ET KNOWLEDGE forum

MARKET TURBULENCE
AND THE WAY OUT...

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THE ECONOMIC TIMES

INDIA MSME SUMMIT

New Delhi

MSME Finance and Credit Policies

Systemic Reforms and MSME Growth

Market - Challenges & Opportunities

Technical Partner

FISME

Foreword

The SME sector is considered to be the backbone of the modern day economy. The importance of this segment is undisputed. However, the yawning gap between the needs, demands and policy response in this unorganized sector has always dampened the sector's prospects. The recent economic turbulence has only added to the sector's problems. Hence, it becomes imperative for us to ensure that SME sector, which is facing one of the toughest times in the industrial history, should be strongly supported by the relevant stakeholders - government, financial institutions, associations, etc.

Realizing the need of the hour, The Times Group decided to play a constructive role by providing a progressive platform - ET India MSME Summit - where both the parties - SMEs and stakeholders - can sit across the table and discuss the immediate as well as long term concerns affecting the businesses. This report is a record of proceedings of the summit which was categorized into three sessions on Micro, Small & Medium Enterprises (MSME) Finance and Credit Policies, Systematic Reforms and MSME Growth, Markets - Challenges and opportunities.

The summit was only one of the many endeavors we have planned for future. This is the point in time when we can walk together and realize the dream we have all seen for a great, strong and an economically vibrant India.

With best wishes

C.R. Srinivasan
Director
The Times Group

Foreword

The Indian economy is relatively inexperienced when it comes to business cycles. In all the pre-reform decades, when the Indian economy performed according to the diktat of the politician and the planner, rather than to the dictates of market dynamics, the rate of economic growth remained low and subject to the vagaries of the Monsoon, rather than to business cycles.

Things have changed now. A globally synchronised economic slowdown, severe enough to spell recession in most parts, has the world in its grips. The impact has been felt in India too, and has been most severe on the micro, small and medium enterprises sector.

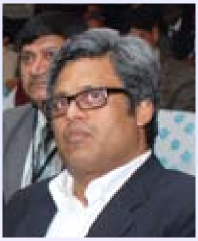
The Economic Times has been trying to focus on the MSME sector, setting up a special bureau for the purpose. We thought it appropriate to run a series of articles highlighting the problems faced by the sector and to organise a conference bringing together all the major actors involved in the sector.

The Federation of Indian Small and Medium Enterprises (FISME) partnered with us in the endeavour. **SIDBI, NSIC, SBI, CGTMSE, indiamart.com and Net4** came forward to lend support. Planning Commission deputy chairman **Montek Singh Ahluwalia** and **Pawan Kumar Bansal** took time out to attend the MSME summit. So did the Secretary to the department of MSME, Government of India, **Mr. Dinesh Rai**, **Mr. Rajendra Mohan Malla**, CMD, SIDBI; **Mr. Mohan Suresh**, President-FISME; **Mr. Gopal Krishna Pillai**, Secretary, Ministry of Commerce, GOI, **Dr. K C Chakrabarty**, CMD, Punjab National Bank; **Mr. Rakesh Rewari**, Deputy MD, SIDBI; **Mr. O S Vinod**, CEO, GCTMSE; **Mr. B. S. Bhasin**, CGM-SME, SBI; **Mr. H P Kumar**, CMD, NSIC; **Mr. Jagdish Khattar**, CMD, Carnation Auto; **Mr. Jasjit Sawhney**, MD, Net4; **Mr. Dinesh Agarwal**, CEO, Indiamart; **Mr. N. K. Maini**, Executive Director, SIDBI and **Mr. V. K. Agarwal**, Sr. VP, FISME.

We at the Economic Times are grateful to them all for their support in making the conference a success. This slim volume brings together the major takeaways from the conference. I hope it proves to be of some use to the MSME sector.

TK Arun
Resident Editor,
The Economic Times, Delhi

Foreword



One dominant theme that emerged at ET's summit on MSME was how to reach formal finance to 13 million small and medium industries that dominate India's business landscape. Many suggestions were thrown up in this regard. After fine tuning some of those ideas one has come to the conclusion that time may be ripe for the RBI to follow a sectoral approach and, if necessary, open a special refinance window and even a special risk fund for the MSMEs to ensure adequate liquidity is available for the sector during these difficult times. The MSMEs, needless to say, are the worst affected by the global credit crunch.

By doing so, the RBI could address many problems. One, the RBI of late has been arguing that the massive liquidity it injected in the banking system by progressively reducing Cash Reserve Ratio (CRR), repo and reverse repo rates has not transmitted into the bank lending system.

Much of the liquidity injected has been used by banks to buy up more government securities rather than lend to businesses. This shows banks, like elsewhere in the world, are playing totally safe, by investing in zero-risk government paper.

This is a classic case of lack of confidence in private sector paper. Now, this confidence needs to be revived. With adequate collateral, the RBI must address the genuine needs of the MSME sector through a special refinance window. This sector accounts for over 45% of India's industrial production and exports and the Central bank can use the public sector bank network to make a concerted push in lending to this sector at reasonably low to moderate interest rates.

Unlike the big corporates, who have financial muscle to survive, the MSMEs need support urgently. They need much cheaper credit to survive the current economic storm. Some radical thinking is called for. The Prime Lending Rate(PLR) has little meaning now.

The RBI must seriously look at the real interest rates going forward. The average inflation rate(WPI) in 2009 is not likely to be more than 3%. The core inflation rate is likely to be even less. If the prime lending rate of banks is taken as a benchmark, the real interest rates are going to be well over 8% going forward. This is untenable.

Through its special refinance window and risk fund for the MSMEs, the RBI must tell banks to lend to small businesses at lower interest rates. This will ensure adequate credit flow to the small businesses.

By doing so, the RBI would have corrected the bias of the banking sector that existed in the boom years. Banks generally had a tendency to lend either to the government or to AAA rated corporates. This is lazy banking. When it comes to some risk lending, at somewhat higher interest rates, they turn shy.

After the global financial meltdown, the Indian banking system's focus has remained on sectors where it already has a lot of exposure. Banks have ended up supporting big corporates with more funds in the past six months, perhaps anxious about the safety of money already lent to them. May be it is time to look at new lending avenues. MSMEs offer a great opportunity, in this regard.

M.K.Venu
Editor - Opinion
The Economic Times, Delhi

Contents

Objectives:

- Initiative to bring MSME concerns to the forefront
- Not to be a one off-event but a process for change
- Neutral, credible and action oriented.

Pre-Summit:

Concerns Identification exercise

- MSME concerns invited from 1400+ FISME associated associations
- Feedback received from 543 MSME associations
- Thousands of letters, e-mail and SMS from MSMEs
- ET launched a campaign to elicit response from readers
- The feedback received formed the Summit's Agenda in three distinct themes.

On Summit:

- Day long MSME Summit organized and spread over five sessions covering three themes: a. MSME Finance & Credit Policies b. Policies and Reforms c. Markets
- Each theme was Chaired by top policy makers and panels with domain Experts
- Discussion by participating MSMEs.

Post Summit:

- Compilation of all inputs, summit discussions in form of comprehensive Dossier
- Wide circulation of dossier among policy makers, partner associations and MSMEs

Introduction

The MSME Sector

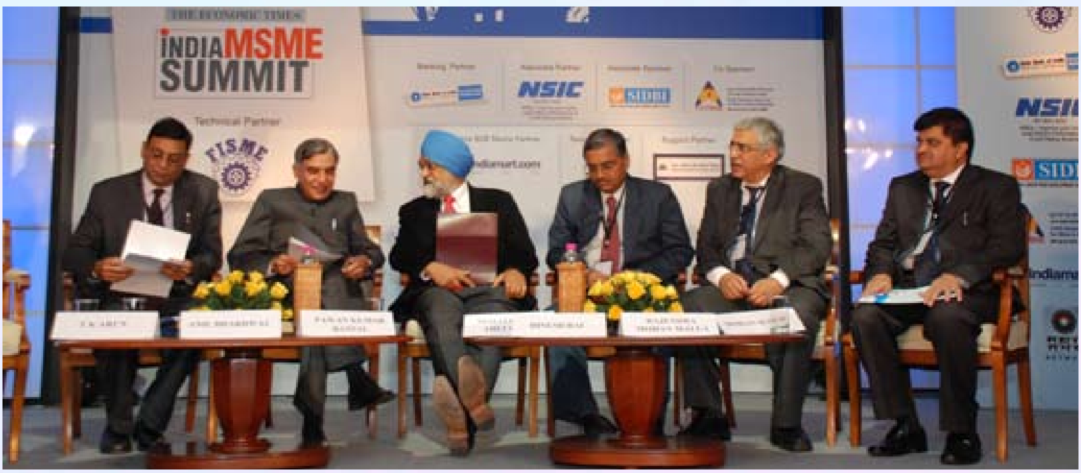
- The Micro, Small and Medium Enterprises (MSMEs)[1] are aptly regarded as the backbone of the Indian economy. According to the Union Ministry, MSMEs, with addition of Medium enterprises in their fold are now a sector that contributes up to 40% to the gross industrial manufacturing value added to the economy, 35% to India's exports directly and around 8% to India's GDP. Numbering more than 13 Mn units and employing around 33 Mn. people, as per the Ministry and no matter which other data set is used, the sector is proved to be the second largest employer after agriculture.

- In spite of their immense contribution, the sector is largely informal: 90% of the units are not registered[2], they are not covered by annual formal data collection exercise like Annual Survey of Industries[3]; 97% of them are either proprietorship or partnership enterprises and close to 95% of them do not have access to any kind of formal institutional credit[4] (from banks, financial institutions etc).

- Their apparent informal characteristic notwithstanding, the sector is highly heterogeneous. It produces more than 8000 products ranging from hand made stuff to high-tech components and machines. Sitting in a pyramid like structure, while the bottom has the bulk of largely informal micro enterprises, serving domestic niche markets, in their geographical vicinity, the sophistication of processes and capabilities rise as we move upwards. Around 20% of the upper segment of MSMEs is part of large domestic or global supply chains.

The Financial crisis and resulting slow down

- There is consensus now that much of the economic growth in the world (since 1990s) was the result of excess liquidity, which became available due to lax regulation and massive use of new financial instruments like



Anil Bhardwaj - FISME, PK Bansal - Ministry of Finance, MS Ahluwalia - Planning Commission, Dinesh Rai - Ministry of MSME, RM Malla - SIDBI, Mohan Suresh - FISME derivatives, credit SWAPS, CDOs etc. Trillions of dollars were freed from banking systems and found way in markets propelling demands from housing to auto and commodities.

- India was one of major beneficiary countries of these global financial developments, attracting huge portfolio investments, FDIs and Venture Capital. Besides giving fillip to exports as demand grew around the world and our export capabilities enhanced for higher value added products such as automobile and petro products, this was particularly reflected in growing sectors such as housing, white goods and auto in the domestic market. Growth in these sectors was largely driven by hugely unmet demands of a young nation thriving on demographic dividend, leveraged by easily accessible finance through EMIs.

- But two developments proved spoiler. In the global context it was the sub-prime crisis in the United States which later precipitated into a full fledged financial crisis. In the Indian context, it has been high inflation. In order to contain inflation, RBI continuously squeezed money supply and hiked interest rates during the last few years. The tipping point came in September 2008 when the tap on excess liquidity was suddenly closed in US markets with fall of their biggest investment bankers. Panic spread across the financial markets in the world. Indian corporates and banks which generously tapped these financial markets for cheap short term funds through ECBs and a range of new age financial instruments, suddenly found the door firmly shut and they returned to Indian banks. Frightened, the Indian banks refused to part with funds to all borrowers: big or small.

- Sectors that were leading growth and creating employment (housing, auto, white goods), started collapsing one after another. Exports started dwindling due to slump in major markets and export oriented sectors, like textiles and garments, auto, handicrafts, leather and like, bore the burnt. The cascading impact of these sectors fell on long supply chains down the line spreading a panic like situation.

ET India MSME Summit: Background

- The importance of the MSME sector is undisputed. It is also undisputed that policy makers have consistently tried to assist the sector. However, due to the unorganized nature of this MSME segment, there has always remained a gap between needs, demands and policy response. No wonder, in context of MSMEs, rhetoric prevailed over reason and disappointments over expectations.

- The Economic Times in Technical partnership with FISME conceived the initiative to bring the MSME concerns to the fore. The MSME Summit was slated to be the neutral, credible and action oriented platform. It was conceived not to be a one off event but a process divided in the following three distinct groups: pre-summit, on summit and post summit activities. A massive pre-summit exercise to elicit feedback was undertaken by FISME. The efforts reached out to around 1400 associations. 543 of them responded with specific suggestions. Thousands of e-mail and SMSs were received from readers of The Economic Times. It is this feed back that formed the agenda of the Summit.

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[1]Under the Micro, Small and Medium Enterprises Development Act, a Micro unit is defined as one having investment in plant and machinery up to Rs, 2.5 Mn for manufacturing and of Rs. 1 Mn for services; a Small unit- from Rs. 2.5 Mn to Rs. 50 Mn for manufacturing and from 1 Mn to 20 Mn for Services; and Medium unit from Rs. 50 Mn to 100 Mn fr manufacturing and from Rs. 20 Mn to Rs. 50 Mn. [2]Third Census of SSIs (2001-02) [3]Source: Third Census of SSIs (2001-02); Annual Survey of Industries cover units registered under Factories Act, employing more than 10 workers using power or 20 workers without using power. [4]Source: Report of working group on rehabilitation of sick MSMEs (RBI, 2007)

Record of Proceedings
ET India MSME Summit

The ET India MSME Summit was held on Friday, 13th February 2009, at the Oberoi Hotel, New Delhi to address the issues around the sector and was attended by representatives of the government, policy makers, banks and industry.

The day-long event was divided into five sessions:

- Inaugural Session
- MSME Outlook on Policies: Finance, Foreign Trade Policy
- Systemic Reforms for MSME Growth
- Market-Challenges & Opportunities
- Concluding Session.

TK Arun - Economic Times, Anil Bhardwaj - FISME, PK Bansal - Ministry of Finance, Dinesh Rai - Ministry of MSME, RM Malla - SIDBI, Mohan Suresh - FISME

MS Ahluwalia - Planning Commission, Dinesh Rai - Ministry of MSME, RM Malla - SIDBI, Mohan Suresh - FISME

Mythili Bhusnuramth - Economic Times, GK Pillai - Ministry of Commerce, KC Chakrabarty - PNB, Rakesh Rewari - SIDBI

Inaugural Session

Resident Editor of The Economic Times, T.K. Arun welcomed the guests and the delegates and opened the dialogue flagging off the larger issues. He mentioned that Indian Inc raised US$ 33 Bn. in 2007 through ECBs, but due the financial crisis in West in 2008 they returned to Indian banks for want of funds. In comparison to MSMEs, banks were more willing to lend to larger companies and if funds of this magnitude are sucked from the system, from where would the MSME sector raise resources in these troubled times? Secondly, with falling exports, the pressure of finding markets was also becoming more arduous. “The current slow down or crisis called for steps both short term and long term to be taken in interest if MSMEs' Identification of these steps, in sum, is the context of the Summit”, he said.

FISME Secretary General, Anil Bhardwaj informed that the India MSME Summit had reached out to 1,400 MSME associations, of which 543 have sent suggestions. The agenda of the Summit is based on the feedback of these associations and of MSMEs that sent their suggestions. He elaborated on the three themes of the Summit namely: SME Finance and Credit Policies, Systemic Reforms and MSME Policies and Markets. (The findings are part of the dossier).

Deputy Chairman of Planning Commission, Montek Singh Ahluwalia declared at the outset “You cannot have a healthy industrial sector without a healthy MSME sector." He invited ET and the FISME to come up with a list of measures that the sector urgently needs and suggestions on how government action could help. "We at the Planning Commission would love to receive such a list."

While the crisis was not over, the liquidity problem has eased substantially from October last year to January this year, he said. He admitted that providing adequate infrastructure and creating an environment where MSME can compete are important things that Government can do to assist MSMEs. He was sanguine of evolution of an effective Competition Policy mechanism in the country to address some of the issues related to anti-competitive behaviour.

