# CA Professionals and SMEs in Make in India: A Handbook for the Practitioners'

Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF & SMP)
The Institute of Chartered Accountants of India
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# FOREWORD

The 'Make in India' campaign launched by the Prime Minister of India eventually take up policy reforms involving changes in laws to ensure ease of doing business in the country. The objective of the mission "Make In India" is to provide conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — key to taking the economy on a sustainable high growth path.

SME sector plays an important role in economic development i.e. constitutes a major source of employment, provides most of the essential goods and services to the society, generates significant domestic and export earnings & SME development emerges as a key investment in poverty reduction efforts. United Nations recognizes Small and Medium Enterprises (SMEs) as engines of economic growth. World over, it has been recognized that Small and Medium Enterprises (SMEs) have been continuously contributing a good amount to gross domestic product and are a very large source of employment. In SAARC region, small and medium enterprises also contribute significantly to poverty reduction and inclusive growth. CAs have significant share of the professional service market in many countries.

I am pleased that the Committee for Capacity Building of CA Firms and Small & Medium Practitioners(CCBCAF & SMP) of our Institute has brought out the book on 'CA Professionals & SMEs in Make In India: A handbook for the Practitioners'.

It is heartening that the said Committee has brought out the aforesaid publication to enhance the knowledgebase of the Practitioners. I appreciate the efforts put in by the contributors for preparing this Book and compliment CA. Anuj Goyal, Chairman, CCBCAF&SMP, ICAI and other members of the Committee for publishing the aforesaid book.

January 21, 2015 CA. K. Raghu
New Delhi President, ICAI

# PREFACE

Make in India, the international marketing campaigning slogan coined by the Prime Minister of India is attracting businesses from around the world to invest and manufacture in India. The campaign has been concentrated to fulfill the purpose of job creation, enforcement to secondary and tertiary sector boosting the national economy, converting the India to a self-reliant country and to give the Indian economy global recognition.

SMEs market in India is very dynamic, and the regulatory environment which governs SMEs operations is also constantly changing and, as a corollary, the demands of business advisory services are being evolved. SMEs themselves are different in size, age, sector, location, and growth profile and are run by owners, managers with different capabilities and motivation. Such factors inevitably influence the requirement of external services which are being sought from CAs.

Earlier the need of a CA's services arose only once the business reached a certain reasonable level of operation, while today since the inception of the business idea itself the scope of a CA's services commence. Chartered Accountants contribute to the growth of the nation in numerous areas like accountancy, direct taxes, indirect taxes, company law matters, strategic decision making, international business and taxation, project finance and many more Regulatory matters. With these, CAs& SMEs are well in tune with the VISION 'Make in India' & are contributing a lot in achieving the PM's vision.

The Committee has prepared this Book on "CA Professionals & SMEs in Make In India: A handbook for the Practitioners". I am confident that this publication would surely help the members in discharging their responsibilities to the profession as well as to the Nation in a very effective manner.

I feel great pleasure in acknowledging the efforts and the contribution made by CS. Ajay Garg in preparation of this book on "CA Professionals & SMEs in Make In India: A handbook for the Practitioners". I appreciate the efforts put in by the members of CCBCAF & SMP and Dr. Sambit Kumar

Mishra & other officials of CCBCAF & SMP Secretariat, who have provided necessary support for publishing the aforesaid book.

January 21, 2015

**CA. Anuj Goyal**
Chairman
Committee for Capacity Building of CA Firms
and Small & Medium Practitioners, ICAI

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Chapter 1

# CA PROFESSIONALS AND MSME WORLD

MSME world is very different from regular business houses. Pre-dominated by first generation entrepreneurs, MSME world is twin edge sword. On the one side, they are full of passion and dreams; work tirelessly in 24x7 mode; find their own solutions and further innovate; ….On the other they work with meager resources; leads with small team; usually believe in low technologies; regularly face resource crunch including financial crunch; ……

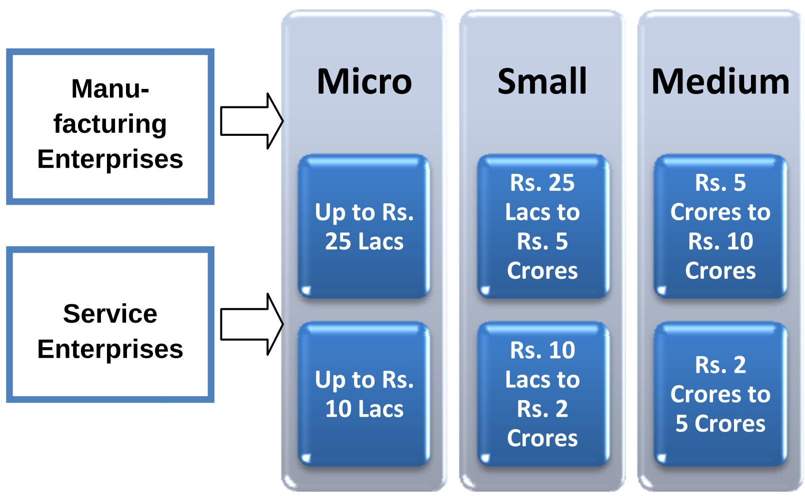
In India, MSME sector very diverse in terms of its size, levels of technology employed and range of products and services produced. Similarly CA profession is very diverse in terms of its size, range of services provided, office infrastructure.

MSMEs comprises from grass root village Industries to metropolitan suave industries; from agro processed products to electronic components; mineral based products to medical devices; handicrafts to high-tech products; from toys to auto components. Despite economic slowdown, MSMEs have shown constant growth rate of over 10% in recent years. MSME is critical component of Indian economy as it contributes 38 per cent of the country's GDP (30 percent in service sector and 8 per cent in manufacturing sector); 45 per cent of the manufactured output; 40 per cent of its exports and 40 per cent of the service sector. The MSMEs provide employment to over 80 million persons through over 36 million enterprises producing over six thousand products. Similarly CA profession is very diverse. Services provided by CA fraternity includes whole spectrum of business needs - including accounting and auditing services; debt and equity funding; wealth management; direct and indirect taxation services; business and management consulting; compliance management and certification services. The list is only indicative not exhaustive. Contribution of CA profession in the growth of MSME is very well recognized.

India is one amongst very few countries which has a legal framework for the MSME Sector in the form of MSMED Act 2006. Ministry of MSME is dedicated ministry taking care of various issues related to MSME sector. The policy initiatives for continual growth; removing hindrances in the growth of MSME; facilitating dedicated resources including financial resources; facilitating access to local and global markets; developing capabilities and capacity building; creating awareness and encouraging entrepreneurship amongst neo-youth are some of the initiatives of Ministry of MSME.

The year 2006 was an important year, the new law MSME Development Act, 2006 redefined SME sector and replaced SSI (Undertaking) Act, 1993. The two most critical changes were:

- The word 'Enterprise' replaced the word 'Industry'. Thus thriving Service sector got new status for the first time. In MSME world, Service Sector enterprise out numbers Manufacturing Sector enterprise.
- The erstwhile 'Small Scale' got divided into three 'Micro, Small and Medium'. Threshold limits for all three segment were defined in MSMED Act, 2006.




Interestingly, Institute of Chartered Accountants of India also have separate committee for 'Small and Medium Practitioners' and Committee strive for Capacity Building of SMPs.

Various programs and schemes of Ministries where CA professionals can play pro-active and mutually fruitful role are reproduced herein:

## Procurement Policy

The known fact is that the Government is the biggest purchaser. To provide level playing field to MSMEs, the Government of India notified Public Procurement Policy for MSMEs, vide Order dated 23.3.2012 (effective from 1st April, 2012), for goods produced and services rendered by Micro & Small

Enterprises (MSEs). The policy mandates that all the Central Ministries / Departments / CPSUs shall procure minimum of 20% of their annual value of goods / services required by them from Micro and Small Enterprises. Further, policy has earmarked a sub-target of 4% procurement out of this 20% from MSEs owned by SC / ST Entrepreneurs. The policy would become mandatory with effect from 1.4.2015.

NSIC has been appointed nodal agency. NSIC has launched Single Point Registration Scheme (SPRS) for MSMEs. NSIC and various ministries and departments, CPSUs have organized number of awareness programs, vendor development programs and buyer-seller meets. SPRS registration process involves detailed audit of deliverance capabilities before registering a MSE in SPRS. Here, CA professionals can play pro-active role in creating awareness entry into ready and big market of supplying to Ministries, departments and CPSUs through procurement policy; motivating and facilitating MSEs in registering under SPRS; by filing and filing forms on behalf of MSEs and facilitating pre-registration capability audit.

## 2. MSE- Cluster Development Programme

The known fact is that individual capacities of MSME are very limited. Hence they are unable to afford best of the business practices. The Ministry of MSME has adopted the cluster approach for holistic development of micro and small enterprises in a cost effective manner. The focus areas are **Soft Interventions** (such as diagnostic study, capacity building, marketing development, export promotion, skill development, technology up gradation, organizing workshops, seminars, training, study visits, exposure visits, etc.). **Hard interventions** (setting up of Common Facility Centers) and **infrastructure up gradation** (create/ upgrade infrastructural facilities in the existing industrial/ clusters of MSEs). In this MSE-CDP only Government spends about 50 Crores every year. In current financial year 2014-15, so far sanctions of Rs. 41.50 crore have been issued till 30th November, 2014.

Here also, CA professionals can play pro-active role by way of becoming active members of BMOs; by way of becoming visiting faculty in Entrepreneurship Development Programs; by way of carrying out diagnostic study and many more. Each of these activities has potential to unlock opportunity to come into contact with dozens of MSME entrepreneurs.

## 3. National Manufacturing Competitiveness Programme

The National Manufacturing Competitiveness Programme (NMCP) for the MSMEs aims at enhancing the competitiveness of enterprise in this sector. There are various components of the NMCP, which have been approved and are available for MSMEs. These are:-

- Lean Manufacturing Competitiveness Scheme (LMCS) for MSMEs.
- Design Clinics Scheme for design expertise to MSMEs manufacturing sector.
- Marketing Assistance and Technology Up gradation Scheme for MSMEs.
- Enabling manufacturing sector to be competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTS).
- Technology of Quality Up gradation Support for MSMEs.
- Promotion of Information and Communication Technology (ICT) in MSME sector.
- Building Awareness on Intellectual Property Rights for MSMEs
- Scheme for Providing Support for "Entrepreneurial and Managerial Developments of SMEs through Incubators".

MSMEs have very limited qualified staff working for them on full time basis. Here indirect role for CA professionals is very strong. Through most of these schemes, Government extends subsidies. Creating awareness about schemes; identifying application form, filing it and filing timely application for subsidies with designated authority; submitting replies to subsequent queries, if any; successfully closing the matter are activities envisaged for CA professionals.

## 4. Prime Minister's Employment Generation Programme (PMEGP)

A national level credit linked subsidy scheme, namely, 'Prime Minister's Employment Generation Programme (PMEGP)'was introduced in August 2008 by merging erstwhile PMRY and REGP schemes. On paper, the scheme may look foolish but facts and figures are startling. Since inception in 2008-09 to 2013-14, 2.48 lakh units have been assisted with margin money subsidy of Rs. 4745.15 crore to create employment for an estimated 22.29 lakh persons in the country.

Under this program, financial assistance is provided for setting up of micro enterprises each costing upto Rs.10 lakh in service sector and Rs.25 lakh in manufacturing sector. The assistance is provided in the form of subsidy upto 25 per cent (35 per cent for Special category including weaker sections) of the project cost in rural areas while it is 15 per cent (25 per cent for Special category including weaker sections) for urban areas. For 2014-15 an outlay of Rs 1418.28 crore has been earmarked for the scheme.

The role of CA professionals is pre dominant as the program involves both capital subsidy and debt component. Preparation of project report; submission of various papers with DIC offices and designated banks; preparing Entrepreneurial aspirants for interview and subsequently extending professional help in success of business all have role for CA professionals.

## 5. Skill Development

Skill Development is high priority area. To enhance capabilities of the Tool Rooms, MSME Development Institutes and Specialized institutes have been promoted. These Specialized institutes, namely NIESBUD, IIE, Guwahati, NI-MSME, MGIRI and even NSIC have designed very innovative training programs covering grass root level needs related to traditional rural industries / activities to high-end, high tech programmes on CNC machines and other high end technologies. Many of these trainings are free for weaker sections of the society viz., SC/STs, women and physically handicapped.

And this skill development is super normal because the focus is on entrepreneurial skill. And none of EDP course can be designed without financial literacy. Principal institutions have partnered with number of private institutions. This may be interesting to note that EDP Institutions are spread all across India numbering more than 300. This may be food idea to get connected with nearest one and become visiting faculty for finance and accounting portion

## 6. Credit Guarantee Scheme

Credit Guarantee Scheme through CGTMSE is one of the popular scheme and target easy flow of credit to the MSEs by providing guarantee cover for loans upto Rs.100 lakh without collateral / third party guarantees. Hold your breath and assess the popularity and outreach of the Scheme. As on 30th November, 2014, cumulatively, number of approved proposals:

16,89,439 and guarantee cover for a total sanctioned loan amount: Rs. 84026.76.

