



# Report: Roundtable on MSME Policy

**Centre for Civil Society**



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## INTRODUCTION

There are about 3.6 crore MSMEs in India employing over 8 crore people. MSMEs account for 45 percent of the total industrial production and 40 percent of the total exports. Manufacturing and service sectors within MSMEs contribute to 7.09 percent and 37.54 percent of the Gross Domestic Product respectively. Yet only 6 percent of the total MSMEs are in the organised sector. MSMEs have not been growing in proportion to their consumer base. Complex and protracted regulatory framework has been a major deterrent to the growth of MSMEs as evidenced by the Ease of Doing Business Index which ranks India at 142 out of 189 countries.

Centre for Civil Society, in association with the National Entrepreneurship Network of Wadhvani Foundation, organised a roundtable on MSME Policy on 12 January 2015.

The meeting was organised in the context of a committee set up by the Ministry of Finance to recommend the Ministry of Micro, Small and Medium Enterprises on policy changes for Micro, Small and Medium Enterprises (MSMEs). The task force is headed by Mr K V Kamath, Chairman, ICICI Bank.



**Stakeholders exploring viable policy changes to propel the MSME sector**

The agenda for the meeting was to collect key solutions to the problem of tedious regulatory compliance with regard to starting, operating and exiting a business, and therefore to increase registration of enterprises with the Ministry of Micro, Small and Medium Enterprises. The

roundtable gleaned insights from key stakeholders representing entrepreneurs, lawyers, chartered accountants, consultants and experts from the domain. Mr Gopal Krishna Agrawal, Member, Task Force on MSMEs, chaired the roundtable. All the inputs shared during the roundtable have been compiled and submitted to the Task Force in form of a Recommendations Report.

## LIST OF PARTICIPANTS

Sr. No.	Name	Organisation
1	Mr Gopal K Agarwal	Member, Committee on MSME Policy
2	Dr Parth J Shah	President, Centre for Civil Society
3	Mr Amit Chandra	Senior Manager, Centre for Civil Society
4	Ms Shakshi	National Entrepreneurship Network
5	Mr Tamal Sarkar	Project Director, Foundation for MSME Clusters
6	Ms Sangeeta Agasty	General Manager, Foundation for MSME Clusters
7	Mr Vikram Bajaj	Director, Inlingua
8	Mr Vivek Joshi	Founder, Startupfundas.com
9	Mr Ankush Sharma	Founder, Sattviko Restaurant
10	Ms Avani Parekh Bhatt	Founder, Lovedoctor.in
11	Mr Arun Sharma	CEO, Mahaluxmi Industries
12	Mr Shubhneet	CEO, Open Software Technology
13	Mr Sambhrant Krishna	Advocate
14	Ms Jyotsana Narang	Tatsat

## On Conference Call

<b>Sr. No.</b>	<b>Name</b>	<b>Organisation</b>
1	Chandu Nair	Co-founder, Scope e-Knowledge
2	Dr Radhika Meenakshi	Founder, Wise Owl Consulting
3	Rajeev Roy	Associate Professor, IIM Raipur
4	B S Kiran Kumar	Managing Director, Biligiri Hotels
5	Sakshi Chawla	National Entrepreneurship Network
6	Yogesh Andlay	Founder, Nucleus Software
7	Deepak Narayan	Founder Director, MyCFO and WealthTree Advisors
8	Kranthi Vistakula	Founder and CEO, Dhama Innovations
9	Ms Shailaja D Sharma	Director, National Entrepreneurship Network

## RECOMMENDATIONS

Recommendations included, *inter alia*, the following:

**Vikram Bajaj, Director, Inlingua:**

“Registration should act as a shield against a plethora of statutory and tax compliances.”

**Yogesh Andlay, Founder, Nucleus Software:**

“STPI (Software Technology Parks of India), like nodal agencies, should be set up that serve as a single database for all information and a single window for all statutory and tax compliances”

**Dr Radhika Meenakshi, Founder, Wise Owl Consulting:**

“Create special quick clearances for SMEs in single window which should be deemed sanctioned should there be a delay from government departments.”

**Arun Sharma, Mahaluxmi Industries:**

“When a company paying Provident Fund and ESI scales down due to sector problems it still has to continue with these two acts, though the no. of employees may have dropped below the limit for imposition of these acts. For a company struggling this is another blow. Allow flexibility for companies that are scaling down.”

**Sunil Mahajan, Kleeto:**

“Allow flexibility for taxes (service tax, Vat etc.) to be paid once a year if revenue is below threshold.”

**Rajeev Roy, Associate Professor, IIM Raipur:**

“India consistently ranks below 170 in 'enforcing contracts'. India has very weak processes for implementation of legal framework. There needs to be fast track courts for quickly disposing of routine commercial matter like disputes around negotiable instruments or contracts.”

**Deepak Narayanan (Mumbai):**

“Failure needs to be accepted as part of our culture. Companies which don't take off should be allowed to close down faster. Currently, this takes ages.”