Pawan Kumar Bansal, Minister of State for Finance explained that the government appreciated concerns of the MSME sector. The Government knew well that the sector had suffered the most in this current crisis and there was a gap between what they expected from the banks and what was being delivered. But all is not lost, he added: "Five years back our government had taken a decision to double the year-on-year credit to SMEs. We have surpassed that." In 2004, the credit offtake figure to SMEs stood at Rs 84,000 crore, which has grown to Rs 246,000 crore in March 2008, a jump of 193%. "We have met banks to ask them to provide credit to SMEs”. He advised MSMEs to contact the higher officials if they faced problems as adequate steps had been taken for restructuring loans.

Dinesh Rai, Secretary, Ministry of MSME, Government of India spoke about steps the Government had taken. He referred to the recent stimulus package announced by the government where PSUs were also directed to pay SMEs on time. The new MSME Development Act provided for timely payments by customers to MSMEs within 45 days but there were issues of implementation, he said. "That is working well in some states," he said. Under the credit rating scheme, the MSME ministry has approved seven credit rating agencies which help SMEs improve their credibility in their trade and investor community.

RM Malla, CMD, SIDBI responded in detail on some of the important measures SIDBI has taken in recent past in response to various questions posed by MSMEs, namely:

i. Refinance Facility: SIDBI has significantly increased disbursement under its refinance operation and provided refinance of over Rs. 12,000 crore, which is almost 150% higher as compared to that of corresponding period of the previous year and the highest in any single year.

ii. Special window of Rs.7000 crore: Government of India and Reserve Bank of India have provided a special window of Rs.7000 crore for augmenting credit flow to MSEs. Of this Rs. 7000 crore, special refinance limit of Rs. 6400 crore is earmarked for PSBs at concessional interest rate and the refinance would be 50% of the incremental lending by PSBs to micro enterprises with base date of September 30, 2008. Additional refinance of Rs. 600 crore has been sanctioned over and above the normal refinance to SFCs to step up their credit to MSME sector.

iii. Credit Guarantee related measures: The loan amount eligible for guarantee under collateral free guarantee scheme of CGTMSE has been increased from Rs.50 lakh to Rs.100 lakh; lock-in period has been reduced from 24 months to 18 months and guarantee coverage for loans up to Rs. 5 lakh increased to 85%. An ambitious target of 50,000 guarantees to MSMEs has been set for the current year itself. Guarantee cover to over 34,000 MSMEs have already been provided and he was confident that coverage of over 50,000 guarantees to micro and small enterprises will be achieved.

iv. Direct Credit Related Measures: SIDBI is lending directly about 30% of its funds to showcase that lending to this sector can be done profitably. SIDBI has initiated a number of facilitating measures for its direct borrowers.

v. Ad-hoc assistance under Direct Credit Scheme: 15% additional amount is sanctioned to all our existing borrowers of term loan as well as working capital on liberal terms. The ad-hoc assistance would help MSMEs sustain the slowdown and ease their liquidity position.

vi. Restructuring of Loan Accounts: The Relationship Managers of SIDBI have been asked to reach out to its existing clients to address their restructuring need.

vii. Equity / Risk Capital support : MSME Risk Capital Fund instituted in SIDBI has become operational. Other banks have also been requested to refer proposals of equity linked assistance to SIDBI.

Mohan Suresh, President, FISME thanked the guests and delegates and said that the MSME summit was an endeavour to bridge the gap between aspiration of the sector and initiatives taken by the Policy makers. It was perhaps for the first time that such a massive exercise has been undertaken to collect feedback across India, he said.

The session concluded with release of FISME's Policy Paper on 'Insolvency and Bankruptcy for Small Enterprises' by Montek Singh Ahluwalia.

Managing a special ECB window

IN THE early part of 2008, the finance ministry wrote to the RBI suggesting that foreign borrowings entitlements or external commercial borrowings as they are called should be auctioned. For good measure, the central bank was also sounded out on carving out a part of the overall annual ceiling for overseas borrowings for small and medium enterprises (SMEs).

A paper detailing the auction mechanism which was worked out by Subhashish Gangopadhyay, the then adviser to the finance minister, was also passed on to the central bank. A policy shift on this front could be a while away but carving out or reserving part of the borrowing entitlements to SMEs is certainly bound to spark off a debate. Until the freeze in the credit markets, some of the smaller firms did access the foreign borrowings window. The amounts which they borrowed were modest. It made sense for SMEs with a natural hedge in the form of exports to raise money abroad considering that even on a fully hedged basis, borrowings costs were still lower compared to the cost of funding in India.

But over the last eight months or so, even the best of names in the corporate world have found it tough to convince wary lenders overseas to part with money at reasonable rates. Even with the easing of the cap on costs, top corporates are finding it difficult to raise funds. So, for smaller firms, the challenges would be far more severe. Would a better option then be to let local banks and institutions bid for part of the foreign borrowings entitlements and then on-lend to smaller firms? Or to provide credit enhancements to such borrowers although they may be hesitant, given the capital which has to be set aside in the new regulatory regime?

Larger corporates will manage to foray into the markets later when the tide turns on their own strength. Indian banks and institutions, including a specialised one such as Sidbi, could be encouraged to on-lend to smaller firms with the lenders helping out in the risk management of borrowings, like the way the private sector financing arms of some of the mutlilaterals do. Institutions such as Sidbi do have a pool of forex resources in the form of line of credit from overseas institutions. But these are tied to certain industries. Sidbi now has Rs 1,500 crore worth Japanese assistance to be provided.

Many SMEs that have been scarred after the experience of having bought exotic derivative products from some of the Indian banks now prefer the safety of rupee borrowings.

If indeed policymakers do weigh the option of reserving part of the allocation for smaller firms, they can always exercise the right to allocate the unused limits to other borrowers later, every quarter or so.

SHAJI VIKRAMAN
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SME players rue lack of government help in trimming costs

Anirvan Ghosh & Sachin Dave
BANGALORE/MUMBAI

FOR textile exporters of Tirupur the going is not just tough, it's the worst ever. And old government policies have come back to haunt them at a time when they are at their most vulnerable. Tirupur has around 6,250 factories, which provide direct employment to 3.5 lakh people (mainly women from rural areas) and indirect employment to about 2 lakh. The units are dependent on exports, mainly of hosiery and some knitwear. Around 50-55% of the exports are to EU countries, 30-35% to the US and the rest to other countries.

A Sakthivel, president of the Tirupur Exporter's Association (TEA), contends that had the government made imports of machines cheaper, lower production costs could've made things easier. The garment industry is facing a 25-30% decline in growth this year.

FISME secretary general Anil Bhardwaj says funding is currently the bottleneck for investments into technology by MSMEs. "It's almost impossible to go to bankers today with a proposal for technology upgrade," he says. And that's ironical in a way, he adds. "Between 2004 and 2007, the system was flush with funds from non-traditional sources like VCs and PEs. Those days competition was to grow; now it's to survive," he adds.

Ask R Sivaram, executive director, Royal Classic Milk, which had around Rs 300 crore of exports last year. He points out that with modern knitting machines, costs have gone down by 20%, and water consumption has fallen by around 42%. But the higher efficiencies are not passed on yet because each machine had cost Rs 35 lakh. "Had the government made this import cheaper, we would surely be in a better position," he says.

The key problem, according to Sakthivel, is that China enjoys a 4-6% interest differential over India, making its exports cheaper. Similarly, countries like Vietnam and Cambodia are surging ahead with their exports even with the main markets like US and Europe reeling under recession. Modern knitting, fabric furnishing and cutting machines from Germany are still expensive and in such times, unaffordable. But people like Britto M Joseph, who heads the JVS Group, with clients like Wal-Mart and Tesco, says that they feel they missed the bus. "The government should have given sops earlier, and today we would've had less manpower and fewer lay-offs," he says.

Firms in the automotive sector too are caught in a quandary on the technology front. Vishnu Mathur, executive director, Automobile Component Manufacturer's Association of India, explains: "The main problem for MSMEs is the unavailability of funds for R&D, and government along with private players should provide some support for it. Mostly, no private player alone is willing to risk his money lending to an MSME for R&D." However, many times large companies drive their smaller suppliers towards technology upgrades. The Tata Nano is a perfect example of this.

Dinesh Agarwal, CEO, Indiamart says software should be simple to use: "One can't expect SMEs to use complex technology at a time when many of them do not even have access to the Internet. So the government should make such software imports cheaper and push them to the hinterlands, along with the spread of broadband."

MSMEs seen as engines of growth

Planning Commission deputy chairman Montek Singh Ahluwalia at the MSME Summit in New Delhi.

During slowdown, small firm a good workplace

Nikhil Menon
MUMBAI

IN THE current slowdown, the small company maybe a better place to work. While there is some merit in the fact that a large organisation is relatively insulated from the shock of a downturn, size doesn't matter nearly as much as transparency and an engaging work atmosphere.

Says E Balaji, chief executive officer and director of MaFoi Management Consultants which provides human resource services, "Small and medium-sized textile, auto component, real estate and retail firms have lost skilled talent to large competitors due to the meltdown. However, sectors like insurance, pharma, healthcare, FMCG and telecom still seem to be hiring." He adds, "Certain sectors have been affected much more than others, but small firms must remember that how your employ- tained enabling culture, especially if the top management is experienced in handling leadership roles in the past. Again, small here is a state of mind. In certain areas, especially where the delivery platform is online, a national presence is not required and companies tend to be smaller. In other cases, a certain infrastructural bandwidth is necessary. But in general, small firms can be quite creative in the ways in which they manage their personnel resources.

"It is all about communicating the vision clearly. If every last person knows what role he or she plays in the larger scheme of things, that's enough too," says KA Ramakrishnan, director of Avalon Consulting. If there's one thing that everyone agrees makes a major difference to the perception of an employer, it is transparency. If there's a problem, don't deny it. Left to their own devices, employees interpret rumours and half

ET India MSME Summit Coverage

'Govt should promote auto MSMEs'

Jagdish Khattar

A KEY challenge facing the Indian automobile industry is enabling the auto component SMEs to achieve competitiveness in the fast-changing scenario.

SMEs face a huge technology challenge of developing world-class manufacturing facilities for developing components for new vehicle technologies that are increasingly being driven by considerations of environment protection and enhanced safety. In addition, auto companies today are now expecting component suppliers to participate with them on after-sales service to both, provide quick service to customers as well as to develop substantial information base on part usage, failures and their impact on the performance of the vehicles. There is increasing demand to measure and account data on plant performance, cost structures, process capabilities, defect-related details etc.

The current global recession and the slowdown in the domestic and international auto industry are having a major impact on the SMEs. Long delays in payments from the customers are leading to further cash flow difficulties. Due to the current financial crunch, they are unable to pay back their loans leading to potential defaults. In such a situation, these SMEs would find it practically impossible to get further finance from the banking system. If the current market downturn continues for long, many SMEs may be forced to wind up leaving serious gaps in the supply chain (at tier 2/3 level). But these SMEs are critical in the automotive supply chain.

RBI has taken a number of steps to raise the

are hesitant to offer lower rates for a company where the risk assessment is higher. Most SMEs also do not have the ability to raise finance through alternate routes like external commercial borrowings and are completely dependant on the local banking system.

We need to ask ourselves one question here — what is going to be the role of SMEs in the new competitive environment? Will it be that of a low-quality, low-cost replacement parts supplier (possibly of low complexity parts) or will it be that of a niche player capable of providing flexible operations

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parts from local SSIs. The idea is to ensure the flow of best practices between larger and global firms and local firm. Govt needs to develop special arrangements to improve coordination (both in terms of flow of goods as well as information) between institutionally small and large firms.

One such mechanism is to encourage multinational firms or large Indian companies to adopt local firms in order to help them upgrade skills and technology — salaries of participating employees from the multinational firms is paid from this programme. Another mechanism to support the local industry is by requiring auto-assembly firms to source a minimum requirement from domestic suppliers.

There is debate on the success of this programme with enough support for either view. WTO now considers such "trade related investment measures or TRIMS" as counter to free trade and consequently had to be withdrawn. One of the key reasons that prevents SSIs from succeeding is the high transaction cost associated with procuring information on markets, technology, skills etc.

Government-supported programmes need to be initiated to perform market research, upgrade product & process quality, implement just-in-time ((JIT) delivery and develop appropriate product portfolio.

Some countries help SMEs by creating separate infrastructure in the form of parks for various industries or promoted clusters in the vicinity of OEM assembly plants. Experience is that if the choice of firms within the cluster is done judiciously, all the suppli-

Policies, statutes hampering growth of MSMEs

Rohit Kochhar

MUCH of the dilemma being faced by MSMEs is a reflection of the times we are living in. Till market conditions stabilise and the financial crisis de-escalates, much of the ongoing trauma may subsist.

However, some of the critical challenges being faced by MSMEs are not entirely due to prevailing conditions but also have their roots in policy and statute.

It is disheartening that several states have not even established the required councils and those that are set up are barely functioning causing MSMEs to run from pillar to post to realise their unpaid receivables.

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Also, though a time limit of ninety days is provided for completion of proceedings by the councils, this is seldom adhered to in practice. It is desirable that during the pendency of the proceedings, the council should at least be empowered to allow an MSME (which generally works on narrow operating margins) access to the principal amount due from the buyer.

The second challenge flows from the chronic inability of MSMEs to access the funds. This can be solved by "factoring", which would have been a more effective mechanism but for want of legislative support. Factoring is a flexible alternative to traditional forms of funding. When a factor purchases the trade debts (book debts) of the seller and grants an advance of about eighty percent for the assigned debts, such a service is termed as factoring. This helps business units raise short term funds by converting credit sales into cash, thus enhancing their working capital liquidity.

Sadly, the relevant proposed legislation i.e. "Factoring of Debt due to Industrial and Commercial Undertakings Bill 2000" still remains merely a pending draft. There is a dire need for enacting a factoring legislation which, amongst other things, would clearly define the legal relationship between the factor and the seller's business unit. Such legislation would also encourage banks and factoring companies to provide factoring services more liberally, as it would address the fear of conversion of debts into non performing assets.

The third challenge is lack of an appropriate legislative and regulatory framework to provide timely aid to sick MSMEs.

Currently, sick MSMEs are provided relief packages from banks, financial institutions, the Central or State Governments, and other concerned agencies, spread over a period of not more than five years. Thereafter, the potential viability of the sick unit is determined by banks or financial institutions on the basis of its ability to service its repayment obligations without the help of any concessions. Even though the relief packages or concessions granted by banks, financial institutions or Government may be adequate, the untimely implementation of such packages causes the units to suffer irreversibly.

A comprehensive bankruptcy code has been in the offing since the year 2001. However, the discussions and the recommendations have not gone beyond stacked paperwork. We need to realise this code as soon as possible not only to repeal the archaic insolvency laws in India that date back to the year 1908 but also to provide expeditious relief for MSMEs and corporates in general.

With the aim to augment credit flow in the sector, one of the most promising financing schemes that have been launched by the MSME Ministry is the 'credit guarantee scheme'. The scheme covers collateral free credit facility to new and existing micro and small enterprises for loans up to rupees one crore. Though this scheme is slowly gaining momentum, there are very few banks that have a well entrenched branch network due to which actual instances of successful funding of micro and small enterprises are few and far between.

(The author is chairman & managing partner of Kochhar & Co)

Queries on India MSME Summit may be sent to etkf@timesgroup.com or send SMS 'ETSME' to 58888.

WAITING FOR CHANGE: Rohit Kochhar

Capital crunch hits SMEs

Anil Bhardwaj

nany sectors, SMEs in India are also feeling at due to the global financial crisis. Low demand pital crunch in the domestic market has further hit of SMEs. The industrial production (IIP) is sliding, touched 0.4 in October 08, the lowest in the years. Exports have registered a negative growth recently.

There are four critical challenges that affected Working capital crunch and difficulty in accessing the required funds in view of recent reversals, antithetical regulations of NPAs and restructuring norms in banking, which have become irrelevant in the crisis situation. The policy response needs to be seen in the context of these challenges. The RBI has taken measures to ease liquidity and direct flow of funds. It has also issued guidelines for banks to be 'sensitive' to SMEs' needs and take decisions on case-to-case basis.