Some of the recent modifications are:

(a) enhancement in the loan limit to Rs.100 lakh;

(b) enhancement of guarantee cover from 75% to 85% for loans upto Rs. 5 lakh;

(c) enhancement of guarantee cover from 75% to 80% for MSEs owned/operated by women and for loans in North Eastern Region (NER);

(d) reduction in one-time guarantee fee from 1.5% to 1% and annual service charges from 0.75% to 0.5% for loans upto Rs. 5 lakh and

(e) reduction in one-time guarantee fee for NER 1.5% to 0.75%.

Here, the role of CA professionals is pre-dominant. There is need of more pro-active roles in small towns and in country side.

## 7. Credit Linked Capital Subsidy (CLCS) Scheme for MSE

The scheme is very popular and facilitates technology up-gradation of Micro and Small Enterprises (MSEs) by providing one time capital subsidy maximum up to 15% restricted up to INR 15 lakhs for purchase of Plant & Machinery. Maximum limit of eligible loan for calculation of subsidy under the scheme is Rs. 100/- Lakhs. The CLCS Scheme is implemented through 10 nodal banks/agencies including SIDBI, NABARD.

Here, CA professionals are playing eminent role and can play more eminent role. Because scheme is credit linked – forte of CA professional. Need is to take care of subsidy component. Timely filing of papers for subsidy is of essence. Many claims get rejected due to late filing.

## 8. Marketing Assistance Scheme

The main objectives of Marketing Assistance Scheme are to enhance the marketing competitiveness of the micro, small and medium enterprises to provide them a platform for interaction with the individual / institutional buyers, to update them with prevalent market scenario and to provide them a forum for redressing their problems. The National Small Industries Corporation Ltd. (NSIC), a public sector undertaking under the administrative control of this Ministry, acts as a facilitator to promote marketing efforts and enhance the competency of the MSMEs for capturing the new market opportunities by way of organizing / participating in various domestic & international exhibitions/trade fairs, buyers-seller meets, intensive campaigns/seminars and other marketing promotion activities.

Central Government allocates funds every year for this activity which is targeted to support participation in international and domestic exhibitions/trade fairs and buyer-seller meets and marketing campaigns.

Here, current role of CA professional is near to nil. But creating awareness about the facility; encouraging MSEs to register with NSIC and to participate in international exhibitions and also in buyer-seller meets; motivating them to spare time for participating in such campaigns / seminars. There may not be direct benefits. But better financial health of clientele results into better financial health of connected professionals also.

## 9. Performance and Credit Rating Scheme

The National Small Industries Corporation Ltd. (NSIC) is nodal agency for this scheme. Under this "Performance & Credit Rating Scheme" for micro and small enterprises (MSEs) subsidy to the extent of 75% or 40000/-, whichever is less, is given to MSEs. The bigger and better benefit is that most of the Banks reduces rate of interest by 0.25% to 1.00 % on YoY basis with credit rating. This saving in interest payable to bankers is very big relief for MSE sector. The scheme is being operated through seven accredited rating agencies i.e. CRISIL, SMERA, ONICRA, CARE, FITCH, ICRA and M/s Brickworks. The objective is to create awareness amongst MSMEs (i) about the strengths and weaknesses of their existing operations, and (ii) to provide them an opportunity to enhance their organizational strengths and credit worthiness. ions, Customers/Buyers and Vendors. Total targeted disbursement during current year 2014-15 is INR 70.00 crore.

Here, current involvement of CA professional seems to be insignificant. But creating awareness; connecting with appropriate credit rating agency; providing information on behalf of MSE clientele and ensuring reduced rate of interest on debt funding taken from Banks are identifiable areas. Direct benefits may or may not happen but better financial health of clientele results into better financial health of connected professionals also.

## 10. International Cooperation Scheme

International Cooperation(IC) Scheme was initially started in the year 1996. The objectives of the Scheme are: Technology infusion and /or upgradation of Indian micro, small and medium enterprises (MSMEs); their modernization and promotion of their exports.

Financial assistance is available for the following activities:

(i) Deputation of MSME business delegations to other countries for exploring new areas of technology infusion/upgradation, facilitating joint ventures, improving market of MSMEs products, foreign collaborations, etc.

(ii) Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries as well as in India, in which there is international participation.

(iii) Holding international conferences and seminars on topics and themes of interest to the MSMEs.

It seems that until now CA professionals are not playing any role. But twin roles are envisaged: firstly, CA firms in particular, SMPs shall get themselves registered under MSMED Act, 2006 and shall attend few international programs and secondly CA professionals can spread awareness and motivate their MSME clients to increasingly participate in such programs.

## 11. Assistance to Training Institutions

Under ATI scheme, assistance is provided to existing and new training Institutions for establishment of Entrepreneurship Development Institute (EDI) and strengthening of their training infrastructure on a matching basis. Assistance is restricted to 50 percent of the project cost or Rs. 150 lakh whichever is less. (90 percent or Rs. 270 lakh of the project cost whichever is less, for State level EDIs in Union Territories of Andaman & Nicobar and Lakshadweep Islands) excluding cost of land and working capital. Financial assistance is available for construction of building, purchase of training aids/equipments, office equipments, computers and for providing other support services e.g. libraries/data bases etc. Assistance is also available for conducting Entrepreneurship Development Programmes (EDPs) and Entrepreneurship cum Skill Development Programmes (ESDPs) and Training of Trainers (ToTs) programmes in the areas of Entrepreneurship and/or Skill Development.

This scheme is yet to be explored by CA professionals. Very lucrative scheme and need attention of CA fraternity.

## Common Problems of MSME Sector

This is known fact problems of MSME world are opportunities for the professionals. Hence this would be good idea to understand the common problems of MSMEs. Very few selected problems have been briefly explained herein:

1. **Credit Crunch:** Non-availability of timely and adequate credit; unreasonable interest rate; neglect by commercial banks due to smaller size. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs. The professionals need to relook in term of innovative financing instruments, mezzanine debt funding and identify alternative funding channels.

2. **Equity Funding Gap:** Equity funding is very hard to come. VCs don't have appetite for MSMEs. Public issue and listing is costly. Options are apparently very less. The professional need to relook in terms of two available listing routes Listing on SME Exchange and Listing without IPO at ITP of BSE/NSE. Ministry of Finance and various other Central Ministries have created VC funds for MSME sector. The cost is comparatively reasonable and success probability is better. Subsidies are just a mode of gap funding and should be looked as equity funding where no dividend or repayment is required. Angel funding has also become reality. The need is that professional himself should be aware and create awareness about such possibilities amongst MSMEs.

3. **Delayed Realization:** MSMEs struggle with perennial problem of delayed realization of their Debtors. In fearing of losing business, they usually continue to suffer. Large buyers take advantage of this situation. This way MSMEs becomes sleeper financial cell for large players. Here professional has an important role to play. There is need to first understand alternative payment realization mechanism provided under MSME Development Act, 2006 and there is further need to educate MSMEs about this mechanism.

4. **Archaic Labor Laws:** Another perennial MSME problem is complicated labor laws that prevent easy entry and exit of businesses and ties them with multitude of compliance issues. Here new Act is just

on the anvil. Small Factories (Regulation of Employment and Condition of Services) Bill, 2014 is available in public domain. The young professionals looking for uncrowded opportunities shall focus on understanding the finer points and opportunities and create awareness about these amongst MSMEs.

5. Complicated compliance Mechanism: MSMEs have very less regular and qualified staff at their payroll. Most of the time, they fail timely filing of various returns and resultantly pay heavy penalty further resulting into dent in their meager financial resources. The professionals can help MSMEs by way of preparing compliance calendar and further customizing as per the needs of specific MSMEs.

Chapter 2

# SMES IN MAKE IN INDIA CAMPAIGN

In recent times, ‘Make in India’ campaign has made headlines not only in India but beyond India also. Current Prime Minister of India used the phrase ‘Make in India’ during his Independence day speech. He not only used the phrase but used it forcefully and rest is history as Make in India became buzzword not only in India but all across the world. ‘Make in India’ campaign (refer www.makeinindia.com) is being closely followed by all across the world and within India. Indian Government seems to be determined to give major policy thrust to ‘Make in India’ campaign – Brainstorming session are being organized; policies and laws are being revamped on the basis of recommendations of such brainstorming sessions; wide publicity is being given to these initiatives; respective ministries of Government of India and select States have already started shaking sleepy Departments; ‘Complexities of Starting and Doing Business’ are being looked into afresh; target of improving global ranking of ‘Ease of Doing Business’ that too drastically from current position of 144th rank to be in first 50; opening of hitherto unknown sectors; target of improving contribution of manufacturing sector to 25% in GDP of the country; transition from ABCD to ROAD; FDI getting new thought process with being decoded as ‘First Develop India’; opening of hitherto closed sectors for manufacturing like aviation and armaments; buzzword of ‘Zero Effect and Zero Defect’; focusing on skilling youth of India and further focus on creating earning opportunities rather than jobs; To ease registrations and approval - focus on ‘Digital India’; successful foreign visits of Prime Minister resulting into committing of big ticket investment have created excitement for manufacturing sectors. If expectations of manufacturing sector can be translated into reality then second industrial revolution is bound to happen in next ten years in India.

It seems that big ticket reforms are on cards. If the excitement can be translated into industry-friendly laws and regulations; friendly and easy to comply policies; simpler, transparent and less time consuming processes for registrations, approvals and compliances; simples and realistic tax regime; repositioning by Government staff beyond the narrow and selfish thinking of 'Mera Kya Mujhe Kya'; non-hostile approach of field inspectors, then this should not be very difficult to achieve the target of double digit growth in manufacturing sector. This friendly atmosphere and business friendly approach will also help in attaining rapid growth in agriculture and service sector. Export push and import substitution both shall go hand in hand to attain the level of 25% contribution of manufacturing sector in GDP of India.

Worldwide popular word SME is more appropriately known as MSME in India where S referring to Small is bracketed between first M referring to Micro and second M referring to Medium. Despite all known and unknown bottlenecks; addressed, under addressed and unaddressed hurdles; global and local economic slowdown India's MSME sector has recorded more than 10 per cent growth in recent years. Does it mean that in better and more business friendly regime, MSME can attain the growth of 20%? Perhaps, the answer to this question is big 'YES'.

The Prime Minister's call for making India a manufacturing hub and creating jobs will boost MSME as well – manufacturing and service sector MSME both. Ministry of MSME has already put Draft Consultative Paper in public domain inviting comments from various stakeholders (refer www.msme.gov.in). This draft consultative paper will work as precursor to first ever MSME policy of India. The government's close interaction with industry associations from different regions and sectors within India to discuss specific problems inhibiting domestic enterprises needs applaud and will have deep impact on MSME growth.

Some of the significant and very recent initiative with focus on MSME sector in 'Make in India' campaign are:

- setting up of Rs.10,000 Crore of venture capital fund (budgetary announcement);
- establishing a nationwide, district-level incubation and accelerator programme for encouraging entrepreneurship;
- establishing a network of Technology Centres;
- revising the definition of MSMEs for providing higher capital ceiling (proposed amendment is available on the www.msme.gov.in)

- friendly legal bankruptcy framework to enable easy exit (proposed amendment is available on the www.msme.gov.in)
- a programme to facilitate forward and backward linkages with multiple value chain of manufacturing and service delivery (soon to be put in place)
- launching the Skill India movement for youth with an emphasis on employability and entrepreneurship.
- committee to examine the financial architecture with a view to removing bottlenecks and creating new rules and structures for the sector.
- the government recently inaugurated a holistic, innovative and low-cost
- online e-commerce shopping portal for buying and selling of products produced by MSMEs (initiative of NSIC).

MSMEs are mainly classified as manufacturing and service enterprises. There is a specific stipulated limit on investment in plant and machinery for each of the respective micro, small and medium segments in manufacturing and service enterprises. More than 90 percent of MSMEs are unregistered. More than 90 percent MSME are dependent on self finance. These are highly diverse in terms of their size and the level of technology employed. The production in the sector ranges from output of grass-root village industries and auto components, to microprocessors, electronic components and electro-medical devices. MSMEs produce very diverse products, use different inputs and operate in distinct environments.

Since 1948, successive governments have been making intense efforts to encourage MSMEs but the sector continues to be under stress. The office of Development Commissioner for MSMEs was set up in 1954 and a dedicated Ministry for MSMEs in 1999. The Small Industries Development Bank of India (SIDBI), established in 1990, is the principal financial institution for promotion, financing and development of the MSMEs in addition to commercial banks, State financial corporations, and State industrial development corporations. SSI Undertaking Act 1993 was replaced with MSME Development Act in 2006.

In 'Make in India' mode, government machinery has already started looking afresh into:

- Policy formation

- Tax provisions and laws that are not only labour-friendly but also entrepreneur-friendly.
- Need of skill development formation and continuous upgrade both for labour and entrepreneurs.
- Booster programs extending help in removing various bottlenecks in the growth of MSMEs
- Industry specific schemes to give focused thrust to manufacturing activities
- Schemes to encourage innovations and R&D to develop new world class products.
- Funding issues not only as debt funding but equity funding as well.
- Policy / Directive to push private equity investors towards small businesses (likely to be announced soon)

## Special Policy Initiative on the Anvil for MSMEs

- Rollover relief from long term capital gains tax to individuals on sale of residential property in case of re-investment of sale consideration.
- A tax pass-through status for venture capital funds with a focus on SMEs in the manufacturing sector.
- Liberalization of RBI norms for banks investing in venture capital funds with a focus on SMEs, in consultation with RBI.
- The liberalization of IRDA guidelines to provide for investments by insurance companies.
- The inclusion of lending to SMEs in manufacturing as part of priority sector lending.
- Easier access to bank finance through appropriate bank lending norms.
- The setting up of a stock exchange for SMEs.
- Service entity for the collection and payment of statutory dues of SMEs.

