steel, a critical raw material used for lamination in Transformers, is not manufactured in India and is almost entirely imported. The quality of the special grade steel having a direct bearing on the quality of transformers, Ministry of Steel had issued a quality control order in 2012 mandating the imported CRGO steel to meet a specified BIS quality standard. The Order was scarcely adhered to at the ports. On request of Transformer manufacturers the Department to Revenue issued instructions in 2014 banning imports without prescribed BIS certificate. However, the imports of defective CRGO are continued. The image of Indian Transformer industry has taken a beating both at home and abroad because of use of substandard quality of CRGO steel and Indian manufacturers are blacklisted in several countries in Africa and Middle East according to Indian Transformer Manufacturer Association (ITMA).

Suggestion:

Necessary instructions may be issued to all the commissioners of customs for not allowing Import of Second/Defective/old and used CRGO Sheets, Strips and coils in any shape and size and even under the garb of Transformer part in the National interest.

c). Plastic Industry

Indian plastic industry is one of the fastest growing segments of Indian economy. There are more than 50,000 MSMEs engaged in the plastic industry. However, the plastics value chain in India is not very efficient and suffers from market distortions and unfair trade practices. While the demand for plastics and plastic products is likely to see robust growth, the domestic manufacturers are likely to lose out to cheaper imports. On behalf of the plastic industry we are putting forward the following suggestions.

i. Bringing all Plastics raw material at 2.5 % duty slab

with a view to have a healthy competition in the international markets and to have uniformity the duty of all polymers as well as Naptha should be brought to 2.5%.

ii. Import duty on plastic machinery components

Import Duty on many plastic machinery components is 10%, whereas it is 7.5% on plastic machinery. The import duty on plastic machinery components may be reduced to 5%.

iii. Anti-Dumping Duty should not be imposed on raw materials.

Plastic raw material along with iron and steel, copper and aluminum are building blocks of industrial downstream projects and value chains. Unfortunately on one pretext or another, anti-dumping/ safeguard duties are routinely imposed on these products. It is widely believed that the cases they base for getting these duties imposed stand on dubious grounds but user MSMEs lack the resources to challenge them.

In the larger national interest, Government should discourage imposition of duties on these raw material including PVC and PP.

d). Inverted duty structure on Water Soluble Fertilizers

Water soluble fertilizers are more efficient and generally contain higher nutrients than conventional fertilizers reducing cost of packing, transport, trade margins and application cost. Prominent fertilizers like Urea, Di-ammonium phosphate (DAP) , Single Super Phosphate (SSP), Muriate of Potash are used for decades to supplement Nitrogen, Phosphate and Potash in the soil. Physical or complex mixtures of these chemicals fertilizers are also being used popularly known as NPKs. These nutrients are made by blending raw materials like Mono Ammonium Phosphate, Mono Potassium Phosphate, Potassium Nitrate; Potassium Sulphate; Urea. Most of the raw material are imported: we are net importer of ammonia and phosphoric acid (essential for nitrogenous and phosphatic fertilizers), and solely dependent on imports for potash. Many MSMEs import and blend the above raw materials in proportions to make a formulation of NPK to meet specific need of the soil.

The present Customs duty structure is inverted as 2.5% customs duty is levied on NPKs as against the 5% on its raw materials. The present structure not only does discourage the production (blending) activity in India but also incentivises people to blend in other countries and import into India.

Suggestion:

The inverted duty structure on NPKs can be corrected by levying the same level of duty that is 2.5% on all items (NPK mixtures as well as thaw materials) as .the duty at par with raw materials. (Accordingly, Notification No.12 /2012 –Customs, dated the 17th March, 2012 issued by Department Of Revenue; Ministry of Finance which specifies

c. IMPORTANT ISSUES HAVING A BEARING ON SURVIVAL AND GROWTH OF MSME SECTOR

1. **Mechanism for rehabilitation and closure of sick MSMEs and Insolvency for natural persons**

Because of a lack of single institutional mechanism which could coordinate with the multiple agencies, rehabilitation or re-structuring or closure of sick unit becomes extremely difficult to enforce. A large number of MSMEs get stuck in a state of ‘suspended animation’.