THE ECONOMIC TIMES
INDIA MSME SUMMIT

THE AUTHOR IS SECRETARY GENERAL, FISME

Theme-I :
MSME Finance and Credit Policies
Input from the Ground

1. Over-arching Concerns

i. The overarching concerns of the MSME sector remains that of access to adequate credit. The participants reported four key issues with regards to MSME Finance and Credit Policies:

a. Perceived poor quality of service.

b. High cost of credit to MSME sector in comparison to their larger counterparts.

c. Lack of transparency (in fixing charges, credit rating process, disposal of loan applications etc).

d. Deficiency of domain knowledge (of sectors or products) among branch managers which enhanced their risk perception.

ii. It was widely held view that RBI is too occupied with macro management of economy and has not had enough time for improvement of service quality for bank customers. Many cited the example of TRAI, as to how it has vastly improved service quality for telecom consumers while simultaneously reducing the cost of service. The sector felt that the reforms in banking sector have become overdue.

Suggestion:

- Induction of greater competition in the banking sector.
- Effective Regulator of banks is needed to check and ensure compliance to its own instructions and guidelines.
- Balancing the rights of lenders with the rights of borrowers; currently these are skewed in favour of former.
- Incentives for adoption of innovative models for enhancing outreach through local/ regional intermediaries.
- Alternative information channels for redressal of grievances of bank customers as bad news is not reported to higher authorities.

2. Working Capital shortages:

i. Inadequacy of working capital in any case has been a standing problem. The slow-down has exacerbated it. A large segment of MSMEs particularly those that are part of supply chains reported that they were facing problems due to unpaid bills. In many cases the delay is greater than 180 days. NPA norms classify a bank a/c NPA after 90 days (extended to 120 days now). They were asked what should MSMEs do when the ‘norm’ of payment cycle is 180 days and beyond?

ii. Most indicated that the problems were more acute at branch level with regards to requests for enhancement of working capital limits. The current mechanism was found time consuming, non-transparent and without any time bound limit.

iii. In spite of willingness of majority of MSMEs which are part of supply chains to utilize Factoring, it has not taken off due to legal and other tax related constraints.

Suggestion:

- For accounts running normal till 2008, ad-hoc enhancement of working capital by 20% should be considered on written request without asking for additional collateral security.
- A Task Force should be established to identify policy/ legal impediments in use of Factoring (with or without recourse).
- A status report should be brought out on banks not following RBI guidelines on ear-marking sub-limits of their corporate customers for MSME suppliers.

3. Term Loans and access to funds for new projects/ start-ups:

i. Many progressive companies that went for expansion or started a new unit during boom period (last 4-5 years) are finding it extremely difficult to service periodic re-payments as market conditions have suddenly reversed. In current situation neither top line nor bottom line targets could be met by borrowers. Therefore repayments plans have gone awry and defaults become imminent.

ii. The feedback points out that in the name of being prudent, banks have turned pusillanimous. They have deposited more money under SLR/CRR than what is required, in-stead of lending funds for new projects which have dried up. Either loan proposals are not being acknowledged or are not disposed off. Due to continuing financial crisis, the Venture funds and private equity funds have also disappeared.

iii. Though Credit Guarantee for MSEs have been made more use friendly recently, most banks continue to discourage borrowers from taking the guarantee cover. Their preference remains collateral security.

Suggestion:

- A moratorium on loan repayments could be extended for one year to units that are finding it difficult to service loans.
- Banks should clearly spell out their restructuring norms with clear time frames and ensure that these are available at level of branches.
- A few steps that could be taken to augment lending are:
  - o Reduction in loan margin requirement by 5-10% and allowing longer gestation by 12 months.
  - o For a year collateral free lending could be made mandatory for loans of up to Rs. 25 lac against Credit Guarantee.
  - o Construction of 'land and building' may be covered under 'Housing Loans' for extending loans.
- There is a need to reverse incentives for not lending; reduction of Repo/reverse Repo may be considered further.
- Foreign MSME dedicated funds could be invited and provided with suitable fiscal incentives.
- Establishment of alternative equity markets - MSME Exchange, needs to be hastened for raising equity.

4. Interest Rates and service charges:

i. There is strong perception among the MSMEs – especially among the small segments, that they get the raw deal in interest rates. They are also made to pay higher charges for all types of chargeable services, particularly non-fund based limits such as bank guarantees. Some of it could have an explanation in analogy. The way discounts are given to big customer verses small customer, much of the anguish seems to be because of adhocism they experience at the hands of bankers.

ii. The overwhelming view of the participants have been that while RBI has announced bold rate cuts and asked banks to reduce interest rates, nothing is passed on MSMEs. The interest is supposed to be charged based on performance of the borrower. The process of judging a unit, however, is internal, non-transparent and subjective. Findings of such an exercise are never shared with borrowers. Many companies allege that if there is improvement on some parameters on which interest rates are decided, values are changed by bank officials to keep the borrower in higher slab of interest.

Suggestion:

- RBI should benchmark max. service charges as is done by TRAI and make continuous efforts for their reduction.
- To improve transparency, internal credit rating/scoring report must be shared with borrower as it helps the borrower to improve its performance.
- Incentives need to be created for banks complying with RBI guidelines on interest rates.
- RBI should constitute a committee for issuing guidelines on the extent of collateral requirement and how collateral greater than 100% (besides mortgage of plant and machinery) could be refunded to the borrower.

5. Third party credit rating

Most MSMEs complained that third party credit rating requirement under BASEL II. for loans portfolio above Rs. 10 cr. had unnecessarily increased the cost burden on MSMEs. Most rating agencies apply the cut and dry corporate models on MSMEs. It is giving value to neither the bankers nor the MSMEs. It has benefited only the rating agencies as they have secured their businesses. The financial crisis has any-way exposed the soft belly of their unduly acclaimed rating models.

Suggestion:

- RBI should reconsider its decision of making the third party mandatory for MSMEs and should rather issue guidelines on the internal rating mechanism of banks, making them more robust and transparent.

6. Losses due to Exotic Forex Derivatives and Forward Contracts

Exotic Forex derivative instruments were sold by some banks to unsuspecting MSMEs to manage their Forex risks. Losses worth more than Rs. 2000-cr. are reported to be absorbed by MSME exporters alone. Recent RBI instructions have given a temporary respite to the affected MSMEs but the status quo remains.

Suggestion:

- Let there be one time settlement of MSME cases with ‘no-profit no loss’.

7. Commodity Crash

Many MSMEs that were contracted for import of raw material during 2008 suffered heavy losses as by the time the consignments arrived, the prices crashed, choking their working capital. As there is no precedence of such situations, most bankers fail to come to their rescue.

Suggestion:

- One time waiver needs to be considered with government help sympathetically for such MSMEs.

Session-I :

MSME Outlook on Policies: Finance & Foreign Trade

Gopal Pillai, Secretary, Ministry of Commerce chairing the session spoke in a positive but cautious tone, “We should be able to recover (from the downturn) soon. But the next 2-3 months will be critical as some sectors will see a shakeup and restructuring, which will be painful.”

Elaborating on the complaint of MSMEs about anti-dumping and safeguard duties on inputs, he said that there would always going to be a delicate balance to strike in matters of such nature as either the large domestic producer would get hurt or the user MSMEs. He assured MSMEs that wherever the sector is likely to be affected, the view of the Government would be more sympathetic to them.

He shared the concerns of MSMEs on delayed payments in exports and said that cases from even western countries were coming to light where, because of lax regulatory mechanism, Indian exports had turned into bad debts. He stressed the need for all concerned Ministries and agencies to work together in sharing the information and forming a collective response.

K C Chakrabarty, CMD, Punjab National Bank said, “We have vested interest in supporting micro-entrepreneurs because our lending to them is more profitable. Today’s micro-entrepreneur is tomorrow’s multinational company”. He advised MSMEs to avoid three mistakes while approaching banks for credit, particularly in bad times. “One must not do that business whose risks one doesn’t understand. Don’t hide anything from your banker. And don’t ask your bank to misprice its credit risk.”

“The fear of the small entrepreneur is that its problems may not be appreciated by the banks and the mistrust of the banks of the small entrepreneurs, feed upon each other leading to delay in identification of the root cause of the problems and initiating the corrective process. The MSME associations need to educate their members to discuss their problems with their banks treating them as partners in their business. Similarly, the field staff of the banks needs to be sensitised to the needs of MSMEs, to appreciate their problems and to extend support and guidance to these units in times of distress.”

On sickness, an issue on which he chaired a panel set up by RBI, he pointed out that:

- Identification of sickness in small enterprises should be done at the incipient stage itself, say within a quarter of becoming NPA. By the yardstick of erosion in networth, 50% erosion due to accumulated losses may be accepted as sufficient stress to declare the unit as sick. The existing stipulation that the unit should be in commercial production for two years delays the rehabilitation process and may be done away with.
- Other milestones like delay in commencement of commercial production by more than 6 months, continuing losses for two years or cash losses for one year and underutilisation of capacity by 50% of the projections may be accepted as sufficient for initiating rehabilitative measures.
- The tendency of the banks to declare a unit unviable needs to be curbed. The procedure for declaring a unit unviable may be changed so that the responsibility for doing so lies with the controlling offices and that too after an opportunity is given to the borrower for

proposing a rehabilitation package and the reasons thereof be recorded.

- Repayment of a part of the principal may be fixed by way of tagging of sales.
- Scaling down of debt may be considered.
- Financing of OTS of one lender by another lender may be permitted by RBI.
- A sick unit which is being rehabilitated by the banks may be treated as a Relief Undertaking for the government dues.
- Prudential norms for rehabilitation of sick units should be relaxed e.g. it should not be treated as repeated restructuring or there should be no need for provisioning for diminution in fair value of advance etc.
- CGTMSE premium should be at 50% discount.
- Medium enterprises may be taken out of the purview of BIFR.
- Restructuring means the change in the terms of loans provided to an enterprises on account of the financial difficulties being faced by it. It attempts to help a unit overcome the stress and tide over the liquidity constraints after a proper study of viability of the unit.
- On being found viable, the unit is helped by funding the irregular portion of existing loans, rescheduling of the loans, reduction in margin, waiver of penal interest and concessions in rate of interest. On current problems of restructuring, he explained the different types of MSMEs that are eligible and how can they take advantage of measures taken by RBI and Government.
- All non corporate SMEs and corporate SMEs (enjoying financial assistance of upto Rs 10 crores from multiple lenders and any extent from single lender) are eligible for restructuring of debt under Debt Restructuring Mechanism for SMEs. Other units can approach their banks for restructuring under CDR mechanism or under general guidelines of respective banks. All SMEs including non industrial units are now covered.
- RBI Guidelines on Restructuring: The payment of interest and installments shall be rescheduled based on the available cashflows. These can also be fixed on staggered or ballooning basis. The overdue interest in the different facilities may be carved out as Funded Interest Term Loan (FITL). Core irregularity i.e. outstanding not covered by DP, may be carved out of working capital as Working Capital Term Loan (WCTL). If considered necessary, fresh term loan may also be considered for purchase of critical equipment for viability of operations. Extension of moratorium period in projects under implementation adversely impacted by present scenario may also be considered.
- Second restructuring can be undertaken upto 30-06-2009 without adversely affecting the asset classification of the account.
- Any MSME facing difficulty due to the present scenario should approach the Help Desk/ Care Centre set up by the banks at their Regional Offices. The Help Desk shall guide the entrepreneurs on preparing a restructuring programme. This should preferably be done before the unit is classified as NPA by the bank.

Rakesh Rewari, Deputy Managing Director, SIDBI touched upon misconceptions about risk capital and equity, among MSMEs. With many professionals turning entrepreneurs and bringing in intellectual capital, and no collateral for banks for credit, banks have to think differently. Even with family-owned businesses, the older guard isn't convinced. He advised that Indian entrepreneurs should change their mindsets to "a culture of profit sharing", which will require bringing in sound accounting and auditing systems. Mr. Rewari said these changes will happen only if there is a good risk capital ecosystem in place such as angel funds and a dedicated exchange for MSMEs.

He elaborated on the relevance of risk capital for MSMEs and explained the initiative of SIDBI:

- The venture capital funding is one of the most suitable ways of financing risk capital needs of MSMEs. The Venture Capitalists do more than just providing risk capital; they also assist in technology development and management support. However, due to limited exit options, there being no secondary market for trading in smaller firms' shares, it is challenging for the VC investors to focus on MSMEs.

- SIDBI, as the Principal Financial Institution for MSMEs, has been playing a very active role in the evolution of Venture Capital financing in the country to support the risk capital requirements of the sector. It has set up its Venture Capital Fund in 1992 and has been allocating funds out of its profits. The fund was initially utilized for direct VC assistance to MSME units. Over the years, the focus got changed in order to enlarge the reach for extending VC assistance to MSME units.

- SIDBI also assumed the role of 'Fund of funds' by contributing to the corpus of National/ Regional VC funds for extending assistance to MSME units. SIDBI has contributed to the corpus of over 33 Venture Capital Funds.

- Persuant to the announcement by the Hon'ble Finance Minister in the Union Budget, 2007-08 regarding creation of Risk Capital Fund of Rs. 2000 crore with SIDBI, an MSME (Risk Capital) Fund has since been instituted in SIDBI with operational modalities in place. The Fund is specially designed to reach to the wider base of MSMEs by providing to them, structured, tailor-made risk capital products. In this regard, SIDBI will be utilizing its own network as well as working on other innovative ways for increasing the reach of risk capital to MSME through banks.

O S Vinod, CEO, CGTMSE responded to the issues raised on Credit Guarantee Scheme and explained that:

- Eligible credit facility at inception was Rs.10 lakh which was enhanced over time to Rs.50 lakh. The Economic Stimulus Package–I of Dec. 2008 has enhanced the ceiling to Rs.100 lakh per borrower.

- There is a upfront guarantee fee which ranges from 0.75% to 1.5% and annual service fee which ranges from 0.50% to 0.75%.

- The Guarantee coverage is 75% of credit facility which is enhanced now to 80% for women Entrepreneurs, units located in North East Region and Sikkim. There is special cover of 85% for loans upto Rs.5 lakh.

- There is lock-in period of 18 months and the claim settlement process has two stages. 75% of guaranteed portion is settled within 30 days of lodging claim with complete information. Penal interest at Bank rate is payable for delay beyond 30 days. Balance is paid on conclusion of recovery proceedings.

- Though the awareness on CGTMSE is increasing, there is need for enhancing it further both among the bankers as well as among MSEs. Also there is need to upscale operations and diversify product offerings.

- For addressing issues of MSEs' access to finance, CGTMSE has taken following more steps: Ceiling of coverage has been enhanced from Rs.50 lakh to Rs.100 lakh per borrower; Extent of guarantee cover under Credit Guarantee Scheme to 85%; Reduction in Guarantee Fee from 1.5% to 1% and Annual Service from 0.75% to 0.5% for loans upto Rs.5 lakh to Micro Enterprises; Lock-in period for lodgment of claims was reduced from 24 months to 18 months.

The Role of Banks in Development of MSMEs in the Current Economic Situation

O.P. Bhatt
Chairman, SBI

The Micro, Small and Medium Enterprise (MSME) sector contributes significantly to industrial, economic, technological and regional development in all developed and developing economies. MSMEs constitute 90% of all industrial units with 40% of industrial output of the country. This sector also plays a significant role in the development of entrepreneurial skills and contributes to 38% of the country's exports. The MSMEs share in India's GDP is around 17%, employing over 3 crore people. It offers maximum potential for inclusive growth in the economy.

In recent months, the economy has faced a major slowdown triggered by the global recessionary trends with a larger than expected impact, particularly for the MSME sector and export-oriented units. The typical problems faced by this sector due to the downturn include falling exports and sliding domestic orders, piling up of inventory, stretched credit/ carry period of receivables, low or negative cash accruals resulting in shortage of working capital and inability to service term loans, delays in implementation of modernisation/expansion programmes etc. This sector also faces huge idle capacities in some pockets due to the continuous slide in demand, particularly the export intensive units. Some of the major industries affected are Textiles, Auto ancillaries, Iron & Steel, Gems & Jewellery, Cement, Handicrafts etc.

The Government of India, RBI and Banks have announced a series of relief measures to encourage flow of credit to this sector. The Government has announced two relief packages so far, since the economic downturn started; covering measures like reduction in excise duties for select items and special refinance facility of an additional Rs. 7000 crores to SIDBI for onlending to the MSME sector and 2 % interest rate subvention for exporters upto 31st March 2009 in pre and post shipment credit for labour intensive exports, increased Guarantee cover upto Rs. 1 Crore with a guarantee cover of 50%, additional allocation of Rs. 1,400 Crores under TUFS (Technology Upgradation Fund Scheme) etc.