Each of this initiative has potential to take MSME to the next level. The emerging economic scenario in the country has thrown upon vast opportunities of development and diversification for the units in the Micro, Small and Medium Enterprise (MSME) Sector. Government's Make in India programme would be a game changer for the micro, small and medium enterprises. This ambitious programme has potential to attract foreign investment in both production and in venture and angel funds. If Indian and foreign companies will produce in India for global markets, MSMEs will be the biggest beneficiaries because of natural trickle down approach. To take the advantage soon, policy makers, regulators and MSME entrepreneurs have to work in sync.

Make in India campaign has replaced India's National Manufacturing Policy. This is the most comprehensive and significant policy initiative by new Government at the centre. The policy addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and other pertinent factors related to the growth of the sector.

## THE MAIN FEATURES OF MAKE IN INDIA PROGRAM

### The Targets

An increase in manufacturing sector growth to 12-14% per annum over the medium term. An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022. To create 100 million additional jobs by 2022 in manufacturing sector.

### The Focus Sectors

The scheme covers both employment intensive and capital intensive sectors.

- Employment intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.
- Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving & mining equipment.
- Industries with strategic significance like aerospace, shipping, IT hardware & electronics, telecommunication equipment, defence equipment and solar energy.
- Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals & medical equipment.
- Small & medium enterprises.
- Public sector enterprises.

## Advantage India

- India has already marked its presence as one of the fastest growing economies of the world.
- The country is expected to rank amongst the world's top three growth economies and amongst the top three manufacturing destinations by 2020.
- Favourable demographic dividends for the next 2-3 decades. Sustained availability of quality workforce.
- The cost of manpower is relatively low as compared to other countries.
- Responsible business houses operating with credibility and professionalism.
- Strong consumerism in the domestic market.
- Strong technical and engineering capabilities backed by top-notch scientific and technical institutes.
- Well-regulated and stable financial markets open to foreign investors.

## Corridors in First Phase

- Delhi Mumbai Industrial Corridor (DMIC)
- Bengaluru-Mumbai Economic Corridor (BMEC)
- Amritsar-Kolkata Industrial Development Corridor (AKIC)
- Chennai-Bengaluru Industrial Corridor (CBIC)
- East Coast Economic Corridor (ECEC)
- Chennai Vizag Industrial Corridor

Policy of Mega Manufacturing Zones: The National Investment and Manufacturing Zones (NIMZ) are being conceived as giant industrial green field townships to promote world-class manufacturing activities with the main features:

- The minimum size is 5000 hectares (50 square kilometres) wherein the processing area has to be at least 30%.
- The central government will be responsible for bearing the cost of master planning, improving/providing external physical infrastructure linkages including rail, road, ports, airports and telecom, providing

institutional infrastructure for productivity, skill development and the promotion of domestic and global investments.

- The identification of land will be undertaken by state governments. State governments will be responsible for water requirement, power connectivity, physical infrastructure, utility linkages, environmental impact studies and bearing the cost of resettlement and rehabilitation packages for the owners of acquired land.
- The state government will also play a role in its acquisition if necessary.
- In government, purchase preferences will be given to units in the national investment and manufacturing zones.
- Already Identified NIMZ are
    - Ahmedabad-Dholera Investment region, Gujarat
    - Shendra-Bidkin Industrial Park City near Aurangabad, Maharashtra
    - Manesar-Bawal Investment Region, Haryana
    - Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan
    - Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh
    - Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh
    - Dighi-Port Industrial Area, Maharashtra
    - Jodhpur-Pali-Marwar region, Rajasthan
    - Kuhi and Umred Taluka of Nagpur district, Maharashtra
    - Tumkur, Karnataka
    - Chittoor, Andhra Pradesh
    - Medak, Telangana
    - Prakasam, Andhra Pradesh
    - Gulbarga, Karnataka
    - Kolar, Karnataka
    - Bidar, Karnataka
    - Kalinganagar, Jajpur District, Odisha

## THE BUZZWORDS

### 'First Develop India'

While launching the "Make in India" campaign, PM Mr. Modi said that FDI for him means "First Develop India". With this simple sentence, national priorities are defined. Any FDI which is not good for the nation is unwelcome. Foreign investment flows easily in a country where returns are high, raw material, labour and markets are available. FDI follows industry in which they can enjoy monopolistic situation and have technological advantage.

### '100 Smart Cities'

It is proposed to provide world class infrastructure and high-speed communication based on modern technology. The concept of 100 smart cities itself has potential to propel growth of Indian economy. Any such movement will impact order book position of MSMEs in addition to providing thrust to infrastructure industry.

### 'Digital India'

Increased focus on digital India has the potential to improve regulatory environment; ease out registrations and approvals. Web-enabled processes will result into drastic decrease in corruption as well.

### 'Zero Effect Zero Defect'

Prime Minister Mr. Modi said: "Make in India will have to have a hash-tag of zero defects in product and zero effect on environment."

## 'SKILLING INDIA'

### 'Ease of Doing Business'

Prime Minister Narendra Modi has promised to change laws and style of government for ease in process of manufacturing and upscale the trade. Industry is accustomed to see Government as a regulator. There is need to bring paradigm shift in how government shall interact with industry. The government proposes to partner industry in economic development of the country. The approach is proposed to be of a facilitator and not regulator.

Entry point has to be eased, initial barriers lowered and removed, and after entry, enabling environment has to be created. This is time to integrate various registrations and reduce multiplicity of registrations. Number of registrations will reduce in the year ahead. May be that PAN and TAN, DIN, Certificate of Incorporation and Certificate of Commencement of Business and Registration Service of EPFO may get integrated into one, two or three registrations only.

## Transition from ABCD to ROAD

Prime Minister Mr. Modi stated that silos in government functioning have been demolished. He stressed on collective decision-making and said, “Government is generally trapped in ‘ABCD’ culture from top to bottom…. A-Avoid, B-Bypass, C-Confuse, D-Delay. Our efforts are to move from this culture to ‘ROAD’ where R stands for Responsibility, O-Ownership, A-Accountability, D-Discipline. We are committed to moving towards this roadmap.”

Perhaps this is right time for India to replace the Asian super-power to become the world’s new “factory”. The response ‘Make in India’ is so far has been encouraging. Already, Japan has committed $35 billion, China promised $10 billion and many others such as the United States will follow suit. There is no doubt that the strategy to make India a manufacturing hub will have a snowballing effect on the economy – it will help attract large doses of foreign investment, reduce imports, narrow the trade deficit and accelerate growth. The “Make in India” strategy takes along the MSMEs.

# Chapter 3
# BASIC REGISTRATION UNDER MSMED ACT, 2006

Registration and Acknowledgement are two different concepts. MSMED Act nowhere talks about registration. As large size industries are required to procure IEM (Industrial Entrepreneurship Memorandum) acknowledgement from Ministry of Industry similarly MSME units are required to file Entrepreneur's Memorandum, popularly known as EM I and EM II with District Industries Centre (in some states DICs have been renamed as MSME Centres). SSI registration process was dispensed with in 2006. Now entrepreneur files the Entrepreneur's Memorandum and gets an acknowledgement.

This Entrepreneur's Memorandum is optional but works as passport for MSME unit. In absence of this passport, MSME units are not eligible to avail benefit of any subsidy, incentive or promotional schemes of Central / State Government(s).

## The Provisions

The requirement of EM is driven by provision of Section 8 of MSMED Act. Section 8 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provides (1) any person who intends to establish,-

(a) a micro or small enterprise, may, at his discretion; or

(b) a medium enterprise engaged in providing or rendering of services may, at his discretion; or

(c) a medium enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, shall file the memorandum of micro, small or, as the case may be, of medium enterprise with such authority as may be specified by the State Government under subsection (4) or the Central Government under sub-section (3):

Provided that any person who, before the commencement of this Act, established—

(a) a small scale industry and obtained a registration certificate, may, at his discretion; And

(b) an industry engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, having investment in plant and machinery or more than one crore rupees but not exceeding ten crore rupees and, in pursuance of the notification of the Government of India in the erstwhile Ministry of Industry (Department of Industrial Development) number S.O.477(E), dated the 25TH July, 1991 file an Industrial Entrepreneurs' Memorandum, shall within one hundred and eighty days from the commencement of this Act, file the memorandum, in accordance with the provisions of this Act.

(2) The form of the memorandum, the procedure of its filing and other matters incidental thereto shall be such as may be notified by the Central Government after obtaining the Recommendations of the Advisory Committee in this behalf.

(3) The authority with which the memorandum shall be filed by a medium enterprise shall be such as may be specified, by notification, by the Central Government.

(4) The State Government shall, by notification, specify the authority with which a micro or small enterprise may file the memorandum.

(5) The authorities specified under sub-sections (3) and (4) shall follow, for the purposes of this section, the procedure notified by the Central Government under sub-section (2).

## Source of Formats

- Format EM I and EM II can be downloaded from official website of Central (www.laghu-udyog.com or www.dcmsme.gov.in) and State Government websites.
- Physical copy of format is available with DIC Offices
- This is only format and there is no cost of the form.

## Who Shall File

- Micro Entrepreneur / Small Entrepreneur / Medium Entrepreneur
- Manufacturer / Trader / Service Provider

## When to File

EM I: This is pre-intimation about start of enterprise – sort of consent to establish

- After creation of entity;
- Before the start of operation

**Note:** Validity of EM I is two years.

EM II: This is intimation about start of business activities – sort of consent to operate

- After start of commercial activities
- Within one year of start of commercial activities
- Within two years of filing of EM I

## Reporting Change

- Change and/or Addition in Investment in Plant and Machinery – within one month of change
- Change and/or Addition of Products and/or Services – within one month of change
- Change in Address or constitution or ownership – within one month of change

## What to File

- Duly filled and signed format EM I, EM II and intimation about change
- Annexures: Registration Certificate of Entity; Constitution of Entity; PAN Copy; Address proof
- Fees – No fees prescribed

## How to File

- In physical format - in most of the states.
- Online filing followed by physical filing – in certain States acknowledgment issued online is temporary
- Online filing – some of the states like Tamil Nadu, Odisha, Delhi, Andhra Pradesh, etc. have provided facility of online filing

## Where to File

- With the District Industries Centre in the jurisdiction of which the enterprise is (or, is proposed to be) situated.

## Things to Do - Before Filing

- Download the formats
- Fill the form carefully
- Check the codes for business activity, area, etc.
- Value of plant and machinery – as undertaking is also required to be signed
- Unit shall not be owned, controlled or subsidiary of any other entity
- NOCs from various authorities – SPCB, Drug Contorller

## Desired Annexures

- Registration Certificate of Entity
- Copy of Constitution of Entity
- Copy of PAN card
- Copy of Address Proof
- Desired NOCs
- Resolution ( in case of Companies) / Authority Letter
- Registration under Shops and Commercial Establishment Act, wherever needed.

## Records of MSMEs

- Are maintained at DIC
- With SISI
- With Joint DC (MSME)

## Mandatory or Optional – Filing of Memorandum

- Optional for all Micro & Small Enterprises.
- Optional for service sector Medium Enterprises.

- Mandatory for manufacturing sector Medium Enterprises

However, considering various promotional schemes and benefits, MSME units shall be encouraged to get EM II.

## Classes of Enterprise Eligible to Register

- Proprietorship
- Partnership
- Limited Liability Partnerships
- Private Limited Companies
- Public Limited Companies
- Co-operative Societies
- Hindu Undivided Family
- Association of Persons
- Undertakings

## Who is Eligible to Make and Sign the EM

- A Director of the company, who is authorised by Resolution, passed by Board in this regard;
- Any partner of the Partnership Firm
- Designated Partner of LLP
- Sole proprietor for proprietorship firm
- Any person authorised by the organization in this connection.

### What Info is required in EM

- Name of the Enterprise
- Location of the Enterprise: It should be the exact location of unit for which registration is sought, and it may be different from the registered office of the company.
- Category of the Enterprise: The category of the enterprise shall be decided as per investment in plant and machinery or equipment's
- Nature of Activity: It will be either manufacturing or Service.

- **Nature of operation:** Registration is granted to all enterprises whether the activities are of continuous, seasonal or casual in nature.
- Month of installation of plant and machinery or equipment's.
- **Other Information-** Other information is required with regard to whether the unit for which registration is sought is ancillary unit or not
- In case of manufacturing unit details of registration under Factories Act, 1948
- Type of organization whether Public company, Private Company, Partnership Firm, Sole Proprietorship.
- Undertaking

## Editor's Comment

Filling and filing EM I and EM II and procuring Acknowledgement is easy task. But most of the MSME entrepreneurs fail to understand the intricacies involved because of lack of time or lack of awareness or total focus on success of business. They are short of time and also short of full time capable staff. The forms neither requires certification nor fix any responsibility on professional engaged to carry out the task. As per rough estimate, half of the manufacturing units and three fourth of service sector units are running without having any acknowledgement under MSME Act.

