

FICCI-Confederation of Micro, Small and Medium Enterprises presents action agenda to Govt. for ease of doing business

NEW DELHI, 29 July 2015: FICCI-Confederation of Micro, Small and Medium Enterprises (FICCI-CMSME) has made wide-ranging recommendations to address the contentious and complex issues relating to land acquisition, compliance, inspection, labour laws and access to finance in order to create a conducive business environment for Micro Small and Medium Enterprises. The action agenda paper titled 'Ease of Doing Business: Recommendation for the MSME Sector has been presented to the Government and the Prime Minister's Office with specific recommendations' to facilitate MSMEs and enable them to make their optimum contribution to the national economy.

The following are the issues that need to be tackled either at the Central and State levels:

Land Acquisition:

Land acquisition has been a key area of concern for the Indian industry and particularly for the Micro Small and Medium Enterprises (MSMEs). The process of land acquisition remains cumbersome and long drawn. A review of the Right to Fair Compensation and Transparency in Land Acquisition Act shows that there are several critical issues emanating from its various provisions and these make the land acquisition process extremely complex, lengthy and difficult, besides having huge cost implications. There is an urgent need for a stable land policy that balances interest of all stakeholders. Industry needs confirmed availability of land at an affordable rate over the long term.

The following points are recommended for action:

- Government should **consider developing Industrial Estates exclusively for MSMEs** with sound infrastructure base that includes transport, power, water, road, etc. and with adequate support from budgetary allocation.
- Encourage **setting up of affordable housing complexes for workers near industrial areas by compulsorily allocating 20% land of industrial belt** for low cost housing; fast tracking change of land use for housing purposes; and reducing land registration charges for affordable housing to 20% of the rates applicable in other cases;
- As land is a scarce resource, the State Government **should look at developing 'flatted factories' with a plug and play concept**. The Centre should incentivize States for building flatted factories at existing industrial estates at least in urban areas for MSMEs
- Government **should consider increasing the Floor Area Ratio (FAR) drastically**, which at present is approximately 125% for industrial areas. This would be of tremendous benefit to MSMEs and lead to optimum utilization of existing industrial land.

- **Unutilized plots in existing industrial estates should be reallocated** after certain amount of time lapse for optimal utilization of land. Also, unused land available with Public Sector Undertakings should be considered for setting up MSME Estates.
- Create Land Bank Corporations at Centre and State levels as **repositories of large unused tracts of land**, which can be allocated to relevant users.
- Government can consider allotting a 'rented accommodation' to MSMEs in an industrial area, giving them the option of purchasing the same after a stipulated time period. This will be beneficial for the MSMEs as the units are usually constrained for funds in the initial stages.

Regulations & Compliance:

The list of regulations to be complied with remains unreasonably long for an MSME unit. In addition, **there is disconnect between the agencies formulating the rules and those responsible for implementing them on ground.** This creates space for discretion and fosters corruption. The officers responsible for implementing the regulations often exercise discretion in interpreting and applying rules, thereby making the whole process convoluted and non-transparent. Even though a grievance redressal mechanism exists, the experience of MSMEs has not been positive.

The biggest challenge that remains is that **the institutions which execute single window clearance system both at Centre and State level are not sufficiently empowered** to provide such one stop shop services. It remains imperative that such a function is backed by **a Law/Act to make it effective with in-built provisions for time bound and deemed clearances.**

- **Minimize human interaction by shifting routine submissions to an online platform.** For instance, routine registrations, repeated filing and reporting of information should all be web enabled.
- **Introduce self-certification** and third-party certification in various laws.
- Review the existing regulatory frame work and **undertake planned phasing out of obsolete procedures.** (For instance, in Delhi, under Section 416 & 417 of MCD Act 1957, it is compulsory for a unit to obtain a factory license even when they are operating in a designated industrial area. Such requirements hamper ease of doing business for industry & are particularly cumbersome for MSMEs. The MSMED Act 2006 defines a list of manufacturing and service industries that are allowed to operate in an industrial area. However, this is especially a concern for units belonging to the services sector as the MSME listing does not map with the listing of sectors followed by MCD as defined under the DMC Act 1957. As a result, MCD penalizes the industries which are not listed in the DMC Act of 1957)
- **As long as a MSME meets the statutory laws such as Minimum Wages Act, ESI, PF, etc; bonus should be commensurate with productivity** so that efficient workers are adequately compensated. **Overtime wage** is double of the normal wage and **needs to be brought down to a more reasonable level of about 1.5 times of the normal wage.**

- A significant number of problems faced by MSMEs result from a **lack of clear understanding of the laws/rules by officers in charge of the enforcement departments**. This leads to avoidable litigation, and results in expenses for both the industry and the Government. In cases where a Government department suggests that an industrial unit should seek legal redressal and if subsequently the **court makes a ruling in favor of that unit; in such cases the cost of legal action should be reimbursed by the Government department**. This will ensure that frivolous and unjust demands are not made by the Government departments.