RBI, apart from measures like reduction in CRR (by 400 basis points), SLR (by 100 basis points), repo rates (by 350 basis points), and reverse repo rates (by 200 basis points) since October 2008 which have increased liquidity in the system and helped reduce interest rates, has also announced other support measures which will impact the MSMEs significantly. These include extension of the period of pre-shipment and post-shipment credit for exports, expansion of the refinance facility for exports, adjustment of provisioning norms for all types of standard assets barring some exceptions, reduction of risk weights on bank's exposure to certain sectors and expansion of the lendable resources available to the Small Industries Development Bank of India etc. The RBI has also allowed special regulatory treatment for assets which are standard on 1st September 2008 and taken up for restructuring upto 31st March 2009 even if these have turned non-performing in the mean time.

Similarly, the Banks have also taken steps to strengthen and improve their credit delivery mechanism to sustain the growth momentum. To help MSMEs tide over the adverse impacts of the current downturn, certain relief and concessionary measures like increase in working capital both fund and non-fund based, liberal margin/, inventory and receivable norms wherever applicable have been initiated. Suitable term loans are being granted to meet urgent requirement of fixed assets, including purchase of Gensets in the power deficit states. Extended gestation periods for the projects under implementation are also being built into the loan repayment programmes. Beside the above, the assets which otherwise would have remained healthy, but for the downturn, are being restructured as per the latest RBI guidelines.

SBI on its part has already released a series of relief and concessionary measures for this sector and to bring the matter into focus, the Bank has released two new products “SME CARE” and “SME HELP” to ensure timely and need based credit flow to this sector. Under SME CARE, the MSME customers with fund based limits upto Rs.10 crore can avail additional working capital upto 20% of the existing fund based limits repayable in one year to enable them to finance the stretched working capital cycle. Similarly, under SME HELP, a five year loan is extended with a liberal margin of 15% to finance any capital expenditure of the unit. Both these loans are offered at a liberal rate of interest of 8% during the first year.

In the small enterprise segment, the Bank is adopting a cluster based approach. Over 45 clusters across the country are actively targeted for this purpose. The scope of Project Uptech is being enlarged by including new clusters to help MSMEs improve their cost effectiveness, process efficiencies and product quality. In the collateral free lending under the CGTMSE scheme, upto Rs. 1 Crore is also being encouraged to offer increased credit accessibility. From a growth perspective, the Bank is also adding thrust in financing MSMEs in sectors like Pharmaceuticals, Food processing and Light engineering goods which are mainly driven by domestic demand.

There is still a deceleration in the economy. The stress on some industry segments and many units will continue for a while. However, the measures instituted so far constitute significant support to the MSME sector. All these will go a long way in bringing our economy quickly back on track.

Shubham Mukherjee - Economic Times, HP Kumar - NSIC, Jagdish Khattar - Carnation, Jasjit Sawhney - Net4 India, Dinesh Agarwal - IndiaMART.com

SIDBI: A Key Player in the MSME Sector

Small Industries Development Bank of India (SIDBI) was set up in 1990 under an Act passed by Indian Parliament as the Principal Financial Institution for Financing, Promotion and Development of industries in the small scale sector and to coordinate the functions of other institutions engaged in similar activities.

Since its inception, SIDBI has been endeavoring to meet the diverse needs of the MSMEs through the tailor- made schemes and fulfil its Mission and Vision as stated below:

Mission - To empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

Vision - To emerge as a single window for meeting the financial and development needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer-friendly institution and for enhancement of share-holder wealth and highest corporate values through modern technology platform.

In Brief

- ❒ Only financial institution dedicated exclusively for the MSME sector.
- ❒ Presence in all major industrial centers and MSME clusters.
- ❒ Provides all banking services to MSME units.
- ❒ State-of-the -art technology platform to provide efficient services to customers.
- ❒ Automated processes for quick decisions.
- ❒ Nodal agency for several GOI schemes.
- ❒ Flexible and innovative credit products.
- ❒ Specialized products for clusters and new technology businesses.
- ❒ Risk capital support to growth oriented MSMEs.
- ❒ Flexible products for large corporate having MSME vendors and suppliers
- ❒ Attractive interest rates.
- ❒ Incentive for MSME units rated by SMERA
- ❒ SIDBI is leveraging technology to provide customer services through website.

Direct Finance

Term Loan Assistance – For setting up of new projects & for technology up-gradation, diversification, expansion etc. of existing MSMEs, for Service sector entities & infrastructure development & up-gradation.

Various other schemes e.g. working capital, Inland Letter of Credit, Guarantee Scheme, Equity Support, Vendor Development Scheme & bill discounting facility etc.

Equity Assistance Scheme - SIDBI has introduced a scheme for providing equity assistance to well performing MSMEs as a value added product to fill the gap in total fund requirement after raising promoters equity and secured loan . The support is considered towards businesses set up by entrepreneurs with track record.

Strategic Business Initiatives - Vendor Development Scheme provides finance for capital Expenditure, Working Capital Term Loan & Customized invoice discounting/Bill discounting facility.

Direct Credit Scheme

A. Fund Based

1. Term Loan for setting up of a new unit or Expansion / Diversification / Technology upgradation / Quality certification/ Energy saving investments by MSMEs / Service sector units at competitive rates.
2. Working Capital Term Loan (WCTL) for meeting gap in MPBF or margin on selective basis.
3. Working Capital facility on selective basis.
4. Receivable Finance (Bills / Invoice discounting) to MSMEs for their supplies / services to large Corporate / other MSMEs.
5. Vendor Development Programme for customized products to meet the requirement of vendors of large corporate.
6. Cash flow based assistance.
7. Assistance for marketing related project (Brand Building, Franchisee/Retail outlet/Supply chain set up etc.)

Minimum loan	Generally not less than Rs 25 lakh
Debt Equity Ratio (DER)	Generally not more than 2:1 for the unit as a whole
Asset Coverage	Minimum 1.4 for new unit /1.3 for existing unit
Repayment period	Need based Depending on Cashflow of the unit
Interest rate	Competitive (based on rating)

A. Fund Based

1. Letter of Credit:For purchase of capital equipment/ raw material against sanctioned loan / limit.
2. Bank Guarantee (BG): All types of BG to existing MSE customers of the Bank.

SIDBI Foundation for Risk Capital (SFRC)

In the budget of 2008-09, GOI has announced setting up of a "Risk Capital Fund (RCF) for MSMEs" in SIDBI with a corpus of Rs 2000 Crore. SIDBI proposes to use the RCF to create an institutional framework for providing long term risk capital to MSMEs of different size, constitution and segments, which would complement the promoter's financial resources and available bank finance to MSMEs and help them in their growth and sustenance. SIDBI has set up SFRC (SIDBI Foundation for Risk Capital) to manage the fund operations. The Foundation would, inter alia, use appropriate risk capital instruments for providing risk capital to MSMEs keeping in view the nuances of the local conditions. Keeping in view the large geographical spread of the MSMEs, SIDBI would use various channels for dispensing the risk capital assistance, including SIDBI's own branch network, SIDBI Venture Capital Ltd. [SVCL] and other MSME focused venture funds, Banks etc. SIDBI also proposes to create a mentor network for supporting start up and early stage enterprises in the country.

SIDBI Financing Schemes for Energy Saving Projects in MSME Sector

Eligibility Criteria for Units (Direct Assistance)

1. New/Existing MSME units having satisfactory track record of past performance.
2. Energy Saving Sub-Projects eligible under this initiative are:

a. Acquisition (including lease and rental) of energy saving equipment / facilities, including newly installed, remodeling and upgrading of those existing equipments.

b. Replacement of obsolete industrial furnaces and / or burners etc, or introduction of additional equipment which would improve performance.

c. Installation or improvement or adoption of such manufacturing machinery and equipment that meets the specific requirement for energy performance standard, provided by the related Energy Conservation Act / Code in India (eg: Top Runner Equipment, Energy Labels etc.)

d. Installing of building envelopes, equipment heating systems, lighting and electrical power/ motors in compliance with the energy performance standard provided in the Energy Conservation Building Code [ECBC].

e. Introduction of equipment that utilize alternative energy sources such as natural gas, renewable energy, biogas etc., instead of fossil fuel such as oil and coal etc., to help reduce GHG emissions. Clean Development Mechanism (CDM) Projects at cluster level that involve a change in the process and technologies as a whole, duly supported by technical consultancy.

3. List of energy saving equipments is available on SIDBI website (www.sidbi.in).

Financial Parameters

The Financial Parameters for appraising the projects are:

Parameter	Norms
Minimum Assistance	Rs 10 Lakh
Debt Equity Ratio	Maximum 2.5:1
Minimum Asset Coverage	1.4:1 for new units and 1.3:1 for existing units
Repayment Period	Need based. Normally, the repayment period should not extend beyond 7 years

Assistance under the scheme is also provided through banks and select NBFCs.

Micro Finance

SIDBI Foundation for Micro Credit (SFMC)

SFMC is a specialized department of SIDBI set up in 1999 for Micro credit. It carries a mission to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the formal and informal financial sector to provide micro finance services to the poor, especially women. SFMC is an apex wholesaler for Micro finance in India with a diverse range of financial products, such as, loan, grant, equity, quasi - equity, etc. It has set up a risk fund with support of DFID for small NGOs/ startups and under - served states. It has been investing in MFIs through equity/ quasi - equity instruments under SIDBI Growth Fund for MFIs. In keeping with its mission, SFMC identifies, nurtures and develops select potential MFIs as long term partners and provides credit support for their micro credit initiatives. Under the present dispensation, annual need - based assistance is provided to enable MFIs to expand their scale of operations and achieve self - sufficiency at the earliest. Lending is based strictly on an intensive in-house appraisal supplemented with the capacity assessment rating by an independent professional agency. Relaxed security norms have been adopted to reduce procedural bottlenecks as well as to facilitate easy disbursement.

Frequency and quantum of loan

SFMC provides annual / need based repeat assistance to its partner MFIs. Loan assistance per MFI for onlending is subject to a minimum of Rs 10 lakh. Variation in the minimum loan limit may also be considered depending upon the merits of the case.

Ceiling on individual loan amount per borrower

Normally, maximum amount lent by the MFIs to an individual borrower / SHG member may not exceed Rs 50,000/-. In exceptional and deserving cases, particularly for enterprises and housing, a higher amount per borrower could be considered.

Repayment period of loans to MFIs

Repayment period (including moratorium) is generally upto to 4-years from the date of disbursement. The initial moratorium on the principal outstanding ranges from 3-12 months from the date of first disbursement. Both repayment period and moratorium can be extended beyond stipulated period depending upon the merits of case.

SME Financing and Development Project [SMEFDP]

SIDBI is implementing a World Bank-led multi agency / multi activity Project on Financing and Development of MSMEs. While SIDBI has been assigned with the responsibility of implementing the project, the Department of Financial Services, Ministry of Finance, Government of India is the nodal agency for the same. The World Bank, Department for International Development (DFID) UK, KfW Germany and GTZ Germany are the international partners in the Project. Project Management Division is the dedicated division of SIDBI managing the Project.

The Project is aimed at making MSME lending an attractive and viable financing option as also facilitate increased turnover and employment in the sector. The Project has three major components: A] Line of Credit from World Bank and KfW B] Risk Sharing Facility, and C] Technical Assistance (TA). In order to achieve its aims, the Project, besides upgrading direct flow of credit to MSMEs, addresses demand side issues of credit and streamline access to qualitative financial and non-financial enterprise oriented services. Technical Assistance (TA) from DFID is being utilized for strengthening the credit information system, credit rating, structuring of innovative products, capacity building of the participating banks, policy and regulatory issues and promotion of market oriented business development services for the sector.

The critical TA component of “Strengthening policy/legal/regulatory framework and its enforcement” aims at preparing and implementing a time bound action plan for key policy, legal and regulatory measures that are critical to establishing a more efficient framework underpinning MSME financing and development. It emphasizes on promoting informed and evidence based dialogue in public domain for systemic change. The project besides undertaking study, research, workshop, seminars, etc, attempts at institutionalizing the advocacy on important thrust / theme areas concerning MSMEs.

SMEFDP intends to render thrust on areas which can foster the growth and development and create an enabling sustainable ecosystem for MSMEs.

The Department for International Development (DFID) is the British government department responsible for Britain’s contribution towards international efforts to eliminate poverty. DFID works in partnership with developing country governments towards poverty alleviation. DFID supports long-term programmes to help tackle the underlying causes of poverty. DFID recognizes that the development of MSMEs is key to creating jobs and income needed to reduce poverty. DFID is supporting the development of the MSME sector in India through SMEFDP being implemented by SIDBI.

Theme-II :

Systemic Reforms and MSME Growth

Inputs from the Ground

A. Regulatory Regime

1. Overarching concerns

Since 1991, Indian economy has gradually integrated with the global economy based on market principles. However, the edifice of historical regulatory framework remains intact. The direction we want India to pursue as a market economy and the prevailing regulatory ecosystem is fundamentally in conflict.

Suggestion:

- Review and reforms are needed across the laws by employing best practices such as Regulatory Impact Analysis (RIA) for each legislation, amending those that need change and rescinding the superfluous.

- There is a need to evolve from RTI to 'Duty to Publish' all rules, notifications and acts wherefrom executive power is derived to bring discretionary powers in public domain.

2. Insolvency and Bankruptcy Codes

i. Owing to the fact that 97% of MSMEs are proprietorship or partnerships firms, their case is fundamentally different from corporates, both in terms of personal liabilities of promoters and related legal provisions in case of failure or closure. For Companies there is a winding up provision under the Companies Act but no such provision exists for firms. Currently there is no Bankruptcy law in India. The existing Insolvency codes for individuals (applicable on firms) are antiquated.

ii. Therefore, there is no functional system for recovering debts when creditors are government agencies (center and state), public institutions (center and state), banks/FIs and private parties. There being no single administrative mechanism for insolvency and bankruptcy, there is no one to decide whether or when the firm is to be liquidated or be sent for restructuring. In current dispensation, even a temporary stress or shock is enough to bring a small unit to 'sickness' and eventually to 'closure'.

Suggestion:

- The current conditions of slow down injuring financially a large number of individuals and small entrepreneurs and eventual closure of many small units, make it hugely important for decisive steps are taken urgently.

- There is a need for substantive amendments in the two Insolvency Acts or replacement by a new (single and comprehensive) law.

- A comprehensive Bankruptcy Law mechanism is needed (covering non-corporate entities ensuring a time bound restructuring mechanism for small scale sector learning from the shortcomings of the BIFR and providing effective protection against attachment of assets and imprisonment during the restructuring exercise).

- Suitable revisits are required to central and state statutes affecting current recovery procedures and clauses of imprisonment. (Based on FISME's Policy paper on insolvency and bankruptcy for small enterprises).

3. Competition Commission and MSMEs

i. Competition Policy relates to introduction and fostering of competition principles in executive policies of government on one hand, and to provide legal recourse against public or private behaviour, that results into stifling of competition in an economy, on the other. The phenomenon of Competition Policy is new one in India. While a not-so-effective mechanism of MRTP did exist for curbing monopolies in private markets, there is no precedence of institutional mechanism for restraining executive policies against anti-competitive behaviour.

ii. A functional and effective Competition Commission mechanism is needed urgently by MSMEs to ensure that they are not victimized by Monopolies and Cartels and are not thrown out from public procurement through 'crowding out' and pooling.

iii. MSMEs are already suffering from the instances of monopolies, cartels and abuse of dominance in Iron and Steel, Copper, Aluminum and plastic raw material in India. Public procurement and Government buying also suffer from ad-hoc policies which aim to crowd out MSMEs. A recent decision of the Government not to buy medicines from companies having a turn-over less than Rs. 30 crore is a case in point. Such instances are increasingly coming to light in power sector also in both the center and the states.

Suggestion:

- Top priority should be accorded in making the Competition Commission effective and functional.
- Areas of MSME interest need to be identified, that could be covered (or taken on priority) under the Competition Policy regime.
- Competition principles need to be embedded in all government policies/ services including industrial policies and public procurement.