# Chapter 4
# SELECT PROMOTIONAL SCHEMES OF MINISTRY OF MSME

Business wise, our country is very peculiar. For majority of us, first preference is ‘doing job’ and last preference is ‘doing business’. Even majority of entrepreneurs grooms their next generation keeping an eye on lucrative career but again for ‘doing job’. Given the option, most of us will prefer doing jobs over businesses. But India is burgeoning as the neo youth power which needs lots of job opportunities. By 2020 the median of the age of India would be 27, hence young India needs enough jobs to feed this aspiring youth to maintain their living as well as a healthy family life. Even Governments are looking towards MSME to provide jobs to neo youths. Of late, Government is focusing on creating ‘earning opportunities’ rather than creating ‘employment opportunities’.

Ministry of MSME is responsible for growth of MSME sector and for growth of Agro and Rural Industries. On the one side, Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. On the other, growth of Agro and Rural Industries is equally important. From time to time, new promotional schemes are being launched; existing promotional schemes are being refurbished; concerns of the sector are being addressed. MSMEs play crucial role in providing employment opportunities at comparatively lower capital cost than large industries. MSMEs also help reducing regional imbalances and attaining more equitable distribution of national income and wealth. MSMEs are Large Industries are complementary to each other. MSMEs contribute towards socio-economic development of the country.

Ministry has focused on various innovative methods in mitigating and addressing the problems of MSME sector through:

- Establishment of specific funds for the promotion, development and enhancing competitiveness.
- Notification of schemes / programs.
- Progressive credit policies and practices.

- Preference in Government procurements to products and services of MSEs
- Alternative and cheaper mechanism for recovery of delayed payment
- Support for technology upgradation and modernization
- Integrated infrastructural facilities
- Modern testing facilities and quality certifications
- Access to modern management practices
- Appropriate training facilities including entrepreneurial trainings
- Support for product development, design intervention and packaging
- Cluster-wise measures to promote capacity building

Various schemes of Ministry of MSME are reproduced herein:

## SME Division Schemes

1. **International Cooperation**: This scheme has potential to give assistance to the extent of INR 1-2 lakhs per annum to MSMEs (Refer Chapter 8 for finer details)
2. **Assistance to Training Institutions (ATI):** This scheme has potential to provide subsidy to the extent of INR 270 lakhs to educational institutions.
3. **Marketing Assistance Scheme:** This scheme has potential to provide subsidy up to INR 1-3 lakhs per annum (Refer Chapter 8 for finer details)

## Development Commissioner (DC-MSME) Schemes

1. **Credit Guarantee**: This scheme has potential to provide collateral free loan to MSMEs up to INR 100 lakhs (Refer Chapter 9 for finer details)
2. **Credit Linked Capital Subsidy Scheme for Technology Upgradation** : This scheme has potential of subsidy up to INR 15 lakhs for each MSME. (Refer Chapter 6 for finer details)
3. **ISO 9000/ISO 14001 Certification Reimbursement**: This scheme has potential to provide subsidy to the extent of INR 75 K per MSME.
4. **Micro & Small Enterprises Cluster Development Programme**: This scheme has potential to help MSME to the extent of INR 5 lakh.

5. Micro Finance Programme: Useful for MFIs for heavily subsidized funds for onward lending.

6. MSME Market Development Assistance (MDA): This scheme has potential of assistance to the extent of 5 lakhs

7. National Awards (Individual MSEs): This scheme gives national and global recognition

8. National Manufacturing Competitiveness Programme (NMCP):

   (i) Marketing Support/Assistance to MSMEs (Bar Code): This scheme has potential of assistance to the extent of 50K-100K

   (ii) Entrepreneurial and Managerial Development of SMEs through Incubators: This scheme has potential to enrich each entrepreneurs to the extent of INR 2-3 lakhs

   (iii) Enabling Manufacturing Sector to be Competitive through QMS & QTT

   (iv) Building Awareness on Intellectual Property Rights(IPR): This scheme has potential of assistance for individual units between 25K – 200 k and potential of assistance of 1 lakh to 65 lakh for MSME organizations

   (v) Lean Manufacturing Competitiveness for MSMEs: This scheme has potential of assistance to the extent of 8-10 lakhs and turning ordinary MSME unit into world class MSME.

   (vi) Design Clinic for Design Expertise to MSMEs Manufacturing sector (DESIGN)

   (vii) Marketing Assistance & Technology Upgradation

   (viii) Technology and Quality Upgradation Support to MSMEs

## ARI Division Scheme

1. Prime Minister Employment Generation Programme (PMEGP): This scheme has potential of assistance upto 8.75 lakhs per budding entrepreneur

2. Janshree Bima Yojana for khadi artisans

3. Market Development Assistance (MDA)

4. R&D Activities of Coir Board U Central Sector Plan of Science & Technology (S&T)
5. Rejuvenation, Modernisation and Technology Upgradation of Coir Industry (REMOT): This scheme has potential of subsidy up to INR 3 lakhs
6. CSS of Export Market Promotion
7. Skill Upgradation & Quality improvement and Mahila Coir Yojana
8. Development of Production Infrastructure (DPI)
9. Welfare Measures Scheme (Coir workers)
10. Programme for promotion of Village Industry Cluster: Rural Industry Service Centre (RISC) for Khadi and Village Industry Keeping need of professional help in mind, some of the Schemes are covered in various Chapters like Chapter 6 – Relevance of SIDBI for MSMEs; Chapter 8 - Support Framework for International Forays by MSMEs; Chapter 9 – Debt Funding – Practical Approach and Chapter 10 – MSMEs and Equity Funding. Detail of Select Few Schemes for the Growth of MSME sector are reproduced herein:

## 1. ISO 9000/ISO 14001 Certification Reimbursement

Background: SME has emerged as dynamic and vibrant and is making significant contribution to industrial production, export and employment generation. The process of economic liberalization and market reforms has opened up Indian SMEs to global competition. In order to enhance the competitive strength of SME, the Government has introduced an incentive scheme for their technological up gradation / quality improvement and environment management. The scheme provides incentives to those SMEs/ancillary undertakings who have acquired ISO 9000/ISO 14001/HACCP certification. The scheme is enlarged so as to include reimbursement of expenses for acquiring ISO 14001 certification.

Quantum of Reimbursement: The scheme envisages reimbursement of charges for acquiring ISO-9000/ISO-14001/HACCP certification to the extent of 75% of expenditure subject to a maximum of INR 75,000/- in each case.

Eligibility: Permanent registered micro and small enterprises (MSEs) are eligible to avail the incentive scheme.

**Where to Apply:** MSEs with their EM II are required to submit their application, duly completed, to their local Director, MSME-DI (addresses available on the website www.dcmsme.gov.in) . Fuller detail of the scheme is available on www.msme.gov.in

## 2. Marketing Support/Assistance to MSMEs (Bar Code)

**Background:** Selling methods of organized retail marketers are very different form retail traders in unorganized sector. Price of the product sold is fed into computer through electronic device. The prices are also mentioned on packing of the product in a way that only electronic machine can read it. Price is coded and reflected through bars of varying width. In order to facilitate entry of products produced by MSE units in organized retail markets, this scheme has been devised. Bar code assistance is one well thought initiative of Ministry of MSME. Under this scheme MSEs are encouraged and motivated to use bar-codes through seminars and reimbursement of registration fees.

**Quantum of Reimbursement:** Reimbursement to the extent of 75% of both onetime registration fee and also of recurring fees for 3 years for bar coding. The fee paid by MSEs to GS1 India (bar coding registering agency in India).

**Eligibility:** The scheme is applicable to those MSEs with EM-II registration and registration with GS1 India for use of barcode.

**How to Apply:** On getting registration for use of barcode for products, (http://www.gs1india.org/), take the following steps for reimbursement of fee:

- The application form along with formats for supporting documents may be collected from the Director, MSME-DI, or can be downloaded from http://www.dcmsme.gov.in/
- Fill the prescribed application form for claiming reimbursement on bar code.

**Where to Apply:** The filled-in application form with required documents is to be submitted to the office of MSME-DI. (Addresses available on the website www.dcmsme.gov.in). Fuller detail of the scheme is available on www.msme.gov.in

## 3. Building Awareness on Intellectual Property Rights(IPR)

**Background:** The purpose of the scheme is to enhance awareness among the MSMEs about Intellectual Property Rights, to take measures for protecting their ideas and business strategies. Effective utilisation of IPR tools by MSMEs would also assist them in technology upgradation and enhancing their competitiveness.

**Quantum of Reimbursement:** Funding support for MSME Organizations and expert agencies for conducting:

- Awareness / sensitization programs on IPR *(INR 1 lakh)*
- Pilot studies for selected clusters / groups of industries *(INR 2.5 lakh)*
- Interactive seminars / workshops *(INR 2 lakh)*
- Specialized training on IPR *(INR 6 lakh for Short term training program and INR 45 lakhs for long term training program)*
- Grant on Geographical Indication Registration *(up to 1 lakh to MSME organizations)*
- Setting up IP Facilitation Centre (IPFC) for MSME *(up to Rs.65 lakh each for establishing IPFCs which will include one-time grant of Rs.45 lakh and Rs.18 lakh as recurring expenses for 3 years, and Rs.2 lakh as miscellaneous charges)*
- Organizing interaction with international agencies *(up to Rs.5 lakh and Rs.7.50 per event for domestic interventions and international exchange programme respectively).*

**Funding support for Individual MSMEs:**

- Grant on Patent Registration (INR 25000 for domestic patent and INR 2 lakh for foreign patent to MSME units)

**Eligibility:**

- Registered MSME units
- MSME organizations like industry associations, societies, cooperatives, firms, trusts, NGOs, institutions and universities with a track record of assisting MSMEs Competent agencies like consultancy organizations, research institutes, individual experts or agencies having sound technical and financial capabilities to conduct pilot

studies with at least five years of experience Expert agencies - like TIFAC, Patent Facilitation Centres, NRDC, Indian Patent Office, Registrar of Trademarks, Registrar of Geographical Indications, D.B.T., Registrar of Copyrights, MoHRD, NIIPM, IITs, Law Schools, patent attorneys, individual IPR experts, WIPO, EU-TIDP, USPTO, KIPO/KIPA, IIFT, DIT, MoEF, Ministry of MSME,DSIR and other such bodies Quasi-Government or Government aided bodies Private units provided they are sponsored by MSME associations

Where to Apply: The filled-in application form with required documents is to be submitted to the office of MSME-DI. (addresses available on the website www.dcmsme.gov.in) . Fuller detail of the scheme is available on www.msme.gov.in

## 4. Prime Minister Employment Generation Programme (PMEGP)

Background: The scheme is implemented by Khadi and Village Industries Commission (KVIC) as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and Banks. The Government subsidy under the scheme is routed by KVIC through the identified banks for eventual distribution to the beneficiaries/entrepreneurs into their bank accounts.

Quantum of Subsidy: The maximum cost of the project / unit admissible in manufacturing sector is Rs.25 lakh and in business / service sector is Rs.10 lakh. Levels of funding under PMEGP:

| Category of Beneficiary | Beneficiary's Contribution (of Project Cost) | Rate of Subsidy in Urban Area (of Project Cost) | Rate of Subsidy in Urban Area (of Project Cost) |
|---|---|---|---|
| General Category | 10% | 15% | 25% |
| Special (including SC/ST/ OBC/ Minorities / Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas, etc.) | 5% | 25% | 35% |

The balance amount of the total project cost will be provided by the banks as term loan and working capital.

Eligibility:

- Any individual above 18 years of age can apply. The beneficiary must have passed at least VIII standard for projects costing above Rs.10 lakh in the manufacturing sector, and above Rs.5 lakh in the business/service sector. Only new projects are considered for sanction under PMEGP.
- SHGs (including those belonging to BPL provided that they have not availed benefits under any other scheme),
- Institutions registered under Societies Registration Act, 1860;
- Production Co-operative Societies, and
- Charitable Trusts are also eligible.

Existing units (under PMRY, REGPor any other scheme of Government of India or State Government) and units that have already availed Government subsidy under any other scheme of Government of India or State Government are not eligible.

Procedure:

- The State/Divisional Directors of KVIC in consultation with KVIB and Director of Industries of the respective states (for DICs) will give advertisements locally through print & electronic media inviting applications along with project proposals from prospective beneficiaries desirous of establishing the enterprise/starting of service units under PMEGP.
- Online or offline at DIC office along with required documents and project report.
- The filled-in application form with required documents is to be submitted to the office of DIC or maybe submitted online also at www.kviconline.gov.in

## 5. Rejuvenation, Modernisation and Technology Upgradation of Coir Industry (REMOT)

Background: This is a credit linked subsidy scheme for setting up of coir units with project cost up to Rs.10 lakh plus one cycle of working capital which shall not exceed 25% of the project cost. Working capital will not be considered for subsidy. Assistance under the scheme is only available for projects for the production of coir fibre / yarn / products, etc., coming under the coir sector.