- As per the existing norms, the **license from the Pollution Control Board** has to be renewed every five years for industries in Green Category, every three years for industries in Orange Category and Two Years in Red Category. However, different States follow different period of renewal, some States even insist on renewal of the license annually for all categories. Given Government's emphasis on providing a conducive business environment, it is required that a standard procedure is followed throughout the States. There is also a **need to increase number of years for renewal period** from five to ten years for green Industry, three to seven years for orange industry and from two to five years for red industry.

- **Obtaining a building construction permit is a big hassle** for MSMEs across the country. Approvals are required from multiple departments and several inspections are undertaken causing inordinate delays in actualization of work. The **Government can consider having in place blue prints of a few pre-approved building plans**. The same can be shared with MSMEs and a selection can be made out of these available layouts. This will significantly save time.

Inspector Raj:

The experience of MSME units with inspectors is not at all congenial and the inspectors are often dreaded. In fact, **the inspectors themselves lack understanding of rules** and there is a general lack of awareness. Inspection officials are not objective and harassment is rampant.

- **There is an urgent need to minimize Inspector Raj**. Simple, easy to understand information packages on regulations and related inspection procedures should be created and these should be made easily accessible.

- **Inspectors should act as mentors to MSME units and must play the role of a facilitator**. In case units are found lacking in compliance with certain norms, then the role of the inspectors / inspection agencies should be to help / support industrial units in complying with these norms. However, if an MSME unit fails to comply despite the mentoring provided, they should be appropriately penalized.

Labour Laws: Procedures (documentation):

MSME sector **looks forward to simplified labor law procedures that are both employee and employer friendly**. While on one hand workers should be assured adequate protection, on the other the employer should have the flexibility to adjust workforce during the course of business cycles. However at present, labor laws are quite cumbersome. Also, a number of

registers/records are required to be maintained on a monthly/quarterly/annual basis. **The laws should be made easy to 'fill and file'.**

- Government should **consider introducing a single form for compliance and deposit of Provident Fund (PF) & Employees' State Insurance (ESI)**. This would help save time & efforts and improve compliance. MSMEs should be allowed to deposit PF & ESI towards employer's contribution only. The contribution from employee should not be the responsibility of the employer. At present, in most cases the employee does not want to contribute & the compliance burden of the employee also comes under the employer
- **Special provisions for start-ups to include restricted visits of labor inspector:** Frequent & repeated interference in the name of enforcement will demotivate startups. Hence it is necessary that inspections in the name of enforcement be restricted / avoided
- **Operationalize EXIT policy under National Manufacturing Policy.** Similar EXIT mechanism required for companies outside NIMZs
- **Simplification and flexibility in engagement and deployment of labor would be of great help** to MSMEs. This would be helpful especially in case of disciplinary issues like poor performance / misuse of facilities / misbehavior during working hours, low attendance, absenteeism without permission etc. The employer should be allowed to take appropriate action against an employee creating disciplinary issues by way of termination wherever required with settlement of employee dues such as salary, other benefits, PF, gratuity etc.

Improvement in Access to Finance:

Timely availability of credit at the right cost is the key expectation of MSME industry from their banks. While large corporate manage to get the attention of bankers, often the smaller companies have a disadvantage in sourcing credit at right cost and right time. MSME sector is a backbone of economy and banks have an important role in propelling growth of this important segment.

- **Banks are not forthcoming to lend under various schemes** like the CGTSME due to it being non-collateralized and their risk perception pertaining to MSME lending. The prime objective of setting up SIDBI was to fulfill credit needs of MSMEs. **SIDBI should play an aggressive role and track the lending made by bank to MSMEs.** It should work closely with the banks and help them to meet their target for lending to MSMEs
- Government may work on **penalizing the banks who are unable to meet the MSME lending targets.**

Others:

- As per the store and purchase programme of the Government of India there was a provision of waiver of security deposit up to the monetary limit for which the Micro and Small Enterprises (MSEs) is registered with National Small Industries Corporation Ltd (NSIC) under its single point registration scheme. However, this provision for waiver was withdrawn in the year 2012. It is

well known that MSEs have limited financial resources and do not really have the scope for reserving funds for security deposits being blocked for long term. It is hence recommended that this benefit be reinstated for MSMEs.

FICCI MEDIA DIVISION