**Chandu Nair, Co-Founder, Scope e-Knowledge Center:**

“Same laws and regulations govern a small private ltd as also a large public company. This makes no sense. Provide some breathing time and relax certain regulations for a start-up so that they can first stand up and start walking before being governed by a complex compliance regime.”

## RECOMMENDATION OF ROUNDTABLE

### EASE OF REGISTRATION

The best incentive to register is *ease of registration*. The registration process should *not* be a *deterrent* to starting a business. Instead, it should be simple, transparent and speedy. Similarly, just tuning the incentive system won't do. The best incentive is *ease of doing business*. Entrepreneurs won't register unless they get to reap benefits of registration without meandering in the labyrinth of statutory and tax compliances.

#### a. Single Window System

- i. A *single window* for *facilitating* and *fast-tracking* registration; obtainment of various clearances and permits; tax compliance; and exit from the business should be put in place. To facilitate and fast track the regulatory process, the ministry of MSMEs could set up *STPI-like<sup>1</sup> nodal agencies*. The nodal agency would *co-ordinate with all departments* (Registrar of Companies (ROC), Income Tax, Service Tax, VAT, etc.) to specify all required documents, avoid duplication in the application process, speed up the regulatory process, and promote transparency by tracking the progress of the application through an online portal.
  - ii. Ministry of MSME could identify/develop private agencies/consultants to train and accredit them for providing a host of services for MSMEs along the concept of *e-seva* centres. These agencies could be one-stop-shop for obtaining all statutory compliances at a single window. Ministry of MSMEs could facilitate and benefit these agencies/consultants by funding 75 percent of their total consultation fee.
  - iii. The entrepreneur and the business should be linked through a single reference point (a unique identifier such as passport or *Aadhar* number, etc.). This would allow government and other agencies to track regulatory compliance, improve tax collection and check the antecedents of the entrepreneur.
- b. If certificates, permits, etc. are not issued within a stipulated time period, enterprises should be deemed certified. In addition, for key activities special *quick clearances* should be created

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<sup>1</sup> **Software Technology Parks of India (STPI) – A society registered under the Societies Act and operating under the Department of Electronics and Information Technology (DEITY), Government of India. STPI centers provide a variety of services to IT firms including technology assessment, professional training, high speed data communication, incubation facility, consultancy, network monitoring, data centre, data hosting, etc. See: <https://www.stpi.in/l1010l2010S302050l40274> and [http://en.wikipedia.org/wiki/Software\\_Technology\\_Parks\\_of\\_India](http://en.wikipedia.org/wiki/Software_Technology_Parks_of_India)**

via single window which should be deemed approved after a specified time period. Any errors in documents filed by the entrepreneur should be pointed out in a *speedy manner and not in piecemeal fashion*.

### **c. Rationalisation of approvals/permits/clearances –**

- i. Blanket requirement for redundant approvals such as pollution certificate for service and IT sectors should be done away with.
- ii. At present, the same rules and regulations govern a small business as also a large public company. Regulatory compliance for MSMEs should be delineated and minimised.
- iii. Micro enterprises should be promoted by exempting them from regulatory compliance. Micro enterprises should be registered on the basis of self-declaration (of land, labour and machinery) with random checks by concerned authorities.
- iv. When registering with MCA (Ministry of Corporate Affairs) an option—with a mention of benefits—for registering as a MSME could be made available through a checkbox that could be ticked and another sub-checkbox that could be ticked to detail the type of MSME. This will enable MSME ministry to identify the need of the registered enterprise and communicate effectively and will help entrepreneurs see value addition and therefore encourage for registration with MSME ministry.
- v. Better PR and targeted communication is required. At present, people are not aware of the benefits of registration (for instance, loans without collateral and 20 percent reservation for government procurement) with MSME ministry. There are more than 206 schemes for MSMEs offered by various ministries and departments. Many of those also overlap with each other and therefore all the schemes need to be consolidated and publicised. The scheme-related documents should be made available in regional languages as well, apart from Hindi and English. Modern means of communication such as video, webinars, social media (Facebook, Twitter, Hangouts) etc. should be used to promote the benefits of registration and improve user interface.
- vi. Third party certification/accreditation should be recognised. Recognised Industry Associations could be allowed to certify on behalf of government agencies, with random checks and stiff penalties for fraud (akin to self-employed individuals filing tax returns and declaring income with random checks by the IT department). Similarly, third party accreditation by private companies should be encouraged by sanctioning and recognising more private players in this space.
- vii. Registrations with different PSUs for sale of products and services should be so consolidated as to make multiple applications redundant.

*Bottom line: entrepreneurs should spend time managing customers and global competition than the government environment (today the most successful businesses are those that are adept at managing the system).*

## **INCENTIVISING REGISTRATION**

Registration should act as shield against a multitude of red tape and paper work.