4. Taxation

i. In spite of several eminently desirable, bold reforms comprising central and state VAT mechanism in the indirect tax regime, the ad-hoc policies such as location based tax breaks have created more distortions in the economy. The tax exemptions have induced artificial un-competitiveness among MSMEs, for they cannot relocate their units like their larger counterparts can. The ad-hocism in State, VAT is even more pronounced and continues to stifle seamless movement of goods across the boundaries of states.

ii. In the direct tax regime, introduction of FBT has been a retrograde step and has proved to be nuisance tax for MSMEs.

iii. While there has been focus on rationalizing other taxes, the Stamp duties on transfer of property and on commercial transactions such as on financial instruments (Bank guarantees, factoring etc) continue to create impediments and induce cascading effect.

Suggestion:

- The goal of introduction of GST by 2010 should not be compromised at any cost. Implementation of nation wide GST to reduce transaction costs and also to remove distortions. The Central Government should use its influence in discouraging such taxes in States as Entry Tax, Octroi etc. All such taxes should be subsumed in GST.
- Location based Tax breaks should be immediately revoked.
- MSMEs should be kept out of gambit of FBT.
- There is a need to harmonize the stamp duties across states and to reduce them drastically.

- Income Tax rates on labour intensive MSMEs may be fixed at 50% of normal rate. This will help in capital formation and growth of this sector as has happened in IT sector.

5. Labour Laws

The process of reforms has bypassed the labour markets almost completely. The labour markets continue to suffer from institutional rigidities and obsolescence of legal provisions. From an MSME perspective, the pending issues are administrative reforms, minimum wages, contract labour and social security laws.

Suggestion:

- While all labour laws need revision and updating in light of changed economic realities, immediate steps are required to bifurcate the executive and judicial functions of the enforcing officers which is the cause of undue harassment and rent-seeking.

- While most MSMEs appreciated the concept of minimum wages, they have a demand that these should be based on a rational criteria such as the per capita income in the area; not specific to sectors or industry (unlike the current situation in many states, where minimum wage for a worker in engineering sector is different than the one in food processing sector).

- Policy makers need to appreciate and understand the importance of option of employing contract labour for it provides the flexibility needed to do business in the current competitive and volatile environment. It is irrational to appreciate its importance for export oriented sectors, as the case in the present regime, and denying it to companies serving domestic markets. Competitive pressures make no distinction for domestic or international markets. Contract labour should be allowed in all sectors.

- Universal social security should be a national aim. In stead of burdening the infant enterprises solely with excessive costs of social security, innovative and market based solutions should be explored. The current regime discourages MSMEs to employ more people and incentivize them for under employing or under-reporting. What is needed is providing an option to MSMEs for using market based mechanism for ESI and PF and after having contributed to them, they should be spared of keeping records and unnecessary formalities.

6. Environmental Laws

On one hand, Environmental laws are ineffective, on the other hand are used chiefly for rent seeking. The situation has come to such a pass that there are fix rate cards in most States for permissions even for non-polluting industries. There is a need to thoroughly review the current legal dispensation on environment to make it effective and at the same time transparent.

Suggestion:

- To improve compliances third party audit on lines of ISO/ISI should be introduced.

7. Other Laws

i. There is a large set of laws applicable to businesses e.g. Fire, Weights and Measures, Health (besides Labour laws and like). Although imports have opened up and India is largely a market economy, we continue to have such outdated laws as Essential Commodities Act which put utterly unrealistic conditions on movement and storage of goods. Industries such as agro based and food industries are the biggest sufferers.

ii. The seamless movement of goods across the countries is severely hampered because of restriction imposed by Commodities related

Acts (Essential, Hazardous, Adulterated, Licensed, Forest, Endangered Species etc); Locational based legislation (borders-national/state/district; municipal limits; law & order; bridges etc) Tax related (Customs, excise, VAT, Octroi, Entry Tax, Toll etc).

iii. Fertilizer Control Order governs the fertilizer industry and is one such antiquated regulatory regime which is used as a big rent seeking instrument; especially the manufacturers of Micronutrients- chiefly MSMEs, are its biggest victims.

Suggestion:

- The need is to put all economic laws to rigorous review in view of changed economic realities and regulatory reforms, introduced through global best practices such as Regulatory Impact Analysis (RIA).
- A unified Regulatory Agency required to be established to ensure seamless movement of goods across states.
- Review of Fertilizer Control Order (FCO) and its sampling and testing mechanism should be reviewed.
- Much of regulatory strangulation is experienced in States, partly because the reforms have not percolated down to them and partly because most of them lack an actionable agenda of reforms. There is a need to benchmark State laws applicable on businesses, highlight best practices and provide them actionable agenda.

B. Industrial Infrastructure (Hard and Soft)

1. Overarching Concerns: Industrial Space for MSMEs

i. Industrial infrastructure in the country particularly for MSMEs is hugely inadequate and the existing one is in ruins due to decades of neglect. Manufacturing is becoming un-viable for want of affordable space in the MSME segment.

ii. Existing industrial space is being usurped by Colleges of Engineering / Medical or for Management institutes.

iii. Irony is, while land is being given at absurdly low prices to developers for SEZs (for exports); the MSMEs serving domestic market are expected to buy land at market rates and that too through a legal maze of land conversions.

Suggestion:

- Targeted investments are needed for creating affordable industrial areas for manufacturing with integrated facilities for MSMEs on principles of cost recovery (cost of acquisition & development charges).
- The administrative and tax collection powers should be ceded to MSME associations to maintain the Industrial areas in PPP mode.
- Earmarking of space in SEZs for MSMEs without export obligations (some states have taken initiatives in this regard).
- Laws and rules related to land conversion, land ceiling and charges need to be reviewed.

2. Access to Electricity

Unlike their larger counterparts MSMEs have access to electricity which is neither adequate nor economical. It has adverse implications on their productivity and competitiveness.

Suggestion:

- There is explicit need to support collective initiatives of MSMEs for distribution of electricity in geographical concentrations, industrial areas and clusters.
- To make it happen, it is required that policy

impediments in open access regime are addressed particularly the issue of levy of subsidy element which should be waived for collective initiatives of MSMEs.

3. Access to Skilled Manpower

Amidst a sea of unemployed, the difficulty for MSMEs is to find employable people.

Suggestion:

- There is a need to fund 'district-wise skill deficiency mapping' exercise by inviting private parties to train people, develop skills, get them third party rated and pay fee based on success. (There are already successful initiatives at a few places particularly in Gujarat).

- It is required that audio-visual and print aids for skill enhancement be funded and may be one DD channel is dedicated for continuous skill development, coupling it with distance education.

- There is a need for a massive skill identification and grading programme for those not having any formal education but possessing requisite skills so that they could be put to a structured learning curve and could also become more credit worthy.

C. Promotional framework

1. Overarching concern: Informal Nature of the MSME Sector

The Indian MSME sector is largely unorganized and is characterized by compartmentalization perpetuated by policies. As per government's own records, more than 90% of all enterprises are unregistered. The views of participants point out that there are inherent incentives both fiscal and legal that encourage horizontal growth and discourage seamless growth from micro to small to medium enterprises.

Suggestion:

- There is a need to determine causes of massive informality prevalent in India. A comprehensive study should be commissioned to map reasons for informality and to identify areas of reforms in regulatory and taxation regime to reverse the status quo.

- Special fiscal and tax incentives may also be devised to encourage vertical growth and building of scale.

2. Cluster Development Approach

i. Over the last few years, MSME Development policies have become synonymous with cluster development policies in India. It is too simplistic and a flawed approach. Ministries and department are competing with each other in announcing cluster development programmes, devising their own definitions of clusters. Currently there are half a dozen definitions in vogue in Central Government alone.

ii. There are serious attribution gaps in terms of impact of cluster development approach on the macro, meso and micro levels. There is very little concrete evidence as to how cluster development approach during last decade in India has impacted the macro economic policy or institutional support mechanism or even firm level competitiveness. The gap between promise and reality is alarmingly wide and huge wastage of resources is suspected under cluster development programmes.

iii. A recent paper "Problems and Prospects for Clusters in Theory and Practice" by Philip Cooke captures the current dilemma of cluster development succinctly and states: "Clearly clusters have been oversold. The nature of the marketing game and the appetite shown for new wonder growth products by economic policy makers as much as gardeners mean that there has long been the need for an objective assessment since cluster marketing is a paradigm case of asymmetric knowledge."

Suggestion:

- There is an urgent need to review the cluster as is understood and being applied in India by different agencies/ ministries, based not on promise but on delivery.

- Before committing more resources a White paper needs to be brought out on Cluster Development Schemes being used by several Ministries.

3. MSME Support Schemes

i. While there is a propensity for announcing schemes and outlays, there is negligible information in public domain on the process adopted for the scheme, disbursements and impact. Most are long on intention and short on delivery. The MSME sector over the years has developed a cynical view of government schemes and was reflected in their feedback.

ii. Due to smaller scale of operations as well as due to host of other reasons, MSMEs suffer from waste and low productivity. In clusters there is path dependency on a specific technology, which most cluster actors continue to use even if it gets outdated. An ambitious scheme was announced under National Manufacturing Competitiveness Commission (NMCC) four years ago for improving competitiveness of MSMEs. The scheme is yet to take off.

Suggestion:

- A review is warranted of MSME development schemes on efficacy, out reach and sustainability. The planning Commission should lay more stress on quality of design, implementation, impact and disclosures of the schemes funded through planned funds.

- There is a further need to proactively involve user groups and associations in need assessment, design and execution of such schemes.

D. Other Specific Issues

1. Pharmaceutical Sector

i. There are more than 5000 MSMEs accounting for 40% of total pharma production. In recent past, in the garb of noble looking cause of quality, a string of restrictions have been imposed on the MSMEs: GMP compliance, MRP based excise; unrealistic hike in License fees; Minimum turnover clause of around Rs.50 Crores in government purchase; Schedule-L amendment mandating setting up testing lab etc.

ii. Further, in spite of serious reservations expressed by experts, Drugs Act (Amendment bill) was cleared on 5th Jan 2009 without debate another move for Central Drug Authority (CDA) is being lobbied to be passed in same fashion.

iii. Spurious goods, against which the drive is supposedly targeted, are not manufactured in registered MSMEs but in units that operate clandestinely in connivance with authorities. All these measures cannot stop but may close thousands of genuine MSMEs.

iv. India is perhaps the only country where drugs are still affordable, thanks to massive competition; globally a few dozen large corporations rule the roost with monopolies, cartels and anti-competitive behaviour.

Suggestion:

- A pragmatic view needs to be taken in Indian context. A high powered committee needs to be framed to look into the serious problems faced by MSMEs in the pharma sector. Till a considered view is evolved, the current measures should be suspended.

2. Ad-hocism in State VAT Regime: Case of UP

i. Tinkering with VAT rates particularly for industrial items distorts the entire supply chain and can make products uncompetitive. Such anomalies have been reported by MSMEs from several states.

ii. The case of UP is however unique. In UP, VAT for transformers, cables & conductors, switchgears etc have been hiked from 4% to 12.5%. As the products are bought by institutional buyers-the electricity utilities are owned by State itself, There is incentive for them to buy these products from other States at CST rates i.e. 2%. Ironically with such inverted rates the State is a net loser of revenue as revenue goes to other states and at the same time it hurts its own industry.

Suggestion:

- VAT rates of products consumed by industry should not be tinkered owing their cascading effect.
- Establishment of GST needs to be hastened to make such discretionary powers redundant.

3. SEBI Norms on De-listing

Many MSMEs that went for public listing in last few years are finding the cost burden of independent directors unsustainable owing to their smaller operations. After a prolonged debate, the Securities Laws (amendment) Act 2005 allowed de-listing of securities, necessitating the creation of a delisting framework. Even after repeated announcements, simplified delisting norms have not been announced as yet.

Suggestion:

- The de-listing norms for MSMEs should be announced without delay as it is causing enormous burden on such MSMEs that have applied for de-listing.

Session-II :

Systemic Reforms for MSME Growth

Anil Bhardwaj, secretary general, FISME laid out the agenda of reforms based on feedback submitted by various SME associations across the country. "While reforms are required across a broad spectrum of legal and promotional framework affecting MSME life, according the response of sector, three things stand out: need to have modern insolvency and bankruptcy codes for MSMEs, an effective Competition Commission and reforms in labour laws." He stressed the need to use best practices in reviewing the legal framework with the help of modern tools such as Regulatory Impact Analysis (RIA).

Pointing out at the weaknesses of promotional framework, he said the sector was becoming desperate with a plethora of schemes most of which they found not very useful. According to him, there was a need to do a rigorous and honest impact analysis of MSME development schemes including of cluster development programmes. There was a need to involve MSMEs and their associations in need assessment, design and implementation of schemes.

Through the feedback, the MSME sector had stressed a critical need to access adequate infrastructure- space for manufacturing and electricity.

Rohit Kochhar, managing partner at law firm (Kochhar & Co.) spoke about the various provisions of Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) and how they could or could not be used for realizing its stated objectives. He remarked, "(In the context of delayed payment)..in its current form, the MSMED Act is more of toothless tiger."

He illustrated that the Facilitation Council envisioned under the Act did not have any power (during the pendency of any proceedings) to direct the buyer to deposit the principal amount. "shockingly", he said, "There is complete absence of any penal provisions for contravention of any of the provisions of the Act, save and except Section 8, 22 and 26 which only deal with routine administrative issues. In other words, there is no deterrent provided in the Act for contravention or default of any of the provisions that result in violating rights of the MSME supplier".

He pointed out some critical gaps between the MSMED Act and its implementation namely:

- Several States have not even established the required Councils and those that are set up are barely functioning causing MSMEs' to run from pillar to post to realize their unpaid receivables. Also, though a time limit of ninety days is provided for completion of proceedings by the Councils, this is seldom adhered to in practice.
- The 45-day time period stipulated in the Act for the buyer to pay the MSME and its supplier is also a mere paper provision that is seldom adhered to in practice coupled with the fact that the breach of this statutory obligation is bereft of any penal consequences.
- Section 26 of the MSMED Act envisions the notification of a scheme by the Central Government for closure of MSME unit.

Shockingly, though more than 2 ½ years have elapsed since the enactment of the Statute, any scheme by the Central Government is yet to see the light of the day.

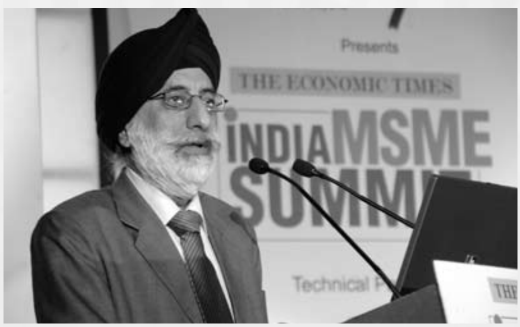
He also highlighted the plight of MSMEs through the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (“SARFAESI”). He said that SARFAESI was enacted with the objective to recover non performing assets of banks, which were mainly mounting due to the failure of large companies to fulfill their payment obligations. With passage of time, instead of the focus remaining on large borrowers, banks have digressed from the foremost purpose of SARFAESI. In an attempt to recover dues, banks have started concentrating their energies towards seizing assets of SMEs. The primary reason being for this is, the threshold limit of rupees one lakh, which makes SARFAESI applicable. In light of the same, a recommendation is to increase the threshold limit to 25 lakhs.

Stressing the need to establish a legal framework for factoring, he highlighted that the relevant proposed legislation i.e. “Factoring of debt due to Industrial and Commercial Undertakings Bill 2000” remained merely a pending draft. The legislation would have encouraged banks and factoring companies to provide factoring services more liberally, as it would address the fear of conversion of debts into non performing assets.

BS Bhasin, Chief General M anager, SME markets at SBI said the role of banks is more important when things are bad for small enterprises. He mentioned the new SME Care scheme where an MSME does not need to repay in the first six months, and the importance of factoring in such times. He cautioned MSMEs to avoid complex forex instruments unless they clearly understand the pros and cons. "Your job is to produce and sell, not to play in the foreign exchange market," he said.

GK Pillai - Ministry of Commerce

Dinesh Rai - Ministry of MSME



BS Bhasin - State Bank of India

Theme-III :
Markets
Inputs from the ground

1. Overarching Concern

Payments are routinely delayed by large buyers, of MSMEs and even Government/PSUs, due to their weak bargaining capacity. The issue has been flagged to Government consistently by MSMEs. Some of the efforts resulted in promulgation of a specific Act against delayed payments due to small industries which was later subsumed by MSMED Act 2006. The problem of delayed payment assumed alarming proportion during the crisis period. The provisions under The MSMED Act have not yet proved effective.

