



FISME's

## Comments on the Budget –2015-16

(Submitted before the Parliamentary Standing Committee on Industry)

12<sup>th</sup> March 2015

### A. General:

1. FISME hails the budget as growth oriented and reformist. The Budget contains many path breaking initiatives such as steps to curb black money, expanding social security coverage by proposing inexpensive health, accident, pension and life insurance for all and addressing concerns of investors in infrastructure. We thank the Finance Minister for considering the demand for providing an option to employees to choose alternative mechanism of ESI and PF.
2. However, so far MSMEs are concerned their demands have gone largely unheeded. Some of the pains points which remain and for which we place our request for re-consideration are:
  - i. **Hike in import duty of steel should be reversed**

The import duty on steel has been hiked from the current 10 % to 15% while the import duty on products manufactured with steel (auto components, capital goods etc) ranges from 7.5 to 10 percent, the duty on steel now stands at 15 percent. The move turns the concept of 'Make in India' on its head as inputs enjoy greater protection than the finished products. It will encourage imports. Either the hike should be reversed or greater protection should be provided to user industries.
  - ii. **Investment allowance benefit denied to Small industries**

The threshold of investment allowance has not been brought down to zero to enable MSME sector to also take advantage of it. Investment allowance was allowed to all companies till 90s then abolished. It was reintroduced

again three years ago but only for large industries as minimum threshold of investment needed to avail the benefit was initially kept at Rs. 100 crore and later brought down to Rs 25 crore. It still remains out of bound for MSMEs.

**iii. Exempting MSMEs to allow acceptance of loans/ deposits in Cos. Act**

The new Companies Act has disallowed acceptance of deposits from friends and relatives. These deposits are to be paid back by 31<sup>st</sup> March 2015 or hefty penalties are proposed. It has created enormous hardships for MSMEs. The Finance Minister has not accepted the request that at least MSMEs could be spared of the rule.

**iv. Fiscal incentives for employing people denied to MSMEs**

With a view to facilitating generation of employment, Income-tax benefit has been extended to units manufacturing goods in a factory and paying wages to new regular workmen. The eligibility threshold of minimum 100 workmen is proposed is to be reduced to fifty. The scheme should be extended to all irrespective of number of people employed so that MSMEs- which are creating more employment, are also encouraged to employ even more.

**v. Other omissions in the Budget:**

a. In spite of repeated requests of the sector, no new policy initiative has been announced in the following areas:

- Capitalization of Credit Guarantee Fund for MSMEs
- Incentives and policy for promoting Factoring
- Policy intervention to infuse liquidity in SME exchanges
- Policy on SME Banks (MUDRA Bank is a refinancing institutions for Micro Financing Institutions and does not really address MSME issues)

b. **Kamath Committee** on financial architecture for MSMEs which was announced to be set up set up by the Finance Minister during last Budget speech has since submitted its report. The Finance Minister has neither acknowledged it nor announced any initiatives based on its recommendations.

c. **Insolvency mechanism for MSMEs** and individuals

The comprehensive framework on insolvency announced in the Budget may take years to take shape. With around three lac MSMEs reeling

under sickness as, there is a need for a MSME specific solution on an urgent basis.

**B. Comments on Demands for Grants of the Ministry of MSME for 2015-16**

- i) All the claims of MSMEs being the largest employer after agriculture notwithstanding, the allocation for Ministry of MSMEs has been substantially reduced!
- ii) The total Demand for Grants for the Ministry is Rs. 3042.51 Cr. against the total budget of Rs. 3699.00 (Budget Estimate) for the year 2014-15 a reduction of nearly 20%.
- iii) In fact, the allocation is almost at the same level of RE 14-15 which was substantially lower at 2872.00 Cr. The reason for lesser utilisation during the previous year may be the delayed budget, imposition of code of conduct during General Election and many such things. The previous year's RE figure should not be taken as a benchmark for allocation of budget during the current year.
- iv) If we take out the internal resource mobilisation (IEBR) of NSIC of Rs. 430 Cr. which is not a budget allocation and non – plan allocation of Rs.394.91 Cr., the budget allocation for plan activities, the fund actually used for development of MSMEs is only Rs. 2612.51 Cr. Much less (30%) than the comparable figure of Rs.3702 Cr. For the year 2014-15, almost near the actual release (RE) of Rs.2500 Cr. For that year.
- v) It may be again emphasised that RE should never be taken as the benchmark for BE allocation otherwise we will be stifled by a downward spiral. Additional budgetary targets put stress on the Ministry to upscale and perform better than the previous year.
- vi) If the niche sectors of Khadi and Village Industries as well as Coir industries are taken out, the plan allocation for the striving MSMEs, the flag bearers of 'Make in India', is only Rs. 864 Cr. Against BE of Rs.1205 Cr. And RE of Rs.929 Cr. For the year 2014-15. If Government really want to

make in India, the MSMEs must be strengthened through various development programmes for which the budget for the MSME schemes should be retained at least to the BE level of previous year of Rs. 1205 Cr.

- vii) Office of the Development Commissioner (MSME) implement the laudable scheme of CLCSS under which micro and small enterprises are provided capital subsidy for modernisation of manufacturing plant and machinery. Allocation under the umbrella scheme, Quality of technological support.. which also covers CLCSS has been drastically reduced from BE of Rs. 487 Cr. And RE of Rs.434 Cr for 2014-15 to about RS. 300 Cr, for the current year. I am sure the office of DC, MSME has no dearth of applications under CLCSS, in fact there may be a high backlog. Under such circumstances, to cut allocation under the CLCSS scheme will give a wrong signal to the industry. Also many entrepreneurs who have already secured Bank loan for modernisation with an expectation of support under CLCSS will be in dire straits. Instead of more modern industries, we may have more sick industries. This issue need immediate intervention from this august Committee.
  
  - viii) Under the Infrastructure Development & Capacity Building programme, the Ministry is going to set up 9 new tool rooms and upscale existing tool rooms and technology centres with a projected investment of RS. 2200 Cr. Allocation under the programme is only about Rs.290 Cr. Lesser than BE of the previous year. Also with a 200Mn USD World Bank support, the external assisted (EAP) part of the programme should have been equal to the budgetary support. However, the EAP figures are only RS. 97 Cr. Against budgetary support of Rs. 192 Cr. While it is a fact that actual utilisation during the previous year of EAP was much much below the budgetary allocation, we think a higher allocation would have forced the Ministry to kick-start the programme.
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