Quantum of Subsidy: The funding pattern of the scheme is

- Bank loan/Credit role -55%
- Government Grant (margin money – subsidy) -40%
- Beneficiaries contribution - 5%

Eligibility:

- Any individual above 18 years of age with Indian citizenship can apply.
- Companies,
- SHGs,
- NGOs,
- institutions registered under Societies Registration Act 1860,
- production cooperative societies,
- joint liability groups and
- Charitable trusts.

Procedure:

- The applications under the scheme can be collected from the Coir Board offices, DICs, Coir Project Offices, Panchayati Raj institutions and the nodal agencies approved by the Board for this purpose.
- The forms can also be downloaded from the Coir Board website and are to be submitted directly to the Coir Board field offices or through the DICs

## 7. Assistance to Training Institutions (ATI)

Background: The assistance shall be provided to training institutions in the form of capital grant for creation / strengthening of infrastructure and support for conducting entrepreneurship development and skill development training programs.

**Quantum of Subsidy:** Maximum assistance for creation or strengthening of infrastructure will be Rs.150 lakh on matching basis, not exceeding 50% of project cost.

However, for the North- Eastern Region (including Sikkim), Andaman & Nicobar and Lakshadweep, maximum assistance on matching basis would be Rs.270 lakh or 90% of project cost, whichever is less.

Maximum assistance per trainee per hour for entrepreneurship development and skill development programmes is Rs.50 (Rs.60 for NER,A&Nand Lakshadweep).

**Eligibility:**

- Any State/Union Territory Government training institutions,
- NGOs and
- other development agencies can apply for assistance for creation or strengthening of infrastructure.

Training institutions who wish to conduct training programs under the scheme will have to enroll themselves with any of the three national level EDIs of the Ministry viz, NIESBUD, Noida; IIE Guwahati and NI-MSME, Hyderabad.

**Procedure:**

- Organizations who wish to apply for assistance for creation or strengthening of infrastructure may send their applications to the Director (EDI), Ministry of Micro, Small and Medium Enterprises, Udyog Bhawan, Rafi Marg, NewDelhi - 110 107.
- Training institutions who wish to conduct training programmes or persons who wish to enroll for training programmes under the scheme may visit http://msmetraining.gov.in/ or approach any of the three EDIs mentioned above.

# Chapter 5
# RELEVANCE OF NSIC FOR MSME

National Small Industries Corporation (NSIC) Limited is an old institution. 10-12 years back NSIC was in very bad financial health. But that phase is completely over. During 2013-14, NSIC has surpassed all records of previous years in terms of business and profit. Today NSIC is a vibrant institution actively involved in number of programs for the good of MSME sector. This may be pleasing to have re-look on the financials of NSIC. In the year, 2013-14:

- The company reported a 22% increase in Gross Income from operations at Rs.418 crore for the financial year ended 31st March, 2014 as compared to Rs.341 crore for the previous year.
- The Gross Margin registered a growth of 23% at Rs.277 crore for the financial year ended 31st March, 2014 as compared to Rs.225 crore in the previous year.
- The Corporation achieved Profit Before Tax amounting to Rs.114.71 crore for the year ended 31st March, 2014 as against Rs. 92.35 crore in the previous year posting an increase of 24%.
- The credit facilitation of Rs.5186 crores was made during the year to MSMEs registering a growth of 18% over the previous year.
- Portfolio of Bank Guarantee for providing credit support in the year 2013-14 reached to Rs.2596 crores as against Rs.2069 crores in the year 2012-13 thereby registering a growth of 25%.
- The revenue earned from, Training activities and „Common facilities by NSIC-Technical Services Centre increased to Rs. 13.94 crore in the year 2013-14 from Rs. 10.61 crore in 2012-13, registering a growth of 31% over previous year.
- Achieved the set out targets and entered a new era of Surplus in the Balance Sheet.

NSIC is continuously re-aligning its schemes keeping in mind the demand of the MSME sector. Presently NSIC extends number of schemes and services for the growth of MSME sector. These are:

- Marketing Assistance

- Bank Credit Facilitation
- Performance and Credit Rating
- Raw Material Assistance
- Single Point Registration for Public Procurement Policy
- Info-mediary Services
- Marketing Intelligence
- Bill Discounting
- Infrastructure – trainings, exhibition, incubation

**NSIC HAS AGAIN BECOME RELEVANT PROVIDING NUMBER OF SERVICES FOR MSME UNITS**
**GET RECONNECTED www.nsic.co.in**

Select few schemes are reproduced herein:

## 1. Performance and Credit Rating Subsidy

Genesis: Need of a Performance and Credit Rating Mechanism for SSIs (now Micro and Small Enterprises) was highlighted in Union Budget 04-05. A scheme for SSIs (now Micro and Small Enterprises) has been formulated in consultation with Indian Banks' Association (IBA) and Rating Agencies. NSIC acts as nodal agency for implementation of this scheme through empanelled agencies.

### Salient Features

- A combination of credit and performance factors including operations, finance, business and management risk
- Uniform Rating Scale for all empanelled rating agencies.
- SSIs have the liberty to choose among the empanelled Rating Agencies.
- Turn-Over based Fee structure
- Partial Reimbursement of Rating Fee through NSIC

### Benefits of Performance and Credit Rating

- An independent, trusted third party opinion on capabilities and credit-worthiness of MSEs
- Availability of credit at attractive interest (reduction in rate of interest by the Bankers)
- Recognition in global trade (issuance of Globally recognized DUN Number in case of rating by SMERA)
- Prompt sanctions of Credit from Banks and Financial Institutions
- Subsidized rating fee structure for SSIs
- Facilitate vendors/buyers in capability and capacity assessment of SSIs
- Enable SSIs to ascertain the strengths and weaknesses of their existing operations and take corrective measures.

### Benefits to Banks and Financial Institutions

Availability of an independent evaluation of the strength and weaknesses of an SSI unit seeking credit and thereby enabling banks and financial institutions manage their credit risk

Empanelled Agencies (Click on the names for contact details and rating fee)

- CARE
- CRISIL
- India Ratings(Earlier known as Fitch Ratings)
- ICRA
- ONICRA
- SMERA
- Dun & Bradstreet (D&B) (Empanelment of D&B under this scheme was valid upto 31.03.2009. Thereafter rating is being done by SMERA as "NSIC-D&B-SMERA Rating")
- BRICKWORK RATINGS (BWR)

Quantum of Assistance

| Turn Over of SSI | Reimbursement of Fee through NSIC |
|---|---|
| Upto Rs 50 Lacs | 75% of the fee or Rs 25000/- (Whichever is less) |
| Above Rs 50 to 200 lacs | 75% of the fee or Rs 30000/- (Whichever is less) |
| More than Rs 200 lacs | 75% of the fee or Rs 40000/- (Whichever is less) |

Who can apply?

Any enterprise registered in India as a micro or small enterprise is eligible to apply.

How to apply?

Any micro or small enterprise wishing to apply for rating will have to fill up the prescribed application form and submit the same to the nearest branch of NSIC or to the rating agency chosen by it.

For fuller and updated details website is www.nsic.co.in

## 2. Raw Material Assistance

Description: The scheme aims at helping MSEs by way of financing the purchase of raw material (both indigenous & imported). This gives an opportunity to MSEs to focus better on manufacturing quality products.

Nature of Assistance:

- Financial assistance for procurement of raw material up to 90 days.
- MSEs helped to avail economics of purchases like bulk purchase, cash discount, etc.
- All the procedures, documentation & issue of letter of credit in case of imports taken care of.

How to Apply?

The Entrepreneurs are required to apply for Raw Material Assistance only on the prescribed application forms. The application forms downloaded from the link given below may be filled and submitted to the concerned Regional & Branch Offices. The blank forms are also available free of charge from the zonal and Branch offices.

**The Process:** Duly filled application form is to be submitted along with the Application Processing Fee (by Bank Draft / Pay Order in favour of NSIC Ltd.).

1. Preliminary appraisal and Unit inspection is carried out by NSIC.
2. Sanction of Limit to the Unit.
3. Signing of agreement between NSIC and Unit.
4. Disbursement of assistance to the unit.

**Security:** In the form of Bank Guarantee from Approved / Nationalised Banks

**The rate of interest:**

| Particulars | Effective Rate of Interest (w.e.f. 1/02/2013) |
|---|---|
| (i) Units having valid SE 1A rating under NSIC's Rating Scheme | 11.95% |
| (ii) Units having valid SE 2A rating under NSIC's Rating Scheme | 12.45% |
| (iii) Units having valid SE 1B rating under NSIC's Rating Scheme | 12.45% |
| (iv) Other Units | 12.95% |

## 3. Single Point Registration Scheme (SPRS)

Genesis:

- The units registered under Single Point Registration Scheme of NSIC are eligible to get the benefits under "Public Procurement Policy for Micro & Small Enterprises (MSEs) Order 2012" as notified by the Government of India, Ministry of Micro Small & Medium Enterprises, New Delhi vide Gazette Notification dated 23.03.2012.
- Every Central Ministry/Department/PSU shall set an annual goal of minimum 20% of total annual purchases of products or services produced or rendered by MSEs; out of the mandatory 20% procurement from MSEs, 4% is earmarked for units owned by Schedule Castes / Schedule Tribes.
- In addition to the above, 358 items also reserved for exclusive purchase from MSE sector.

Description: Government is the single largest buyer of a variety of goods. With a view to increasing the share of purchases from MSEs, the Government Stores Purchase Programme was launched. NSIC registers MSEs under Single Point Registration Scheme (SPRS) for participation in Government purchases.

Nature of assistance: The units registered are eligible to get the benefits listed below:

- Issue of tender sets free of cost
- Exemption from payment of Earnest Money Deposit (EMD)
- Tender participating MSEs quoting price within the price band of L1+15% allowed to supply a portion up to 20% of requirement by bringing down their price to L1 price where L1 is non-MSEs

Who can Apply?

- MSEs which are registered with the Director of Industries (DI)/District Industries Centre (DIC) as manufacturing/service enterprises or having acknowledgement of Entrepreneurs Memorandum (EM Part-II) are eligible for registration with NSIC under its SPRS.
- MSEs which have already commenced their commercial production but not completed one year of existence can be issued with Provisional Registration Certificate under SPRS with monitory limit of Rs.5 lakh, which shall be valid for a period of one year only from the date of issue after levying the registration fee and obtaining the requisite documents.

How to Apply?

MSEs shall have to apply either on-line on website www.nsicspronline.com or on prescribed application form to concerned zonal / branch office of NSIC. The application form containing terms & conditions is available free of cost.

Registration Fees: The registration Fee is based on the Net Sales Turnover as per latest audited Balance Sheet of the Micro & Small Enterprise for the Registration, Renewal and any other amendment etc. The Fee structure is indicated in the table as below:

| S.No. | Category (Net Sales Turnover Based) | Fee |
|---|---|---|
| I. | Fee for Fresh Registration of Micro & Small Enterprises:<br>a) Net Sales Turnover up-to Rs. 100 Lacs<br>b) Net Sales Turnover exceeding Rs. 100 Lacs | a) Rs. 5000/-<br>b) Rs.5,000/- plus Rs. 2000/- for every additional turnover of Rs. 100 Lac.<br>Plus Service Tax |
| II. | a) Fee for issuance of amendments in stores (Qualitative & Quantity); Fee for issuance of change in monetary limit or any other amendment in the certificate, and<br>b) Fee for issuance of Renewal of G.P. Registration (Every Two Years) | 50% of the charges as mentioned at Sr. No. I above |
| III | COMPETENCY CERTIFICATE<br>In case any contract which exceeds the capacity and monetary limit specified in the registration certificate, inspection agency will be requested to carry out inspection of the unit to assess the competency of the unit to execute contract of the higher value keeping in view of the pending load on the unit. On the recommendations of the inspecting agency the Competency Certificate are issued by the NSIC Office to the Purchasing Department | Rs.5000/- (inspection charges of the inspecting agency and all other taxes as applicable will be charged extra) |
| IV | CONCESSIONS<br>Micro & Small Enterprises owned by the Scheduled Casts/Scheduled Tribes and the MSEs located in the entire North Eastern Region | 20% Only<br>(no change in fee being collected by BOs for Technical Inspections of MSEs) |
| The Registration Fee as mentioned in the table above is exclusive of the Inspection charges as levied by the inspecting agency. Such charges as decided by the Inspecting Agency are borne by the unit. Till such time the Inspecting Agency makes any amendments in their charges, the present Inspection fee of Inspecting Agencies is as under :- | | |

| A. Inspection Fees for MSME-DI | | |
|---|---|---|
| S.No. | Investment in Plant and Machinery | Inspection Fees for MSME-DI |
| 1 | Up to Rs. 5 Lacs | Rs. 1250/- |
| 2 | >Rs. 5 Lacs Up to 25 Lacs | Rs. 2000/- |
| 3 | >Rs. 25 Lacs Up to 100 Lacs | Rs. 3500/- |
| 4 | >Rs. 100 Lacs and upto Rs.500 Lacs | Rs. 5000/- |

B. The Professional fee payable by MSEs to M/s RITES Ltd., and M/s Consultancy Development Centre for undertaking physical inspection will remain unchanged which are:

| | |
|---|---|
| By RITES (Applicable from 1.4.2013) | Rs. 6000/- (Inclusive of Taxes and Travel Expense) for Micro Enterprises, and<br>Rs. 8000/- (Inclusive of Taxes and Travel Expense) for Small Enterprises. |
| By CDC | Rs. 6000/- per unit Plus Service tax as applicable for Micro Enterprises<br>Rs. 8000/- per unit Plus Service tax as applicable for Small Enterprises. |

## 4. Bill Discounting

**Description:** The scheme covers purchase/discounting of bills arising out of genuine trade transactions i.e., purchase of supplies made by small scale units to reputed public limited companies / State and Central Government Departments / Undertakings. Bills drawn by small-scale units for supplies made by them and duly accepted by purchaser will be financed against security of bank guarantee in favour of NSIC. Purchaser unit(s) may approach NSIC for sanction of annual limits by furnishing information as per the prescribed application form.