Suggestion:

- For delayed payments at Government departments or PSUs: a Cell needs to be created in DIPP, MoC&I or MoMSME to monitor dues unpaid or delayed beyond prescribed terms at PSUs. The following steps could be immediately initiated by the Cell. One, seeking report from PSUs on delayed payment due to MSEs. Two, keeping the Comptroller General of India in loop so that they could verify the non-compliance wherever necessary. The move would generate adequate sensitivity towards prompt payment. Three, creating an IT based mechanism for readdressing grievances and collecting feedback without disclosing identity of the complainant.
- To ease the payment problems among corporates, the Institute of Chartered Accountants of India (ICAI) should be sensitized to take exemplary steps. There are already standing instructions from Ministry of Corporate Affairs and of the Institute but not one single auditor or company has been ever identified and prosecuted. As a first step, the institute should be asked to constitute a committee to study the balance sheets of 50 top corporate houses wit regards to payment to MSMEs.
- An advertisement campaign could be initiated for sensitizing buyers as well as auditors on the provisions against delayed payments.

2. Impediments for MSMEs' access to competitively priced raw material

i. There is marked rise in use of protectionist tactics by lobbies for their narrow interests since last year. NTBs have been put into place on import of Steel, Polyester Filament Yarn, petition for antidumping duties filed for Cold Rolled SS flat products. Most of these products are manufactured by one or a few large companies. In steel e.g. international steel prices are hovering around US $ 300-320 (www.lme.co.uk). Adding freight, customs, CVD and other taxes, maximum landed price shall be Rs. 22,000 while it is available in the market at 33,000 because of non-tariff barriers.

ii. MSMEs are adversely affected by tariff and non-tariff barriers on key raw material such as steel. Copper, aluminum, plastics etc. Government should guard against them else these policies render large number of user MSMEs uncompetitive.

iii. If government considers it important to protect certain sectors, it should enhance customs duties across the board and not selectively, to ward off inverted duty structure.

Suggestion:

- Mandatory BIS standard on steel imports should be immediately reviewed and done away with.
- Anti-dumping and safe guard directorates should prominently advertise prior to taking up investigations and must listen to user industries.
- Competition Commission should be asked to form a standing committee to continuously monitor to curb cartels and instances of abuse of dominance especially for raw materials.
- Ministry of Commerce and Ministry of MSMEs should form a Standing Committee with stake holders and consultations with the committee should be made mandatory before:

i. Effecting changes in import duties.

ii. Imposition of safeguard, anti-dumping or countervailing duties.

iii. Imposition of any new mandatory standard on imports by BIS.

3. Govt. / Public Procurement

Globally, countries mandate special set asides in public procurement for MSMEs. US procurement targets ranges from 20% to 30%, whereas in EU and Japan 5~7%. In India the public procurement (Central govt.) is less than 1%. Govt. procurement is one of the most neglected areas. There is no Act governing it. As promised through the MSMED Act, there is a need to set-aside 20% of all public procurement for Micro and Small enterprises.

Suggestion:

a. Set aside of 20~25 % in all government and PSU purchases.

b. Competition Commission should be asked to set up a Standing Working Group involving stakeholders to devise guidelines for public purchases and continuously watch to curb 'bundling', crowding out and restrictive procurement practices.

c. Setting up of a committee for devising a separate procurement law and propagating e-procurement.

d. Specific efforts are required to induce transparency in procurement in states through Finance Commission and Planning Commission while allocating funds to states.

4. Impediments in Exports

i. Hardly 0.5% of MSMEs are in exports. Participation in international trade is desirable not only from the perspective of macro economic trade management but from perspective of MSMEs themselves.

ii. One of the biggest problems encountered by MSMEs while exporting is in claiming refund of taxes. The tax refund mechanism is neither transparent nor efficient, rendering exports uncompetitive.

Suggestion:

- A comprehensive long term MSME export support promotion programme is required to be taken up to increase MSME participation in exports from current levels of 0.5% of registered MSMEs to 5% in next 10 years using global best practices.
- There a need to review mechanism of sole reliance on Export Promotion Councils for exposing MSMEs to export markets. The field should be opened up for more players by allowing access to MAI funds to national associations (to begin with members of Board of Trade) for breaking grounds for

MSMEs in exports.

- A mechanism needs to be created through which MSMEs could take services of recovery agents of importing countries in case of defaults.

- The refund mechanism should take cue from best practices in South Korea, Thailand, Singapore, Australia and other countries. In the interim, simplified mechanism could be devised for MSMEs.

5. Specific export Issues: Free Sales Certificate for Medical devices

Till a comprehensive Drug Act is put into place, DGFT should issue Free Sales Certificate for medical devices not yet covered under the prevailing Act.

Mythili Bhusnuramth - Economic Times, GK Pillai - Ministry of Commerce, KC Chakrabarty - PNB, Rakesh Rewari - SIDBI

Internet is the New Channel of Sales for MSMEs

Current economic slowdown is affecting demand-supply cycle badly, making conservative consumers and companies to look for cheaper alternatives to reduce costs. There is acute pressure on micro, small and medium enterprises (MSMEs) to find new buyers and markets to maintain their growth momentum. Internet is one such medium that can help MSMEs to achieve this objective conveniently and cost effectively.

Traditionally, MSMEs have been less responsive to adopt Internet as part of their business strategy when compared to their larger counterparts. Primary reasons for this have been poor penetration of Internet, lack of awareness of it and its usage to organize business within the company and for internal communication.

However, of late the trend has changed. MSMEs are now using internet to enhance the scope of their marketing activities, something that these micro enterprises have been averse to. There are plethora reasons for this change in perception about Internet. One of the major reasons has been the changing face of MSMEs in the country. With the passage of time children of these traditional businessmen have taken over. These young faces have groomed and brought up in this Internet age and so Internet comes to them naturally. They use every aspect of Internet to the fullest to take their business to new heights.

Internet and particularly online B2B marketplaces that offer companies direct access to buyers worldwide help companies sell in the global marketplace. Not only do they solve companies problem of reach to the buyers worldwide, these online marketplaces also support their communication needs and help them display a range of products.

Online B2B marketplaces work as matchmaking platform for buyers and suppliers. Not only these online B2B marketplaces available 24/7 and break geographic barriers but they also provide greater visibility to companies. Making the business and product range available online reduces the lead time drastically, resulting in huge time and cost saving for both buyers and suppliers. In India, lakhs of SMEs and MSMEs are already getting benefits through their memberships on online B2B marketplaces such as IndiaMART.com and Tradeindia.com.

At a time when everyone is cutting on hiring and marketing activities, the Internet also serves as an economical means of reaching newer markets. Companies are able to test newer or unexplored/hidden markets at almost no cost. A crystal merchant sitting in remote West Bengal would not know that a market exists for him in Latin America or South Africa. But the Internet gives him a chance to do so. There are numerous such hidden opportunities that businesses can explore once they start trading online.

Smaller, particularly micro enterprises do not have the budgets to indulge in pricey marketing activities, Internet provide many free services and cost lesser than any traditional media. While channels like trade shows are expensive and print options like yellow pages offer limited visibility, Internet offers global visibility and increased market penetration at a far lesser cost.

In a scenario where more and more people from across the world searching for products online, global trade shifting from offline to online, and Asia coming up as the preferred destination for sourcing, it is imperative for Indian MSMEs to proactively adopt Internet as a new channel of sales to safeguard their market share amidst widening competition.

Dinesh Agarwal is the founder & CEO of IndiaMART.com

IndiaMART.com — Overview
A pioneer of online B2B matchmaking in India, IndiaMART.com was founded in 1996 with a firm belief in the power of the Internet as a business facilitator. Started with the goal of finding innovative and effective ways of bringing buyers and suppliers together, IndiaMART.com has grown into India's most successful online B2B marketplace. It connects Indian suppliers with international and domestic buyers through business directories, online product catalogs, buy-sell offers, print media (IndiaMART Sourcing Guides) and trade shows participation.

Today, the company has a presence in over 100 cities pan-India. With approximately 1000 employees, IndiaMART.com offers an extensive range of value-added products and services to over 500,000 members and over 5 million global buyers across industries and verticals.

IndiaMART.com has won numerous awards over the years including Red Herring 100 Asia and CNBC Emerging India and the company has been widely covered by media such as CNBC, BBC, BusinessMoney, CNN, Businessworld, Economic Times, Financial Express, etc. Its existing investors include Intel Capital and Bennett, Coleman & Co. Ltd. (Times Group), India's largest media group.

HP Kumar - NSIC, Dinesh Rai - Ministry of MSME, Jagdish Khattar - Carnation, Jasjit Sawhney - Net4 India, Dinesh Agarwal - IndiaMART.com

Session-III :

Market - Challenges & Opportunities

Dinesh Rai, Secretary, Ministry of MSME, Government of India spoke about the opportunities for MSMEs in public procurement and explained some important measures that the Government had taken to assist MSMEs in marketing.

- Besides the store purchase programmes of Government, to assist the MSEs in marketing of their products, Section 12 of the new MSMED Act enjoins the formulation of a scheme of preferential procurement of goods/services produced/rendered by MSEs both at the Central and State/UT levels. Once formulated, the procurement scheme may be more effective in providing the much-needed marketing support that MSEs seek so desperately. Each Ministry/ Department, CPSU, etc., would have to make specific mention of the compliance of the preference policy in its Annual Report to be tabled in parliament.

- In addition, under the Marketing Development Assistance Scheme being implemented by the Ministry of MSME, various types of assistance are provided to MSEs, such as: Participation of manufacturing MSEs in overseas fairs/exhibitions under MSME India stall; Sector Specific Market Studies by Industry Associations, Export Promotion Councils/Federation of Indian Export Organisation; Initiating/contesting anti-dumping cases by MSE Associations; Reimbursement of 75% of one-time registration fee and 75% of annual fees (recurring) paid by MSEs to GSI India for the first three years for adoption of Bar Coding.

- Further, under the National Manufacturing Competitiveness Programme, the Ministry of MSME is finalising a new scheme, namely, 'Marketing Assistance for MSMEs and Technology Upgradation Activities' to improve the strengths of MSMEs in marketing by using latest techniques and technologies. Some of the activities to be taken up under this component include Technology upgradation in Packaging, Skill upgradation/Development for Modern Marketing Techniques, undertaking Competition Studies, etc.

"In the US 30% purchase preference is from MSME sector while here different bodies are trying to reach a consensus for more obligations to buy from MSME," he said.

HP Kumar, CMD of NSIC spoke about different schemes implemented by his organization in areas such as marketing of products, consortia and tender marketing. He explained under Government Stores Purchase Programme, various facilities are provided to enterprises registered with National Small Industries Corporation (NSIC) in order to assist them for marketing their products in competitive environment. These facilities are:

(i) Issue of Tender Sets free of cost,

(ii) Exemption from payment of Earnest Money Deposit,

(iii) Waiver of Security Deposit upto the Monetary Limit for which the unit is registered and

(iv) Price preference up to 15% over the quotation of large-scale units. In addition to these facilities/benefits, 358 items has also been reserved for exclusive purchase from the MSE Sector. However, as these guidelines are not of a mandatory nature, the same has failed to achieve the desired results.

Jagdish Khattar, Chairman of Carnation Auto suggested that instead of discussing regulation, the sector should think about growth. "Small players have either only one buyer to depend upon or have many buyers but in the same sector." His key message was that it was time that large manufacturers or mother units came forward to support MSMEs. Government incentives could go to the mother units so that they can look after the MSMEs."

Jasjit Sawhney, MD, Net4 stressed upon adoption of IT and communication systems during recession when it is important to reach out to the consumers and have a presence in the World Wide Web. "Less than a million domain names are registered by MSMEs and only a third of them actually have their own website."

He highlighted how MSMEs could take advantage of IT in expanding markets though:

- Interacting with Customers.
- Interacting with the suppliers directly rather than through middlemen.
- Internal Interaction.
- Automation of repetitive and duplicate processes.
- Streamlining of business accounting.
- Generating timely information and trends including sales and inventory forecasts, cost breakdowns etc. once the data is available the report generation and analysies to make informed decisions.
- Increasing reach to more customers, via the internet.

Dinesh Agarwal, CEO, Indiamart who likened B2B portals like his to online clusters said. "MSMEs need to be present in such online clusters which would help reduce cost and increase efficiency,"

He stressed that the internet is the new channel of sales and marketing for MSMEs because it was convenient and cost effective and it was possible to access buyers and new/hidden markets directly.

Online B2B marketplaces work as matchmaking platform for buyers and suppliers. Not only these online B2B marketplaces available 24/7 and break geographic barriers but they also provide greater visibility to companies. Making the business and product range available online reduces the lead time drastically, resulting in huge time and cost saving for both buyers and suppliers. In India, lakhs of SMEs and MSMEs are already getting benefits through their memberships on online B2B marketplaces such as Indiamart.com and Tradeindia.com.

At a time when everyone is cutting on hiring and marketing activities, the Internet also serves as an economical means of reaching newer markets. Companies are able to test newer or unexplored/hidden markets at almost no cost. A crystal merchant sitting in remote West Bengal would not know that a market exists for him in Latin America or South Africa. But the Internet gives him a chance to do so. There are numerous such hidden opportunities that businesses can explore once they start trading online.

Smaller, particularly micro enterprises do not have the budgets to indulge in pricey marketing activities, internet provides many free services and cost lesser than any traditional media. While channels like trade shows are expensive and print options like yellow pages offer limited visibility, the internet offers a global visibility and increased market penetration at far lesser cost.

In a scenario where more and more people from across the world searching for products online, global trade shifting from offline to online, and Asia coming up as the preferred destination for sourcing, it is imperative for Indian MSMEs to proactively adopt internet as a new channel of sales to safeguard their market share amidst widening competition.

NSIC Helps Micro, Small and Medium Enterprises (MSMEs) in the Era of Economic Meltdown

Industries all over the world are passing through difficult times in the era of economic meltdown and it has also imposed a big challenge for Micro and Small enterprises (MSEs) in India. NSIC, as always, is geared up to assist MSEs to face such challenges and accordingly, with the changing needs of this sector, NSIC has re-oriented its various schemes for rendering assistance to the sector and enhance its competitiveness. This is achieved through reaching the doorsteps of MSEs with our services. Having signed the Memorandum of Understanding (MOUs) with various industries' associations and having had enhanced interactions with them, we are now more aware of their needs and amenable to improving our products.

NSIC has been serving small enterprises sector for more than five decades through its various schemes of assistance under Credit, Marketing and Technology Services some of them are as follows:

a) Access to Credit:

Access to finance or non-availability of loan/ credit facility has been a major constraint for micro and small enterprises. Traditional approaches have not always proven effective, particularly in facilitating access to finance. MSEs face great difficulty in obtaining formal credit or equity as per their needs. Banks/Creditors find it difficult to assess the creditworthiness of loan proposals of MSEs, thus, hesitate to finance them. To mitigate this problem, NSIC has come out with the following innovative products to assist MSEs in enhancing their credit worthiness and easing out their access to finance:

i) ***Performance & Credit Rating Scheme:*** It is a very unique way of empowering micro & small enterprises to face internal and global competition. This scheme enables MSES to ascertain their strengths and weakness of their existing operations and take corrective measures to enhance their organizational strengths. The rating, obtained through empanelled independent rating agency, benefits the units in many ways like establishing their creditworthiness, which helps them in accessing credit from the bank quicker and cheaper and thus economizing the cost of credit. It certifies their performance ability which would help in procuring orders from foreign and other bulk buyers and analyzing the strengths and weaknesses of units. It also prompts the owner in bringing changes to improve upon their operating performance. NSIC provides financial assistance to the extent of 75% of the cost, of rating to all the rated units.

ii) ***Strategic Alliance with Commercial Banks:*** NSIC has entered into agreements with major banks in the country for facilitating sanction of loans for micro & small enterprises from these banks as per their requirement. Loan applications of small enterprises are forwarded by NSIC, after initial scrutiny, to the chosen bank and the necessary follow up is done by NSIC for sanction of such proposals from bank. It is difficult for small enterprises to directly establish its credit worthiness and get loans from the bank but, having NSIC as a mediator, both sides i:e applicant borrower as well as lending bank, are comfortable. Small industries are free to approach any office/branch of NSIC indicating the choice of their bank from where they would like to avail the credit facilities.

b) Marketing Support:

NSIC is quiet active in various industry clusters through its various schemes of assistance for providing help in marketing, technology, credit and Infomediary support. These schemes are designed keeping in view the needs of the micro and small enterprises operating in various clusters or elsewhere.