- a. Certification should be on the basis of self declaration of land, labour and machinery etc.
- b. Purchase of goods and services produced by MSMEs by government agencies should be simplified, for example by e-tendering. Registered MSMEs could be given a discount on bidding price in lieu of fixed 20 percent procurement by PSUs. For instance, registered MSMEs could bid 10 percent higher and still secure government contracts.

## **EASE OF OPERATION**

Once registered, MSMEs still face a number of hurdles in funding, starting and running their business. The following are recommended as solutions:

### **a. Funding the business**

- i. Easy foreign investment by PIOs/OCIs or even foreign nationals should be allowed. Current regulations deter/discourage such investment. Receiving payments from foreign countries is very expensive and time consuming. Easier processes like online banking etc. need to be encouraged.
- ii. Innovation Entrepreneurship Development Centre (IEDC) funds not showing impact within specified time limit should be repatriated. One time share of 10 percent of revenue generated from sale/commercialisation of project could be made mandatory.

### **b. Starting the business**

- i. Government should consider creating land-banks in Tier 3 cities for kickstarting MSME cluster-based industrial development in appropriate geographical areas.
- ii. Centres for incubation and innovation, such as private incubation centres with expert technical consultants (MSME MITRAS) should be set up and linked to DICs and MSME

development institutes. Centres for innovation should be set up to connect entrepreneurs to all labs across the country. These will help labs by bringing business to them and entrepreneurs by linking them to enterprise-specific state of the art technology. These centres should help patent and incentivise grass root level innovations by MSMEs.

### **c. Running the business**

- i. Labour laws, Provident Fund (PF), Employee's State Insurance (ESI) and all worker/person related compliances should be consolidated to avoid duplication/delay and weed out rules and regulations which are out of tune with current realities.
- ii. Various taxes (service tax, income tax, VAT, etc.) that are paid at different points during the course of operation should be consolidated. Flexibility should be allowed for taxes to be paid once/twice a year. Retrospective application of taxes should be discouraged.
- iii. ESI, PF, etc. should be allowed to be made competitive by creating several agencies that compete for providing such beneficial services. It will make these more customer-centric and service oriented.
- iv. An employee should be allowed to subscribe to ESI, PF, etc. directly. His contributions could be reimbursed by the employer for whatever period he is employed. In the competitive environment for talent acquisition, employers would compete with each other to reimburse and top up with better facilities to attract good employees. This will also make it easier for employees to switch jobs.
- v. When a company paying PF and ESI scales down due to sector problems, it still has to comply with the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 and the Employees' State Insurance Act, 1948, though the number of employees may have dropped below the limit for compliance with the two acts. This is another blow for a struggling company. Flexibility should be allowed by recognising self declaration in case of scaling down.
- vi. Diversity in start-ups should be allowed with respect to<sup>2</sup> gender, location, community, etc.
- vii. Under the Companies Act, 2013 liability as an 'officer-in-default' extends to non-executive directors as well. Non-executive directors should be exempted from liability as

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<sup>2</sup> **According to the Kauffman Foundation, venture funds with women on their teams invest in women founders 70% of the time. In short, the more women investors at the table, the more women run companies are funded, and the pipeline of women run companies grows. The difference is that women entrepreneurs bring in 20% more revenue with 50% less money invested**

- it hinders flow of expertise and counsel to small enterprises.
- viii. Purchase of goods and services produced by MSMEs by government agencies should be simplified for example through e-tendering. Discount on bidding price in lieu of fixed 20 percent procurement could be considered. For instance, registered MSMEs could bid 10 percent higher and still secure contracts.
  - ix. Enterprises that have been in operation for long should be allowed to continue operations even if they are not located in an appropriate land (industrial or commercial). Enterprises should be allowed to register from whatever address they are at. They can be encouraged/ incentivised to move to an appropriate land later.

## EXIT POLICY

Failure needs to be accepted as part of our culture. Companies which don't take off should be allowed to close down faster, currently this is a long process. Process to exit a business should be made available to the entrepreneurs along with the Certificate of Commencement of Business at the beginning itself.

## GRIEVANCE REDRESSAL

India consistently ranks below 170 in 'enforcing contracts'. Grievance Redressal System should be strengthened.

- a. There should be *fast track courts* for quickly disposing of routine commercial matter like those around negotiable instruments or contracts. Government should be discouraged from appealing against a matter where its argument has been turned down. This will bring down the pendency of legal cases.
- b. Tax and compliance disputes should be resolved quickly in a time bound manner. Arbitration for old disputes related to tax and compliance should be simplified and fast-tracked.
- c. Technology should be leveraged to set up call centres to register complaints. Complaints should be dynamically forwarded up the ranks to speed up redressal.
- d. Subsidised loans often get rejected. Processing of loan applications should be made accountable. Counter signatures by higher authority of lending institution that rejects a subsidised loan could be required. Authorities should be required to provide reasons for rejection. Applicants should have the right to be heard i.e. the right to make a case for sanction of loan.