Application for request to sanction limit under Bill Discounting Scheme is to be submitted by seller unit duly signed by authorised signatory i.e., Proprietor/Partner/Director of the Firm/Company in duplicate in prescribed form.

**Period of Usance of Bills:** The maximum usance period of such bills should not exceed 90 days. The period of unexpired usance of the bill shall not exceed 90 days while the tenure of the bills shall not exceed 120 days.

Security:

- Bank guarantees issued by banks approved by Head Office. The Bank Guarantee to be obtained should be equivalent to the value of assistance (including discounting charges & service charges for 90 days).

OR

- Bill of Exchange duly accepted by large corporate units of good financial standing with a turnover exceeding Rs 200 Crores and net-worth exceeding Rs 50 crores and which are profit making for the last three years.

And Personal guarantee of proprietor, partners of firms and Directors of the company shall also be obtained.

Rate of Interest: The concessional rates of interest are available for good rated units where the units make timely repayments of the Corporation's dues. The units which have not re-paid its dues within the stipulated 90 days shall not be eligible for the concessional rate of interest.

National Small Industries Corporation Ltd. (NSIC) is Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC is working to fulfill its mission of promoting, aiding and fostering the growth of small industries and industry related micro, small and medium enterprises in the country. Over a period of five decades of transition, growth and development, NSIC has proved its strength within the country and abroad by promoting modernization, upgradation of technology, quality consciousness, strengthening linkages with large medium enterprises and enhancing exports - projects and products from small enterprises.

NSIC operates through countrywide network of offices and Technical Centers in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa. In addition, NSIC has set up Training cum Incubation Centre & with a large professional manpower, NSIC provides a package of services as per the needs of MSME sector.

NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position. The schemes comprise of facilitating marketing support, credit support, technology support and other support services.

# Chapter 6
# RELEVANCE OF SIDBI FOR MSME

MSME and SIDBI have natural relation with each other. SIDBI is regularly playing an important role in growth of MSMEs. Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

SIDBI is actually outcome of multiple reasons: neglect of MSME needs by Banking sector in general; very different financial needs of MSME sector; players of organized financial sector, both debt and equity provider, regularly look for big ticket size and MSME gets ignored; different financing instruments need of MSME sector; credit crunch being felt by MSME.

Existing and Start-up MSME entrepreneurs and professionals attached to them are increasingly looking into instrument basket of SIDBI. The Charter establishing it, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto.

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. SIDBI's assistance is not restricted to manufacturing sector only but also flows to the service sector including transport, health care, tourism sectors etc. In recent years, SIDBI has become nodal agency for number of subsidy schemes of various central ministries. India Opportunity Fund, created by Government of India, Ministry of Finance, to extend equity capital to MSME sector is also managed by SIDBI subsidiary (for more details refer Chapter 10). SIDBI has entered into fruitful MOU with more than one international institution to propel growth of MSME sector.

MSME sector feels comfortable while dealing with SIDBI. The name itself gives comfort to MSME entrepreneur. Some of the unique benefits of dealing with SIDBI are: Specially Designed Schemes: Most of the schemes are Flexible as well as Specialised – to meet the unique needs of Micro, Small and Medium Enterprises. SIDBI even claims to design special customised scheme if needs are different.

Focused attention on MSMEs: Development of Micro, Small and Medium Industry is the sole objective. Their focus is on both Manufacturing as well as Service Sector Funding with tilt towards manufacturing sector.

Attractive Rates on certain Financial Products: Number of financial schemes are subsidized because of varied reasons, like international tie-ups; being nodal agency for number of government sponsored schemes and so on. For example – for Energy Efficiency and Cleaner Technology, SIDBI has tied up with International Financial Institutions like World Bank, Japan International Cooperation Agency (JICA), KfW ....etc to provide loans at concessional rates of Interest for Cleaner Production and Energy Saving Projects.

Easier Access to Collateral Free Finance: The Ministry of Micro, Small and Medium Enterprises and SIDBI have established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. MSMEs can avail collateral free loans up to Rs 100 Lakhs.

Risk / Growth Capital for Your Business: Quasi equity / mezzanine debt funding is hard to come for MSMEs. SIDBI has one very special scheme. This is possible to get quasi equity without diluting ownership (Refer chapter 9 for finer details).

Equity / Venture Funding: Equity/VC funding for MSME units is very rare because of many logical and illogical reasons. SIDBI through its wholly owned subsidiary SIDBI Venture Capital Limited has till now launched four MSME focused Funds out of which two are still active (Refer Chapter 10 for finer details).

**Funding against Sales Proceeds**: Receivable Finance Scheme is very unique scheme where collateral security is not required (subject to certain easy compliances). Reverse factoring scheme is though relatively less but very exciting.

**Easier Access to Government Schemes:** SIDBI is a nodal agency for number of government sponsored scheme, in particular for schemes launched by Ministry of MSME. SIDBI is nodal agency for schemes of other ministries as well including scheme of DST in tie up with TIFAC.

SIDBI schemes are reproduced herein:

- Service Sector Assistance
- Loan Facilitation & Syndication Service
- Financing Schemes For Sustainable Development - Energy Efficiency & Cleaner Production
- World Bank - GEF Project
- Growth Capital & Equity Assistance (Refer Chapter 9 for finer details)
- Receivable Finance Scheme (refer chapter 9 for finer details)
- Finance for Upgradation / Modernisation
- SIDBI Foundation For Micro Credit
- TIFAC - SIDBI Fund For Technology Innovation Refer Chapter 10 for finer details)
- Poorest States Inclusive Growth Programme (PSIG)

SIDBI also acts as Nodal Agency for the releasing of assistance, monitoring, interface and coordination for the following scheme.

Select details of some of the SIDBI led schemes are reproduced herein:

## 1. Technology Upgradation Fund Scheme-Textile Sector (TUFS)

**Backdrop:** This is Scheme of Ministry of Textiles, GoI. for the SSI in the textile and cotton ginning and pressing sector. The objective of the scheme is to upgrade & modernise the Indian Textile Industry by encouraging it to undertake & adopt modern technological process & or undertake capacity expansion. Schemes provides either capital subsidy or subsidy in interest rate at the choice of MSME entrepreneur.

Scope: In particular, TUFS covers the following segment s of textile industry:

- Wool scouring and combing
- Synthetic filament yarn - texturising, crimping and twisting
- Spinning
- Viscose Staple Fibre & Viscose Filament Yarn (VFY)
- Weaving, knitting including non-woven, fabric, embroidery
- Garment/Made-up manufacturing/Design studio
- Processing of fibres, yarns, fabrics, garments and made-ups
- Silk reeling and twisting
- Technical Textiles & Non-woven
- Cotton Ginning & Pressing

Eligibility:

- Existing unit with or without expansion
- New units with appropriate eligible technology
- SME Status as on date of application

Unique Role of SIDBI:

- Implementation of the TUF Scheme
- Co-option of PLIs
- Examination of eligibility from TUFS angle
- Channelizing of subsidy to its co-opted PLIs or release of subsidy to its assisted units
- Funds Maintenance
- Policy interpretation-queries in consultation with the Office of Textile Commissioner

## 2. Credit Linked Capital Subsidy Scheme (CLCSS)

Backdrop: This scheme facilitates Technology Upgradation of SSI units in the specified products / sub-sectors by providing 15 % capital subsidy for induction of well established and improved technologies subject to maximum of 15 lakhs per unit. The scheme continues as on date. Ministry has advised

SIDBI and othe rNoadal agencies to continue to receive applications and process the claims for release of subsidy as usual in accordance with guidelines. In backdrop of initiation of 'Make in India' program, CLCSS will continue but, the scheme may soon get new name. SIDBI is one of the nodal agency for the scheme.

Eligibility of Borrowers:

- Sole Proprietorships
- Partnerships
- Co-operative Societies
- Private and Public Limited Companies in SSI sector (Priority shall be given to women entrepreneurs)

Eligibility of Projects:

- Units going for upgradation with state of the art technology with expansion
- Units going for upgradation with state of the art technology without expansion
- New units setting up facilities only with the appropriate and proven technology approved by GTAB
- The units registered under MSMED Act

This is interesting to note that an entrepreneur is eligible for subsidy only if he has availed loan subsidy that also from any of the following

- Scheduled Commercial Banks
- Eligible Cooperative Banks (other than UCBs)
- State Financial Corporations (SFCs)
- Eligible Regional Rural Banks (RRBs)
- National Small Industries Corporation (NSIC)
- North Eastern Development Financial Institution (NEDFi)

Maximum Ceilings:

- 15% of the investment in eligible plant & machinery
- Ceiling on Loan- Rs.100 lakh
- Ceiling on subsidy-Rs. 15 lakh

This is one time subsidy but can be availed in one or more tranches

## 3. Integrated Development of Leather Sector Scheme (IDLSS)

**Backdrop:** In order to increase employment opportunities, productivity and competitiveness in the global market, it is essential for the Leather Industry to have access to timely and adequate capital for upgrading its technology level. In light of the foregoing the present scheme is aimed at enabling

- existing tanneries,
- footwear,
- footwear components and
- leather products units

to upgrade leading to productivity gains, right-sizing of capacity, cost cutting, design and development.

### Eligibility Criteria

- All existing units in leather and leather products including tanneries, leather goods, saddlery, leather footwear and footwear component sector undertaking viable and bankable programmes on technology up-gradation are eligible for assistance.
- Modernization programmes funded by SIDBI / Banks as well as those programmes undertaken by existing production units from their own resources are eligible for assistance.

### Scope of Technology Upgradation

- Measures for technology up-gradation, productivity enhancement, improved environmental safeguards, global competitiveness through cost control and minimization of waste.
- Measures for up-gradation and modernization of machinery; facilities including in plant lay-out; civil and associated electrical work relating to foundation of machinery facilities but excluding building and other related infrastructure.
- Creation of in house R & D and testing facilities and establishment of sample making facilities.

- Installation of the recommended types of machinery in an existing unit by way of replacement of existing machinery and/or expansion will be eligible.
- Modernization of Tanneries.
- Modernization of footwear units
- Modernization of footwear components units
- Modernization of leather goods
- Modernization of leather garments
- Modernization of saddlery units

## Maximum Ceiling for MSMEs

- The Scheme provides investment subsidy to the extent of 30% of cost of plant & machinery for SSI, subject to a ceiling of Rs. 50 lakh for technology upgradation /modernisation and/or expansion and setting up a new unit.
- The subsidy amount would be @ 20% for above Rs. 50 lakh subsidy subject to a ceiling of Rs. 200 lakh.
- Investment subsidy is also available to units investing their own resources.
- Subsidy amounting to more than Rs. 25 lakh is released in four equal annual installments.

Caution: The cost of up gradation under the scheme includes the following components:

- Bill value of machines
- Sales and excise tax
- Transportation and transit insurance cost
- Import related duty
- Installation and commissioning charges including civil and electrical work restricted to 5% of total land cost of machine.

## Finer Points

- The CLCSS and IDLS are two different Schemes of the Govt. of India. Units can avail benefits under CLCSS and also IDLSS provided the technology upgradation / modernisation programme is for different machines.
- For one upgradation /modernisation project, units are not entitled to avail the benefit from both the CLCSS and IDLSS.
- For the purpose of assessment of loan, the investment grant can be treated as part of promoters contribution while arriving at the Debt Equity Ratio (DER).
- Govt. of India has no objection to sanctioning of bridge loan pending receipt of investment grant, if the Lending Agency so desires.
- Principal outstanding against this bridge loan would be extinguished on release of eligible investment grant funds under IDLSS. However, interest charged by the Lending Agency for the time gap would be paid by the unit and is not to be adjusted from the investment grant.
- The SSI units which are claiming investment grant at 30% of the cost of eligible plant & machinery are required to submit a certificate of SSI registration and also that the status remains unchanged from Districts Industry Centres.

## Role of SIDBI

- Assessing the financial viability
- Examining financial documents
- Checking SSI status
- Calculation of grant amount
- Entering into agreement
- Checking the arrival of machines at site
- Disbursal of assistance
- Interaction with banks/ FIs / PIUs
- Monitoring the performance for two years, after implementation

## 4. Scheme of Technology Upgradation/Setting up/ Modernisation /Expansion of Food Processing Industries

## Scheme of Food Processing

**Backdrop:** The Ministry of Food Processing Industries has decentralised the implementation of the Scheme for Technology Upgradation /Establishment /Modernisation of Food Processing Industries, w.e.f. April 1, 2007. SIDBI appointed as one of the nodal agencies for implementation. The eligible units covered under the Bank's Direct Credit Scheme. No PLI co-opted under the scheme.