NSIC has been operating a Single Point Registration Scheme for small industries under the Government Purchase Programme. Small industries, which are registered by NSIC get many benefits like free tender form, exemption from security and earnest money deposit and price preference over large industries while bidding for government procurement. Apart from this, NSIC also forms consortia of MSMEs in the clusters and participates in tenders on their behalf for securing bulk orders from large buyers. Additionally, NSIC holds cluster specific exhibitions, buyer seller meets, vendor development programmes which are some of the other ways to help in marketing of their products. We also help in exhibiting the products manufactured by small enterprises in various international exhibitions to secure orders from foreign buyers. NSIC also organizes Techmart India – A premier exhibition, every year at Pragati Maidan, New Delhi, to exhibit production technologies of the small enterprises. This exhibition covers the entire range of manufacturing & allied industries and provides a perfect platform to discover new market opportunities in India and abroad.

c) Creating Self employment Opportunities - Incubation of the Unemployed:

In addition to the Management and Skill Development Training Programmes for budding entrepreneurs being run in its various technical service centres, NSIC has started a new programme by providing integrated support through incubation of unemployed people in order to empower them with knowledge & infrastructure and other support services for setting up of new small enterprises in manufacturing and services sectors. Through this programme, our objective is to equip unemployed people with adequate technical and supervisory skills so that they can either support their own businesses or become employable to earn their livelihood. This is a very useful programme considering the need of creating more and more employment opportunities in the country.

Our objective is to create more and more self employment opportunities for the unemployed through our new training and incubation programmes in the country. These programmes provide complete hand holding, right from the start i.e. from practical on the job training to preparation of project reports, market survey, raw material assistance, identification and procurement of plant & machinery, credit support, testing and handing over of the project. These initiatives not only provide hand-holding support to MSEs but enable them to face the challenges ahead. These programmes need to be expanded to different parts of the country for which we have worked out the franchisee model.

In order to impart such skills to a large number of unemployed people, NSIC is setting-up a number of franchise Technical and Incubation Centres (NSIC-TICs), at various locations across the country, under the Public-Private Partnership (PPP) mode. People are showing a lot of interest and we have been receiving good response for this programme. Our aim is to establish such centres in every district of the country. These models of Incubation have also been quiet appreciated by various countries who have shown their interest to replicate such models in their countries. Our preference is to make these TICs a self sustaining and successful model in public-private mode.

d) International Co-operation:

NSIC has agreements of co-operation in the MSME sector with 23 countries. These agreements provide for enterprise to Enterprise Cooperation in terms of:

- Identification and sourcing of technologies
- Joint Venture partnerships
- Other forms of sustainable business alliances
- Exchange of business delegations

NSIC also helps in arranging of business meetings and industrial visits in these countries. NSIC has been exchanging business delegations with many countries to mention a few, we have exchanged technology and business delegations with many countries like. South Korea, Taiwan, Egypt, UK, Germany, Canada, South Africa and many other African countries.

The emphasis is on developing sustainable business relations rather than on one-way transactions which is achieved by i) Developing institutional arrangements and partnerships with developed countries with a view to access best practices, policy initiatives, latest technology as well as market for MSMEs in developed economies, ii) Targeting developing countries or least developed countries to widen not only market access for Indian MSMEs but also transfer of Indian technologies, plant & equipment and sharing of Indian expertise at policy as well as at enterprise level to/with these countries.

e) Infomediary Support:

i) International MSME Development Web Portal

NSIC has, very recently launched a dedicated Web Portal on International MSME Development which can be accessed on www.nsicpartners.com. This Website essentially provides a unique platform where the recognized partners of NSIC in 23 countries would be exchanging information and facilitating sustainable collaborations amongst MSMEs of respective countries. The Website, being a forerunner of its kind, shall be significantly assisting the selected International MSME Support Institutions in communicating electronically and disseminating key information on Marketing, Technology and Investment opportunities to MSMEs across the world. This is a very comprehensive portal providing information on trade leads, trade statistics, information on machinery manufacturers, investment opportunities, information on Indian technologies etc. This would help MSMEs in getting the appropriate information at the right time, greatly assisting them in enhancing their ability to gauge and be at par with the global demand.

ii) MSME Info - Call Centre:

Setting up of MSME Info - A Call Centre at its corporate office, is another initiative of NSIC to disseminate information to MSMEs, this plays a significant role in spreading the awareness of various schemes and programs of the Ministry and NSIC, to the MSMEs in the country and attends to their queries with regard to such schemes. The Centre will also help in providing required information about the vendors and technology suppliers to the potential first generation entrepreneurs and existing small enterprises and assist them in their business development. The Centre will help to augment its service delivery to the existing customers and further spread its reach to the potential MSMEs.

f) Future Plans:

On the future plans, increasing the reach of NSIC to a larger number of micro and small enterprises & providing them the integrated support services will be the main focus. Over the last three years, NSIC has expanded from 23 branches to 76 branches. Our objective is to open 100 more branches in next three years in order to reach to enterprises in small cities also. In addition, opening up of raw material distribution centres for making available raw material to small enterprises at cheaper rates, helping them in marketing their products by setting up Marketing hubs are other priority areas. In order to cater to the credit problems of MSEs, we already have alliances with nine banks which will further be expanded to other banks so as to cover the entire country. Further, the schemes are being reoriented to be more user friendly with least paper work. The aim is to render assistance well in time whenever it is needed.

HP Kumar - NSIC

Shubham Mukherjee - Economic Times,
HP Kumar - NSIC, Dinesh Rai - Ministry of MSME,
Jagdish Khattar - Carnation, Jasjit Sawhney - Net4 India,
Dinesh Agarwal - IndiaMART.com

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State Bank of India - MSME Initiatives

State Bank of India is the largest commercial bank in the country with branches spread all over India. The Bank is more than 200 years old and the brand name is synonymous with trust and security.

State Bank of India has been playing a vital role in the development of MSME sector since 1956. The Bank has developed a wide array of products to meet the changing needs of the industry. It provides end -to -end solutions for the financial needs of the industry and services sector. The Bank has also come up with many customized products to suit the needs of different industry and services sector.

In addition to the Branch banking with more than 11000 branches at present, SBI has also put in place centralized processing centers at more than 100 centers to process loans up to Rs.1.00 Crs to SME Sector. It has also introduced Relationship banking for medium enterprises through well experienced and highly skilled Relationship Managers at SME intensive centers/branches. Multi product sales teams have also been functioning for additional thrust and more inclusive coverage. These processes are meant to smoothen the flow of credit to SME sector by ensuring credit dispensation in a professional manner within specific time lines.

A brief overview of some of the SBI loan products to SME sector is as under:

SME CREDIT CARD

For units in micro enterprises sector: To meet any kind of credit requirements including purchase of shop

For SSI units, tiny units, village industries, Retail traders, professionals, self- employed, etc..

- Maximum limit - Rs. 10.00 lakhs

For small business, retail traders, etc.,

- 20% of their annual turnover OR
- 20% of turnover of the last 12 months in their accounts, whichever is higher.

For self- employed and professionals

- 100% of gross annual income as declared in their income tax return

For SSI units: As per Nayak Committee norms i.e., 20% of annual turnover

- Validity The limit will be valid for 3 years but is subject to annual review

SME SMART SCORE

For units in Micro and Small Enterprises sector: To meet Working Capital needs and for acquisition of fixed assets

- A simplified appraisal model has been developed to standardize the appraisal process for loans up to Rs.50.00 lakhs in SSI segment and up to Rs.25.00 lakhs for trade and services sector.

- A special application form has been designed to capture all the required information at one instance
- Individually managed proprietary/partnership firm or closely held public/private limited companies in the Small and medium industrial and trading sector under C&I and SIB segments.

SME CREDIT PLUS

For existing SSI borrowers with excellent track record and have been standard assets for the past two consecutive years and also new borrowers.

- A maximum of 20% of the existing fund based working capital limit will be sanctioned.
- The facility is sanctioned to Micro and Small enterprise units to meet the contingency requirements like for meeting bulk orders, repairs to machinery, Tax payments etc
- No Primary Security
- Each amount of withdrawal should be repaid within 2 months.
- There should be a gap of 15 days between the last date of repayment of outstandings and the next withdrawal.

GENERAL PURPOSE TERM LOAN FOR SSI SECTOR

For existing SSI borrowers with excellent track record

For any general commercial purpose such as shoring up NWC, substitution of high cost debt, R&D, quality up gradation for ISO certification, etc, subject to disbursement being made in line with the specific purpose approved. Loans, deposits, from friends and relatives can be treated as quasi-equity subject to undertaking from them that the amounts will not be withdrawn during the currency of the loan.

OPEN TERM LOAN

For all units in SME sector

- This is a unique facility of a pre-sanctioned term loan limit with the option of multiple disbursements for multiple purposes, like expansion / modernization, substitution of high cost debt of other banks / FIs, upgradation of technology, energy conservation systems, acquisition of software, hardware, consumables, tools, jigs, fixtures, etc. ISO and other such certifications, visits abroad for acquiring technology, finalizing deals, participation in fairs, market promotion, etc..
- Sanctioned along with the working capital limits.
- Borrowers can utilize the facility on multiple occasions as per their needs.
- The sanction is valid for 12 months only from the date of sanction and any unutilized portion will lapse after 12 months

CORPORATE LOAN

*For repayment of high cost debt**, VRS scheme, acquisition of trademarks, patents, shoring up of net working capital, etc..***

- Where the loan is for shoring up of NWC, then the loan amount should come down commensurate with the building up of the NWC.
- Existing C&I and SSI customers in Small and Medium Enterprises and also non customers subject to take over norms.
- A second Corporate loan may also be considered while the first loan is outstanding subject to all the earlier loans and WC advances being regular and the conduct of the accounts has been regular.

STANDBY LINE OF CREDIT FOR WORKING CAPITAL REQUIREMENTS

For Existing Small and Medium enterprise in SSI & C&I segments and exporting units.

- To meet genuine contingency needs arising out of bunching of orders, delay in shipment / realization of receivables, sudden increase in raw material costs, mis -match in cash flows.
- SLC(WC) should be calculated separately for peak and non peak limits, sanction for the SLC(WC) is obtained at the time of sanction of regular limits for all regular borrowers and who are likely to avail this facility during the year.

TRADERS EASY LOAN

The loan can be considered for acquiring fixed assets for the business and/or build up of inventory /current assets.

- Wholesale and retail traders in agricultural or industrial commodities, Professionals and self – employed, Small business enterprises, Commission agents engaged in purchase and sale of food grains and other commodities,
- CC limit is valid for one year and has to be renewed every year, Stock statements need to be furnished at the time of sanction and at quarterly intervals,

For loans availed as Demand Loan or Term Loan, quarterly stock statement is waived.

FLEXI LOAN FOR TRADE AND SERVICES

For, Holding of stocks/book-debts, Acquisition of land and building, Construction/renovation of office/showroom, Purchase of vehicles, equipment, machinery, Shoring up of net working capital

For, Wholesale and retail traders in agricultural or industrial commodities, Distributors and stockiest of industrial products, consumer durables, consumables, Export / import intermediaries, Tourism related facilities-Hotels/resorts/travel agents, Large transport operators of passenger buses/fleet owners, Construction, transport & supply contractors, Hospitals, nursing homes, clinical labs, etc.,

SME CAR LOAN

For purchase of passenger cars, jeeps, multi utility vehicles (MUVs) and sports utility vehicles (SUVs) etc.

- Promoters/partners of SME units borrowing arrangement with Bank. Their Family members (spouse and children).
- The vehicle can be purchased in units name or in individual's name.

CONSTRUCTION EQUIPMENT LOAN (CEL)

Term loan for purchase of construction equipments viz. loaders, excavators, cranes etc

- Individuals/ Firms/ Companies engaged in construction work, Firms/ Companies (including Contractors) engaged in construction activity.
- Lower margins and interest concessions

DAL MILLS PLUS

For acquisition of machinery/factory building for modernization/ Expansion and for working capital needs.

- A simplified rating system has been designed to suit the special characteristics of Dal Mills
- Loan has to be sanctioned to deserving units within 15 days of receipt of completed applications
- A special appraisal form has been designed to assess the credit needs of Dal mills

RICE MILLS PLUS

For Acquisition of machinery/factory building for modernization/ Expansion, Working capital needs

- Rice Mills with proven track record
- Wherever the borrowers are engaged in other activities, separate limits may be considered based on viability and other aspects.

PHARMA DOSAGE

Modernisation/Up-gradation and energy conservation schemes, GMP Upgradation/Schedule –M, Investment in Common Effluent Plants, investments in R & D and filing of patents/ drug master files Concessions on interest rate are given based on margins and collaterals.

SBI EXPORTERS GOLD CARD SCHEME

For Existing Export customers / new connections who fulfill the criteria, Greenfield projects

- Exemptions from ECGC cover / guarantee may be considered. Concessions in Interest rate by 0.25% on pre-shipment credit, upto 180 days, which constitutes the majority of the transactions, In regard to post-shipment credit upto 365 days.

- Renewal of credit limits after a period of three years.
- Exporters will be entitled to avail stand-by limit for a maximum period of 180 days in one instance. However, there is no restriction as to the number of times stand-by limit is utilised by the exporter during the tenure of credit limits sanctioned under the Scheme

STANDBY LOAN TO CORPORATES FOR PURCHASE OF VEHICLES

Exclusively for purchase of new vehicles,(cars, vans, MUVs, mini-bus) for use by promoters/executives of the unit. Existing corporate borrowers enjoying fund based facilities of at least Rs.1crore in C&I and SSI segments.

- The loan should be disbursed as and when requested for purchase of a vehicle.

SBI SHOPPE PLUS

This product is a combination of Housing Loan and SBI Shoppe. The applicant is expected to first apply for a housing loan and on completion of the house he becomes eligible for a term loan on the lines of SBI Shoppe for setting up an office / shop for purchase of furniture, equipment, etc.

- Present and prospective owners of shops/ offices/ show-rooms/ training centres/ service centres/ garages/ offices for Chartered Accountants / Consultants
- This is a unique product aimed at the services sector for purchase of office – cum - residence for professionals etc. Credit can extended by way of a term loans repayable on easy terms

SME CARE

For those SME units affected by the current economic downturn

- To ease the liquidity position of the unit additional demand loan of 20% of the existing fund based working capital limits will be provided for a period of one year.
- For holding higher inventory /increased carry period of receivables upto 6 months, necessitated on account of slump in the market during the current year.
- Facility is disbursed as a working capital demand loan, repayable in 12 months with a moratorium of six months during which only interest needs to be serviced.
- It is granted at a concessionary interest rate of 8%.

SME HELP

For those SME units affected by the current economic downturn

- Funding urgent/additional requirements of machines/tools/ Gen sets and other fixed assets, if any.
- Facility is disbursed as a term loam loan for a maximum period of 5 years, with a concessionary rate of interest at 8% during the first year of the loan, and concessionary margins of 15%.

GO GREEN INDIA

India has announced her National Action Plan to tackle problems arising out of Climate Change. The action plan calls for our collective efforts to protect and judiciously use our land, water, forestry and related bio resources; reduce negative impacts and sustain development.

All of us have a responsibility to respond to this call for action. The present initiative of JSW is a reflection of its commitment to go beyond its own responsible environmental action and strengthen initiatives for the benefit of our country through strategically important partnerships. The Times of India finds fulfillment, partnering JSW in this context; enabling a nation wide outreach of this call.

The Earth Care Awards are meant to help our country identify, acknowledge & showcase real life mitigation & adaptation action in response to this call. We as a nation will then be able to rally around the excellent work of our fellow citizens with a clear understanding of the feasibility of options to tackle impacts of climate change.

You too may have a solution or know of one and may like it to be considered for the Earth Care Awards. If yes, you may like to know that, the present second edition of the award will look for clear mitigation & adaptation results and other corroborating evidences with respect to three major categories.