Whereas a sick firm can apply for rehabilitation to the financial institutions, there is no protection available to the firm, in the interim, from the recovery proceedings initiated by government agencies to recover their statutory dues. MSMEs being out of ambit of BIFR, there is no 'hold-on' period to keep the claims of competing agencies at bay for the time being. All the while when the entrepreneur struggles to revive the unit or in process of getting himself declared insolvent, she could be sued, penalized under several regulations and imprisoned.

For farmers, individuals, businesses, there is no recourse available for honourable settlement of dues. A large number of farmers and small businesses commit suicide because of dysfunctionality of insolvency mechanisms

Suggestion:

i. Ministry of MSME has already proposed an amendment in the MSMED Act which is currently under public consultation. Government may expedite the process.
ii. Government may simultaneously begin the process of replacing the Provisional Insolvency Act (1920) and the Presidency Towns Insolvency Act (1908) in states. 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 by help producing a Model law. The new law should introduce a limited stay, reasonable discharge provisions, and the opportunity of rehabilitation and "fresh start."

2. Delay in payment due to MSMEs

Delay in payment is a source of great inequity and injustice to SMEs. While several legislative and administrative measures have been taken, these have yet to translate in to amelioration of their conditions. Government has been seized of the problem and has taken several measures during last decade or so. However, neither the provisions of the MSMED Act nor CBDT circular nor RBI instructions have deterred large corporates or PSUs from delaying MSME payments. It is time serious steps are taken to address this issue.

Suggestions:

i. Government may constitute an inter-ministerial standing committee comprising of senior officials from Union Ministries such as Finance, Corporate Affairs, MSME, Commerce and Industry and other relevant departments to periodically review implementation of the steps taken to ensure timely payment of MSME dues both by public and private sector.
ii. The Facilitation Council Mechanism (in states) is strengthened with more teeth given to them to summon and getting its orders executed.
iii. Issue direction to review all the balance sheets & fixing the liabilities of buyers in government sector by CAG and in private sector by Ministry of Corporate Affairs for unearthing stances of violation and then initiating action against defaulters.
iv. Direct an immediate release of delayed payments with interest by the PSU's and private corporate to the MSEs
v. Any amount due after 45 days to an MSME should be added to income.

d. SPECIFIC PROPOSALS

1. Regulator for Polymer industry

India is world's third largest polymer market. Rampant cases of artificial scarcity, imports restrictions and arbitrary discounts to select large players point out that the polymer market and its value chains suffer from distortions and unfair trade practices hurting thousands of MSMEs as well consumers. The Govt. should therefore, appoint a Regulator to ensure competitive and efficient markets.

2. Funds for setting up Waste Management Plants: 'Swatch Bharat Abhiyaan'

As per MSW (Management & Handling) Rules 2000 all Municipalities / civic agencies of most states are required to set-up Waste Management

Plants. However, due to lack of funds the guidelines are not being followed.

Suggestion:

There is a need to develop a scheme to provide funds to set up Waste Management Plants (including for plastic waste).

About FISME

Federation of Indian Micro and Small & Medium Enterprises (FISME) evolved into a large national federation of geographical and sectoral associations of Micro, Small and Medium Enterprises (MSMEs). Born as National Alliance of Young Entrepreneurs (NAYE) in 1967, it adopted the federal structure in 1995. FISME's mindset, mission and activities have been shaped by developments of post liberalization India and of globalization.

It works for 'Survival and growth of MSMEs'. It focuses on creation of an eco-system which is enabling to entrepreneurship and globally competitive, at the same time.

The key thematic areas of work at FISME constitute:

a. Securing market access for MSMEs in India and abroad and ensuring competitive functioning of factor-markets
b. Advocating for reforms in regulatory environment and promotional policies to enhance competitiveness of SMEs vis-à-vis their larger domestic counterparts and foreign firms through research and dialogue
c. Executing MSME development projects supported by Indian government as well as by all major multilateral and bilateral bodies in India such as UNIDO, ILO, UNCTAD, DFID, GIZ among others.

With over 730 associations as its members, FISME network reaches out to over 2 million MSMEs.

A member of MSME board, FISME runs three IPR Facilitation Centers at New Delhi, Bangalore and Hyderabad. FISME(supported by Ministry f MSME). It also has an IPR Exchange (supported by government of UK) and 'Knowledge and News Network' involving 140 SME associations and over 100 institutions (supported by German Development organization –GIZ).

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