**Objective & Scope of the Scheme:** Aims at upgradation of processing capabilities of sectors in food processing viz., fruits and vegetables, milk products, meat, poultry, fishery, cereal /other consumer food products, oilseed products and other agri-horticultural sectors including food flavours, colours etc. are covered under the Scheme.

**Amount of Assistance and Eligibility:**

- Grant of 25% of the cost of plant & machinery and technical civil works subject to a maximum of Rs.50 lakhs in general areas; and
- 33% up to Rs.75 lakh in difficult areas ( Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Sikkim, North-Eastern States, Andaman & Nocobar Isalands, Lakshwadeep and Integrated Tribal Development Project (ITDP areas).

## 5. Financing Cleaner Production Measures in the MSME Sector and Clusters

**Backdrop:** These loans are being financed under a Line of Credit from KfW Development Bank in the framework of the Indo-German Development Cooperation. Financial assistance is offered to MSMEs and clusters to invest in cleaner production and emission reduction measures, waste management and Common Effluent Treatment Plant (CETP) facilities. Banks are usually reluctant to finance such initiatives as there is no direct impact on top line or bottomline.

**Benefits of Cleaner Production Measures**:

- Increased efficiency;
- Increased resource productivity;

- Recovery of valuable by-products;
- Lower energy consumption;
- Compliance with national standards and regulations; and
- Access to new markets, supply chains and financing.

Eligibility Criteria: In order to qualify for a loan an enterprise should:

- Be an existing MSME unit (as per the definition of the MSMED Act 2006);
- Have a satisfactory track record of past performance and sound financial position; and
- Score above the minimum investment grade rating as per SIDBI's extant Loan Policy.

Additional Criteria

- Proposed investments for a Cleaner Production Loan
- Will result in a reduction or avoidance of air pollution, water pollution, soil contamination, waste intensity or raw material usage
- Will comply with environmental and social standards;
- Will upgrade existing installations
- May include purchase of machinery and equipment, process modifications and related civil construction ; and
- Taxes, import duties and other public charges shall be borne by the enterprise.

Assistance Parameters:

- Minimum Assistance Generally not less than Rs.10 lakh
- Minimum Promoter's Contribution 25% of project cost
- Debt / Equity Ratio 2:1
- Interest Rate As per credit rating and 0.75% below the normal lending rate
- Asset Coverage 1.3 for manufacturing unit and 1.75 for service sector unit.
- Repayment Period Need based – normally not more than 7 years

Examples of Cleaner Production Measures

- Effluent Treatment Plant (reduction of water pollution)
- Fuel switching (e.g. oil to natural gas) (reduction of air pollution)
- Resource conservation through recycling (increase of raw material productivity)
- Waste management system (improved waste treatment)
- Investments in CETPs and waste recycling facilities

Details of all the SIDBI scheme is available on the official website of SIDBI (www.sidbi.in)

# Chapter 7
# SUPPORT FRAMEWORK FOR INTERNATIONAL AND GOVT BUSINESS

## International Business

Indian MSMEs are increasingly looking for business opportunities in international arena. Their contribution in export basket of India is duly recognized. In per cent terms, this is 40% of total exports of India. Support for exploring international co-operation is being provided since 1996 under various Government schemes. Awareness about support system will propel more export from MSME sector. Some of the **select schemes** for international co-operation are reproduced herein:

## 1. International Cooperation Scheme

Technology infusion and / or up gradation; modernization and promotion of exports by Indian MSMEs are the principal objectives of assistance under the International Cooperation Scheme.

### Activities Covered

- Deputation of MSME business delegations to other countries for
    - exploring new areas of technology infusion/ up gradation,
    - facilitating joint ventures,
    - improving market of MSMEs products,
    - foreign collaborations, etc.
- Participation by Indian MSMEs in
    - international exhibitions,
    - trade fairs, and
    - buyer - seller meets

  in foreign countries as well as in India, in which there is international participation.
- Holding international conferences and seminars on topics and themes of interest to the MSMEs.

## Eligibility

- State Government Organizations
- Central Government Organizations;
- Industry Associations
- Enterprise Associations; and
- Registered Societies associated with the MSME
- Trusts and Organizations associated with the MSME.

## Eligibility Conditions:

To be eligible, the organization should:-

- Suitably registered (i.e., companies under the Companies Act, societies under the Societies Act, etc.)
- Have primary objective of promotion and development of MSME
- Be engaged in such activities for at least last 3 years and have a good track record.
- Have regular audited accounts for the past 3 years.

Events, for which financial support under the Scheme is sought, must have significant international participation.

## Scale of Assistance and Eligible Items of Expenditure

(1) **Deputation of MSME Business Delegations to Foreign Countries :** Assistance would be provided under the scheme to the eligible organizations for deputation of MSME delegations to foreign countries, with the objectives of exploring new areas of technology infusion / up gradation, facilitating joint ventures, improving market of MSMEs products, foreign collaborations, etc.

- Only one representative from each MSME is eligible to get grant.
- Air fare, Daily Allowances and Hotel Charges are reimbursed to the extent of 25% to 95% for each delegate depending upon size of business and category of entrepreneur. The grant is more for Women / SC / ST / North Eastern Region Entrepreneur.
- Maximum Assistance for each entrepreneur restricted to INR 1.50 lakhs.
- Delegation to have minimum 5 entrepreneur

- Assistance is also available for office bearer of applicant organization – for one if number of delegates being up to 10 or two in case of number of delegates being more than 10.
- Assistance for local transport; Fee for common interpreter and Secretarial services including Phone/Fax /Internet etc; Advertisement/Publicity/Printing of common catalogue is over and above of individual limits but for the delegation as a whole.

(2) **Participation in Overseas Exhibitions / Trade Fairs / Buyer-Seller Meet :** Assistance is available for participation in International Exhibitions/ Trade Fairs/ Buyer-Seller Meets in order to showcase Indian technologies, expose Indian MSMEs to the latest foreign technologies, access international buyers and sellers and forge business alliances etc.

- Only one representative from each MSME is eligible to get assistance.
- Reimbursement: for air fare, hotel charges, daily allowance and space rent to the extent of 25% to 95%; Interior Decoration – actual maximum up to 10% of space rent; freight and insurance charges for goods to be transported – maximum 20000/- to each participant depending upon size of business and category of entrepreneur. The grant is more for Women / SC / ST / North Eastern Region Entrepreneur.
- Maximum Assistance for each entrepreneur restricted to INR 2.40 lakhs.
- Delegation to have minimum 5 entrepreneur
- Assistance is also available for office bearer of applicant organization – for one if number of delegates being up to 10 or two in case of number of delegates being more than 10.
- Assistance for theme pavilion, local transport; Fee for common interpreter and Secretarial services including Phone/Fax /Internet etc; Advertisement/Publicity/Printing of common catalogue is separate but for the whole group.

(3) **Participation in International Exhibitions/ Trade Fairs held in India :** Assistance may be provided under the scheme for participation of Indian MSMEs in events like India International Trade Fair (IITF) organized by India Trade Promotion Organization (ITPO) or such other reputed international exhibitions/ trade fairs held in India.

- Only one representative from each MSME is eligible to get assistance.
- Reimbursement: space rent to the extent of 25% to 95%; Interior Decoration – actual maximum up to 10% of space rent; depending upon size of business and category of entrepreneur. The grant is more for Women / SC / ST / North Eastern Region Entrepreneur.
- Maximum Assistance restricted to INR 5.00 lakhs per event per applicant organization.
- Assistance for printing of common catalogue / directory is subject to 50% of actual cost maximum up to 1lakh.

(4) **Organization of International Conferences/ Seminars in India :** Assistance may be provided under the scheme for organization of international Conferences/Seminars in India wherein the foreign participants/ foreign speakers are 50% or more of the total participants/speakers.

- Venue Charges including Hiring/rent charges, Audio visual equipment and other equipment hire charge, Interior Decoration, including banners, etc. Food & beverage charges, Hotel charges Secretarial assistance, interpreter charges, etc. communication expenses – Actual, subject to maximum of INR 7.00 lakhs
- Local Travel and Transport: actual maximum up to 25000/- per day or maximum up to 1,00,000/- for whole event.
- Advertisement / publicity expenses and Catalogue printing charges: Actual, subject to maximum of 1.50 lakhs.
- Resource Person (fee, airfare and transport expenses, boarding and lodging charges): Actual, subject to a maximum of Rs. 50,000/- per Resource Person from abroad and Rs. 25,000/- per Resource Person from India, subject to overall ceiling of Rs. 2.5 lakh.

Overall Quantum of financial assistance is restricted to (i) International event INRs 25 lakhs; (ii) Domestic event: 12 lakhs.

### Better Reference

Complete details of International Co-operation Schemes available at various websites (www.msme.gov.in) or (www.dcmsme.gov.in).

### Government Business

The fact is that government is biggest consumer. Various Ministries, Departments, Public Sector Undertakings, Institutions of Central and State

Governments continuously buy number of items. Tendering process puts MSME into disadvantageous position. If free run is given, then very large and large size players will claim complete governmental business without any exception. In order to address this issue, the Central Government has two active policies. One is that more than 350 items are reserved for micro and small entrepreneurs. Second is Procurement Policy. NSIC has been appointed as nodal agency for this procurement policy. SPRS (Single Point Registration Scheme) for procurement policy is one of the vibrant scheme of NSIC. Under this scheme, not only manufacturing but service sector enterprise can also register. Public Procurement Policy has the potential to start expedited growth in MSME sector.

## 2. Public Procurement Policy

### Critical Dates:

- The Government of India notified Public Procurement Policy for MSEs, vide Order dated 23.3.2012 (effective from 1st April, 2012), for goods produced and services rendered by Micro & Small Enterprises (MSEs).
- The policy would become mandatory with effect from 1.4.2015.

**Mandate:** The policy mandates that all the Central:

- Ministries
- Departments
- Public Sector Undertakings

CPSUs shall procure minimum of 20% of their annual value of goods / services required by them from Micro and Small Enterprises. Further, policy has earmarked a sub-target of 4% procurement out of this 20% from MSEs owned by SC / ST Entrepreneurs.

**Creating Awareness and Capabilities:** For developing MSEs Vendors, all the Ministries / Departments / CPSUs have been requested to organize Vendor Development Programmes (VDP) and buyer-seller meets between MSE- suppliers and government- procuring agencies.

**Nodal Agency and Benefits:** NSIC is nodal agency for Single Point Registration Scheme. The single point Registrations are:

- Tender documents free of cost,
- Exemption from earnest money

- Exemption from security deposit
- 15% price preference in Central Government purchases.

### What Next?

All the Chief Ministers of State Governments have also been requested by the then Minister for MSME, to formulate similar policy for Micro and Small Enterprises in their States.

### Better Reference

For finer details refer Chapter 5 Relevance of NSIC for MSMEs. Full details of the SPRS for Public Procurement Policy are available on official website of NSIC (www.nsic.co.in)

## 3. Reserved Items

This is administered through Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by the Central Government.

Full details of the SPRS for Public Procurement Policy are available on official website of NSIC (www.nsic.co.in)

# Chapter 8
# DEBT FUNDING – PRACTICAL APPROACH

Every new entrepreneurial story starts with struggle. Struggle is primarily on account of shy financial resources. Not only owned funds even credit is hard to come. Absence or poor quality of collateral assets is another reason of low credit worthiness. Standard term loan from first class commercial bank is hard to come. Moreover, even bankers are not interested in low quantum loans. This is interesting to note that even the liability towards Bankers of so called limited liability company is unlimited due to collateral security, personal guarantee, etc.

Commercial banks are making efforts to extend debt funding to MSMEs. But they have their own challenges. Banks have to create value by controlling & managing risk. In any MSME loan application, bank manager is initially reluctant and suspicious about the risks involved, collateral support and the methods to mitigate those risks. Therefore for MSME entrepreneurs, this is not always possible to satisfy all requirements and conditions which the Bank might pose.

But with practical approach, this is possible to break this glass ceiling. Some of the smart alternatives are:

## Alternative 1: Collateral Security Free Credit Facility

**Historical Background:** Credit Guarantee Fund Scheme for Small Industries was formally launched on 1st January, 2001 with a view to alleviating the problem of collateral security and impediment to flow of credit to Micro and Small Scale Industries (SSI) sector. Initially collateral free loans were allowed up to Rs. 10 lakhs. With the experience, the upper limit of collateral free loan has been gradually increased. Presently this limit is INR 100 lakhs.

**The Trust :** A Trust named **Credit Guarantee Fund Trust for Micro and Small Enterprises** (CGTMSE) has been established by the Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI).

### Eligible Borrower

- Micro Enterprise (Manufacture and Service Sector Both)
- Small Enterprise (Manufacture and Service Sector Both)

### Eligible Lenders

- 26 Public Sector Banks
- 21 Private Sector Banks
- 73 Regional Rural Banks (RRBs),
- 4 Foreign Banks; and
- 9 other institutions, namely Delhi Financial Corporation, Kerala Financial Corporation, Jammu & Kashmir Development Finance Corporation Ltd, Andhra Pradesh State Financial Corporation, Export Import Bank of India, The Tamil Nadu Industrial Investment Corporation Ltd., National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFI) and Small Industries Development Bank of India (SIDBI)

### Eligible Credit Facility and Quantum

- Term Loan
- Working Capital
- Term Loan and Working Capital
- Maximum up to INR 100 lakhs

### Quantum of Guarantee Cover

- 85% for loans up to INR 5 lakhs provided to micro enterprise
- 80% for MSEs owned/ operated by women and all loans to NER including Sikkim
- 75% of the credit facility up to Rs.50 lakh
- 50% for the entire amount if the credit exposure is above Rs.50 lakh and up to Rs.100 lakh.