CATEGORIES

1. Greenhouse gas mitigation in small, medium and large scale industries achieved through direct reduction of emissions from processes and / or indirectly through energy efficiency enhancement.

2. Land use, Land use change & Forestry related activities with a clear positive impact on the quality and quantity of water and land resources and other cross cutting impacts achieved through local community initiatives and NGOs, and, those of the government through various schemes; emphasizing direct benefits to the natural systems and communities.

3. Innovations of processes / products for climate protection, achieved through appropriate design of form and function, resulting in significant reduction in emissions and improvement in energy efficiency while using the process / product.

JSW - THE TIMES OF INDIA

EARTH CARE AWARDS 2009

Awards For Excellence In Climate Change Mitigation & Adaptation

Detailed Application forms with guidelines for presenting relevant information and evaluation criteria are available on www.go-greenindia.com

You are invited to apply for the awards and lend your shoulders to the process of finding feasible & credible solutions for the benefit of our country.

For more details, please sms ECA to 58888 or email at etkf@timesgroup.com

Concluding Session

HP Kumar, CMD of NSIC shared the concerns of the sector with regards to the various regulatory problems particularly in areas like Labour Laws. However, keeping in view of the current crisis, we needed to focus more on the problem at hand. The cost of inputs increased three times in a few years while the enhancement of working capital limits could not keep pace with the rise of cost of inputs. Obviously it put a lot of pressure on working capital requirements of MSMEs. The current situation required banks and financial institutions to come forward and assist them.

N K Maini, Executive Director, SIDBI started his presentation by quoting the famous phrase "bottom of the pyramid" first used by U.S. president Franklin D. Roosevelt in his April 7, 1932 radio address, The Forgotten Man: "These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power... that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid."

He shared the Micro credit experience of SIDBI in making the markets work for poor and highlighted that even poor are bankable. He told that SIDBI's lending through 125 partner MFIs have reached to Rs.3700 crore benefiting 56 lakh people with recovery rate of near 100%.

He explained that through Rural Industries Programme (RIP) of SIDBI, the gap between micro finance and micro enterprises was being bridged. Under the programme, 30,600 units were grounded and one lakh employments generated.

V. K. Agarwal, Sr. Vice President FISME highlighted the need to adopt a more nuanced approach towards different segments of MSME sector. He said that the MSME sector did not really represent a humongous sector but was composed of the three distinct sub-sectors. The three sectors have to be dealt and serviced separately.

- For micro enterprises – Access of credit is a priority. For small enterprises - access of credit is available though limited and therefore remains important along with cost.
- For medium enterprises – Access to institutional investors is easy. The cost is most important.
- Innovations are required in the delivery mechanisms of all these three segments of the MSME.
- Delivery of credit is very closely related to quality of credit and its efficacy. There is a strong feeling that concerns of the MSMEs are not being heard. There is a need to create a mechanism so that they are heard properly and at the right forums.

M K Venu, Editor-Opinion, The Economic Times summarized the deliberations of the Summit and proposed a vote of thanks. While concluding M.K.Venu said the ET-MSME conference must create a mechanism to enable a continuous dialogue with policy makers to resolve issues facing the small and medium businesses. In this context, ET and FISME must take up the offer made by Dr. Montek Singh Ahluwalia to come up with a list of measures that the sector urgently needs and submit it to the Planning Commission for further government action.

FISME: A Progressive Face of MSME Sector

An Introduction

FISME came into being in 1995 as a Federation of geographical and sectoral associations of SMEs in India, spread across districts and states. It was established as National Alliance of Young Entrepreneurs (NAYE) in 1967, when the Indian Government started monumental initiatives for small industry promotion. India was a different country then (inward looking, interventionist and hugely protectionist). NAYE had a contextual agenda which suited that era. After India's embarking upon liberalization in 1991 and its accession to WTO in 1995, it called for a fundamentally different approach for SME promotion. NAYE along with 8 state level associations gave birth to FISME to lead SMEs in the changed economic realities.

Its mindset, mission and activities have been shaped by these national and global developments. It focuses primarily on trade and market access issues and reforms with the twin objective of establishing entrepreneurial and competitive environment at home and greater market access for Indian SMEs in India and abroad.

In last 14 years, FISME has evolved into a large network of regional, state and district level MSME associations. It has a federal structure and plays the role of an umbrella organization of SME associations in both product and geographic spread, over all major states of the country. FISME's network of 560 associations reaches out to around 500,000 MSMEs.

It is governed by an elected team of office bearers and a decision making body called Central Executive Committee, which also elects its President every year. There are task specific committees headed by a chairperson, which deliberate on issues related to their area of operation and assist the Executive Committee in decision making. The secretariat headed by Secretary General is based in Delhi.

FISME is widely regarded today as the progressive face of MSMEs.

Sectors Served:

- General Engineering (including machine tools, auto parts etc)
- Electricals
- Electronics
- Plastics and plastic products
- Leather and leather products
- Paper and paper products
- Micronutrients/ fertilizers
- Food processing
- Information Technology
- Textiles
- Rubber & rubber products
- Handicrafts
- Chemicals and pharmaceuticals
- Plants and Machines
- Services

Mission

To assist MSMEs build capabilities to respond to changing external economic environment and exploit emerging opportunities by becoming market centric.

Focus Area of Operations

- Policy advocacy function at that national level to safeguard interests of MSMEs and to create an enabling environment for their development and growth.
- Trade Issues (Import and Export), Trade negotiations including those for WTO, to enhance market access for Indian MSMEs.
- Implementation of SME development projects, supported by National and International Agencies .
- Coordination of collective initiatives of MSMEs at national level to enhance access to Finance, Business Development Services and New Markets.
- Commissioning Research on SME issues
- Running of Information Portals (http://www.smenetwork,net; http://www.smeindia.net).
- Conduct of Trade Fairs, Seminars and Workshops to attain FISME's objectives.

Institutional Strengths

- Visionary leadership at the helm, composed of successful entrepreneurs.
- Professionally managed Secretariat (having three offices in Delhi).
- Strong financial position and robust revenue models.
- Unmatched geographical and sectoral spread among MSME associations (560 associations as members and working relations with 700 more).
- Represented at most of decision making committees in Central government.

Recognition and Networking

a. In India:

FISME is regarded as the progressive face of Indian MSMEs and is recognized as such by all Ministries and related organizations of the Union Government. Accordingly FISME is nominated by the Government at:

- Member of Quasi judicial 'Advisory Committee' under the MSME Development Act 2006, Ministry of MSME.
- Member of Board of Trade under the Director General of Foreign Trade, Ministry of Commerce and Industry, Govt. of India.
- FISME is authorized by Ministry of Commerce and Industry, Govt. of India to issue Certificate of Origin (for exporters). FISME's authorization is duly recognized by Ministry of External Affairs, Govt. of India for purposes of legalization of documents.
- Non-profit status granted by Income Tax department.
- Member of Working groups on Small Industries at Planning Commission.
- Scores of committees related to MSME in Ministry of Commerce and Industry, DGFT and Export Promotion Councils, Ministry of MSME, Ministry of Labour, Ministry of External Affairs among others.
- FISME works closely with public SSI promotion institutions of the country as Development Commissioner-MSME, Small Industries Development Bank of India (SIDBI) etc. and have launched several joint initiatives at national level.
- Further, FISME is regularly invited to appear before the Department Related Standing Committees of the Parliament on Small Scale Industries, Commerce and Industry etc., to present its views.
- FISME also works closely with several State Governments for the development and growth of MSMEs and is represented at several boards/ committees in different states.

b. Abroad:

- FISME is the only national body of MSMEs that is working closely with United Nations Agencies as UNCTAD, UNIDO, ITC, ILO, UN-G77 CCI etc.

- Besides, FISME has signed MoUs in 21 countries with counterpart SME associations in both developed and developing countries.

- FISME has recently opened a representative office in Beijing, China.

Current Engagements:

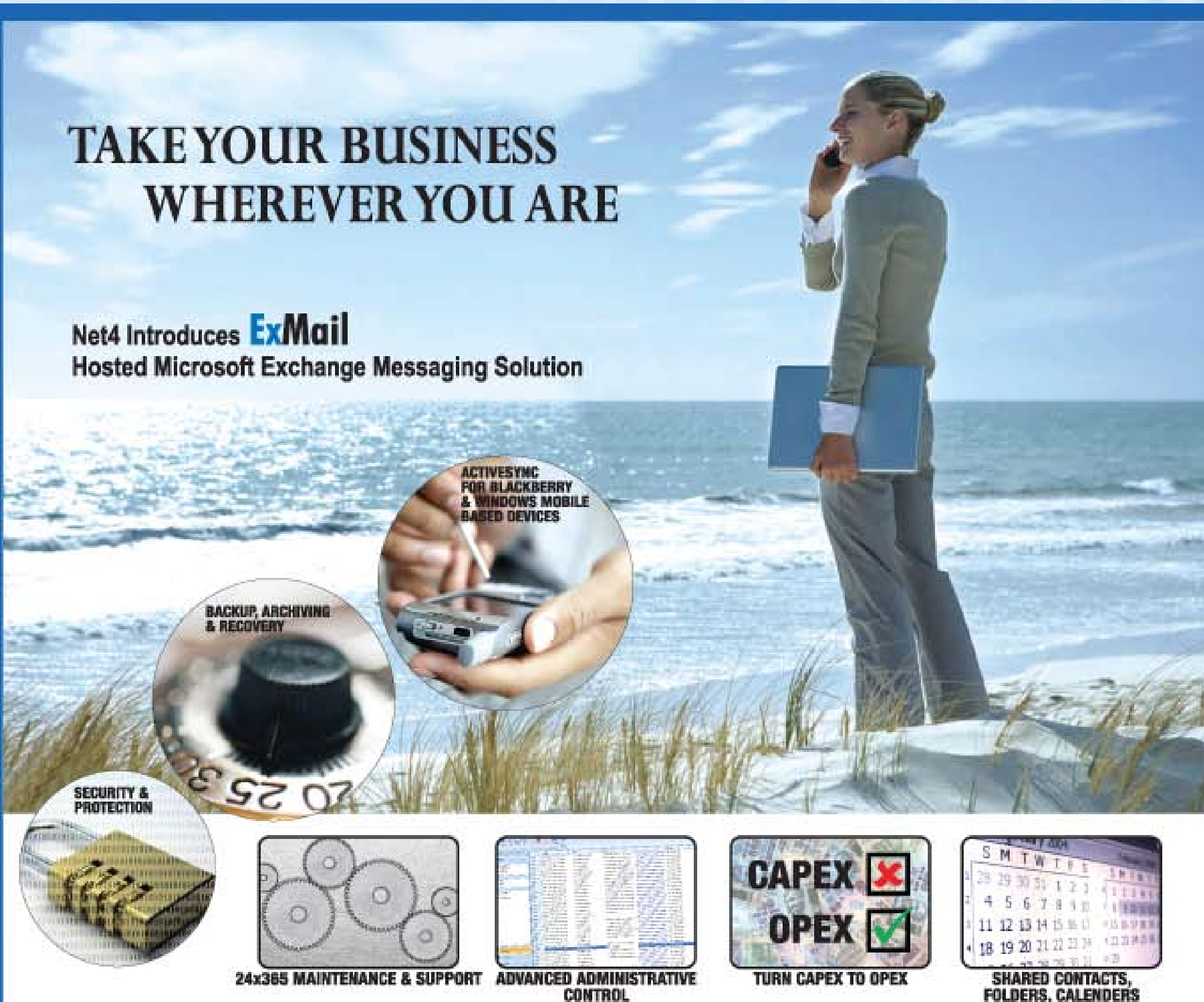
1. ***SME component of Project "Strategies and preparedness for trade & globalization in India" (Ministry of Commerce, UNCTAD and DFID,UK).***

FISME is Tier-I national partner and is implementing the SME component of the ambitious project. The project is being jointly sponsored by Ministry of Commerce, Govt of India; UNCTAD and DFID (UK). The project aims to strengthen human and institutional capacities among stake holders and to understand, analyse, keep track of and disseminate information as well as to provide a policy environment that will support and sustain a more equitable process of globalization.

2 ***Project CAPABLE (GTZ)***

FISME is also implementing the Project CAPABLE- Capacity Building Programme for MSME Associations, which is being supported by GTZ under multi-donor SME Financing Development Project.

Anil Bhardwaj - FISME, MS Ahluwalia - Planning Commission, Dinesh Rai - Ministry of MSME, RM Malla - SIDBI, Mohan Suresh - FISME



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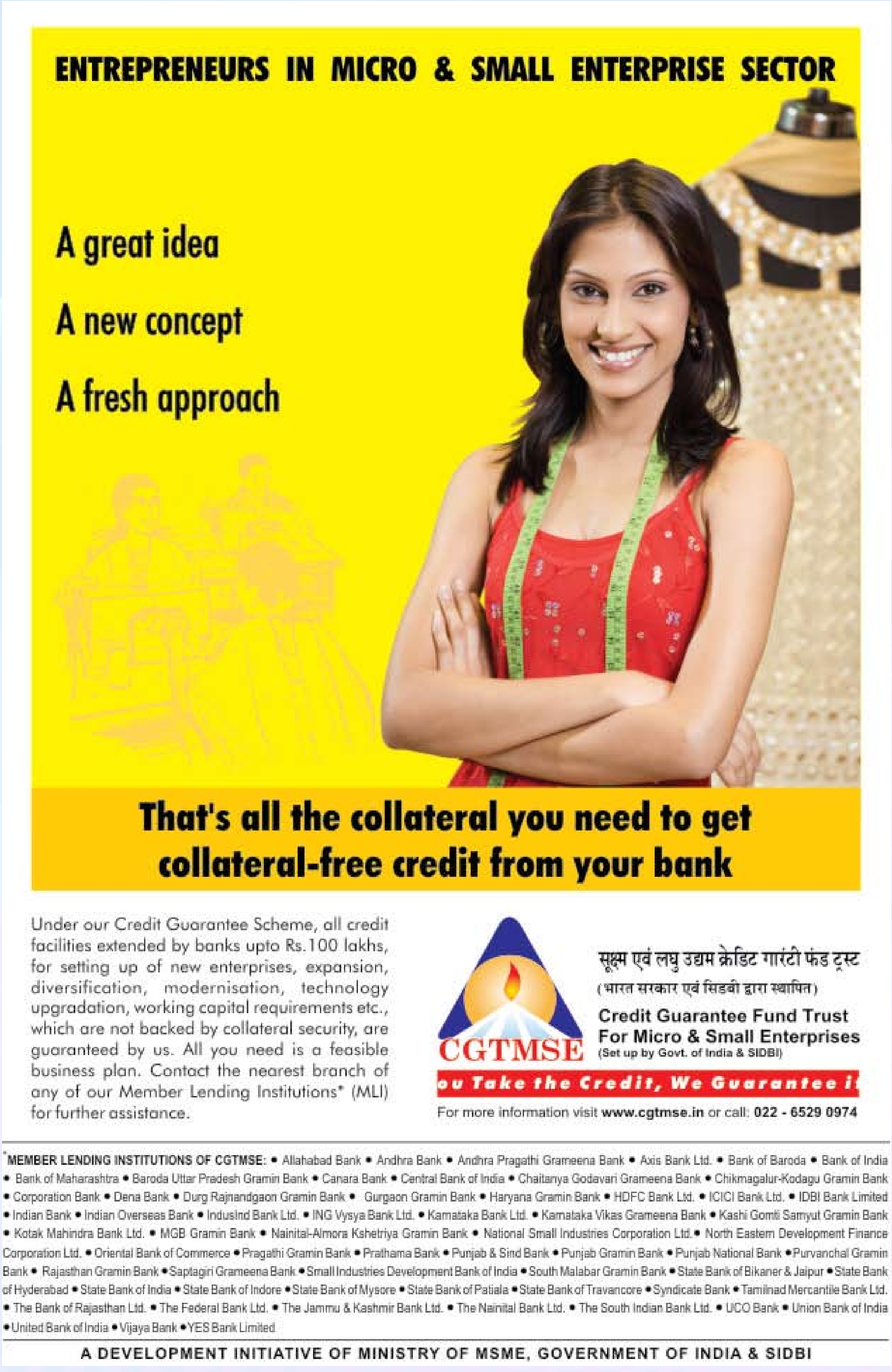
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