In case of default, Trust settles

- the claim up to 75% (or 85%/80%/50% wherever applicable) of the amount in default of the credit facility extended by the lending institution.

- Outstanding principal amount in respect of term loan
- Outstanding working capital facilities plus interest, as on the date of the account turning NPA.

Tenure of Guarantee

- In case of term loan – agreed tenure
- In case of composite credit – agreed tenure
- In case of working capital – up to 5 years

Fee for Guarantee: Composite all in Annual Guarantee Fee is

- 0.75% for credit facility upto INR 5 lakhs
- 0.85% for above INR 5 lakhs and upto 100 lakhs for woman, micro enterprise and units in NER including Sikkim
- 1.0% for all other cases.

Website/ Circulars : Further details of the scheme are available at www.cgtmse.in

## Alternative 2: Mezzanine Debt Funding

This is rare mode of funding for MSME units. Of late, such funding options are becoming visible. "Growth Capital and Equity Assistance" Scheme of SIDBI is very scheme for MSME sector. Basics of the scheme are:

Eligible Borrower: An MSME as per the definition of Government of India (MSMED Act) and

- SIDBI's existing customers (meeting internal rating criteria);
- Units with past 3 years of profitability;
- 2 years of satisfactory banking credit track record (meeting internal credit rating criteria)
- Acceptable external rating from CRISIL, ICRA, D&B, SMERA etc.

Dream Alignment

- Adequate capital but without diluting your ownership.
- For Accelerated Growth through investments in intangible assets such as Marketing, Brand Building, Creation of Distribution Network, Technical Know-how, R&D, Software Purchase, etc.

- Arranging finance on the strength of your business and backing of your cash flows rather than Asset Cover/ Collateral Security.
- Longer initial moratorium on principal instalments to ensure greater chances of success for your ventures.

Scheme Details

- Assistance in form of Mezzanine/ Convertible Instruments, Subordinated debt and Equity (in deserving cases).
- This quasi assistance has a higher moratorium on repayment and a flexible structuring.

Key Benefits

- Bridge the gap in means of finance for scaling up/ expansion/ modernization projects.
- Access long term structured assistance especially for investments in intangible assets
- Leverage Equity / Sub Debt Assistance resulting into possibility of higher debt funds.
- No need of Enterprise Valuation, Exit Issues etc – associated with Equity Investments.
- Security Charge on available assets of the beneficiary unit and assets created out of SIDBI assistance; Personal guarantee of the promoters.

Website/ Circulars

- Further details of the scheme are available at www.sidbi.in

## Alternative 3: Bill Discounting / Factoring

Bill Discounting / Factoring facility is usually available without collateral security. This is very short term finance but very suitable instrument for meeting working capital requirement of MSME units. Bill Discounting scheme of NSIC is very friendly to MSME sector. “Receivable Finance Scheme” of SIDBI is very innovative and addresses the issues of MSME sector. Basics of the SIDBI Scheme are:

The Objective : Improving cash flow by way of discounting receivables at competitive rates to MSME units. Finance is offered against bills of exchange / invoices for credit sales to large purchaser companies.

### Scope of Coverage

- Vendors providing indigenous components/parts/sub-assemblies/ accessories/ intermediates.
- Services provided by an enterprise in the services sector (eligible service provider) to a Purchaser Company are also covered.

### Limits are sanctioned to

- Well-performing Large Corporates / Purchaser Companies with sound financials for covering their purchases of components / sub-assemblies / parts / accessories and services obtained from MSMEs;
- MSME sellers for early realization of dues from large Corporates by discounting the bills.

### Description of Transactions under the Scheme:

- Suppliers draw Bills of Exchange on Purchaser companies against supplies made / services provided by them and the Bills of Exchange are accepted by the Purchaser companies; or Wherever Bill of Exchange is not furnished by the large Corporates, based on acceptance on the Invoices and proof of delivery challan / Goods Received Note, discounting is made as per agreed terms between the Corporates and SIDBI.
- On a selective basis, in respect of large Corporates, with good repayment track record with SIDBI, a platform has been created with NSE viz. NTREES where, E-discounting is allowed.
- These Bills/ Invoices are discounted by SIDBI within the sanctioned limit and payment effected (after deducting the applicable discount / retaining the retention margin) directly by way of RTGS / NEFT to the working capital account of the MSME supplier/ service provider.
- On the due date, the Purchaser makes payment to SIDBI either through RTGS or by cheque.
- The limits are reviewed / renewed every year.

### Eligible Borrowers

- Either the Seller or the Purchaser needs to Qualify as SME (manufacturing/service sector unit.)

- SMEs engaged in manufacturing / undertaking job works relating to sale of Components / Parts / Sub-assemblies / Accessories/ Intermediates /Services etc. to Medium and Large Scale Units;
- Large Corporates procuring raw materials from MSMEs.

Unique Features of Receivable Finance Scheme

- The seller gets funds immediately, on dispatch of goods/rendering of services, after acceptance of the bill, representing receivables, by the Purchaser, by discounting it with SIDBI. Wherever bill of exchange (BoE) is not available, advance payment is also allowed against the invoices, evidenced by supply / payment confirmation from the purchaser. SIDBI collects the money from the Purchaser on the due date.
- Sellers need not undergo annual assessment of working capital under Reverse Factoring, as is done by banks for bill discounting limits extended to sellers. Under reverse factoring where exposure limits are taken on large corporates and based on their higher credit rating, competitive discount rate is offered to sellers.
- MSME Sellers – Proprietorship concerns, Partnership firms and Private limited companies against their credit sales; and service providers can avail credit
- Normally Credit period is 15-90 days. Depending upon industry trends period can stretch up to 180 days
- 100% finance is possible against Bills of Exchange or else up to 75% finance is possible
- No need of Regular reporting such as monthly stock statements; Monitoring movement of stocks & debts by the Banks; Stock audits; no monthly and quarterly returns

Website/ Circulars

- Further details of the scheme are available at www.sidbi.in

## Alternative 4: Term Loan at Subsidized Interest Rates

This is sought after mode of term loan funding. Feel of MSME entrepreneur will be entirely different if he can get his first term loan at the interest rate of @ 5% p.a. This also happens in India. Department of Science and Technology (popularly known as DST) promoted TIFAC (Technology

Information, Forecasting and Assessment Council) tied up with SIDBI and promoted one such revolving fund aptly named as SRIJAN in 2010 for technology innovation program. Basics of the scheme are:

### Eligible Borrower:

- Commercial enterprises, Indian companies incorporated under Companies Act, 1956, partnership firms for the development and commercialization of technology-based product or process along with technology know-how provider
- Start-up / incubating companies and/or technocrat-entrepreneurs holding the intellectual property or filed for patent for the developed technology, with or without any other partners are also eligible to apply.

### Purpose

- Significant improvements / modifications in the existing product / process / application.
- Substantial up gradation in product quality, reduction of raw material consumption,
- Reduction in process steps, reduction of energy consumption, reduction in GHG emission, reduction in cost, improvement in process efficiency and yield etc.
- Adaptation / modification in imported technology to make it suitable for wider domestic application.
- Indigenization of imported raw materials / components
- Design, development and commercialization of innovative products / processes /
- Applications based on new / advanced / renewable materials.

### Security

- Personal guarantees from the promoters.
- Primary security of moveable assets created or to be created under the project will be taken by way of hypothecation on first charge basis.
- Security of land / building of the assisted project may also be taken.

### Key Benefits

- Rate of interest 5% p.a.
- Early stage funding in the form of Term Loan
- Up to 80% of the approved total project cost is financed normally maximum up to INR 100 lakhs.
- Disbursement duration 18 months - in more than one instalments - to be repaid in next five years

### Website/ Circulars

- Further details of the scheme are available at www.tifac.org.in or www.sidbi.in

**Editor's Comments:** Many more industry specific alternatives are waiting to be explored by MSME entrepreneurs and their mentors.

# Chapter 9
# MSMES AND EQUITY FUNDING

Another name for 'equity funding' is 'risk funding'. The word 'risk funding' refers to the funding where the fund provider bears some part of the overall risk involved in a productive activity and believes in the business model. The term 'risk funding' includes equity as well as mezzanine/ quasi equity funding that has features of both debt and equity. Risk funding is critical component for start ups as well as for existing MSME units looking for speedier growth trajectory. Fund provider shares the equity burden of entrepreneurs. Risk funding is most sought after funding by MSME entrepreneurs; source of risk funding are very limited; risk funding is always costlier than debt funding and shall be used only when debt funding limits have been exhausted or project is such that debt funding component would be grossly insufficient for financial closure of the business venture. Equity funding options for MSMEs are very limited but includes

- Venture Capital,
- Angel Investment
- Public Listing
- Gap Funding in the Form of Subsidies

## Venture Capital

Venture Capitalists are usually not interested in investing in MSME sector due to non-corporate structure; very small size of business; due to higher transaction costs and exit difficulties. Times have changed. Forget the general impression that 'Venture capital and MSME – No options'. Now venture capital options are also available for MSMEs. Wherever private venture capital is not suitable or not available – one can always rely back on venture capital available through Government supported institutions. Governments funded VC have been floated at national and state level both to induct funds at relatively lower cost; share the risk; to provide professional management; technology up gradation. Processing and decisions may be slower but yes match making is possible. Basics of some of the viable options are reproduced herein:

## SIDBI - India Opportunities Fund

Life Span : India Opportunities Fund is close ended fund with a life of 10 years established in August 2011 registered with Securities and Exchange Board of India (SEBI) as a Venture Capital Fund.

Contributors : The contributors include leading Indian Public Sector Banks and Insurance Companies.

### Target Sectors

- Light engineering,
- Clean-tech,
- Agro-based industries,
- Logistics,
- Infrastructure,
- Educational services,
- IT/ITES, etc.

Focus Entities : Growth capital needs of India's growing and unlisted growth oriented MSMEs offering potential for attractive growth and earnings.

### Preferred Instruments

- Equity Shares
- Preference Shares
- Convertible Debentures

in the growth oriented businesses established in India. The Fund will seek a strategic stake in the funded companies with Board representation and other rights as venture capital investor.

## Investment Criteria

**Strong and committed core team:** The Fund will look for businesses managed by a team with a demonstrated performance track record, commitment and energy.

**Growth potential:** The Fund will like to invest in promising businesses having potential for sustainable high growth.

**Long-term competitive advantage:** The Fund will prefer to invest in innovative business operations with a sustainable competitive advantage.

**Viable business plan:** The venture should have a viable business plan which offers above average profitability leading to attractive return on investment.

**Clear exit plan:** The Fund, being of limited life, will seek to invest in ventures offering a strategy for clear exit within a reasonable time period. The exit could be by way of IPO, offer for sale, merger and acquisition or sale to strategic or financial investors.

### Website

For more information, one can visit www.sidbiventure.co.in

## SIDBI – Samridhi Fund

**Life Span :** Samridhi Fund is close ended fund with a life of 7 years to provide capital to social enterprises which can deliver both financial and social returns.

**Contributors :** The contributors include The Department for International Development (DFID), United Kingdom, and Small Industries Development Bank of India.

**Corpus And Tricket Size :** INR 450 crores; INR 5-25 crores.

**Target Sectors :** Investment in companies which are MSMEs. Target sectors include but not be limited to:

- Water & Sanitation
- Affordable Healthcare
- Agriculture &Allied services

- Clean Energy
- Financial Inclusion (Including MFI's)
- Education
- Skill Building, etc.

### Focus Areas

- Bihar,
- Uttar Pradesh,
- Madhya Pradesh,
- Orissa,
- Chhattisgarh,
- Jharkhand,
- Rajasthan
- West Bengal.

Focus Entities : Investment in companies which are MSMEs which are economically viable; provide access to markets for the poor; Be socially relevant and impact the poor as customers, producers or employees; increase the flow of capital to the above mentioned states; focus on Environment, Social and Governance matters.

### Preferred Instruments

- Equity Shares
- Preference Shares
- Convertible Debentures

Website : For more information, one can visit www.sidbiventure.co.in or write at samridhi@sidbiventure.co.in.

Today, almost 300 Venture Capital/Private Equity (VC/PE) firms operate in the country with different focuses and operational dynamics. These firms have made significant contribution towards growth of corporates by making the capital available. While technology remains the most sought after investment fields, interest has been shifting from internet companies to other types of operations—especially ICT enabled services and bio-technology.

Some of the other active VCs operating at the SME level are:

- Gujarat Venture Finance Limited (GVFL)
- Kerala Venture Capital Fund Pvt Ltd.
- Punjab InfoTech Venture Fund
- Hyderabad Information Technology Venture Enterprises Limited (HITVEL)
- Can bank Venture Capital Fund
- 10000 start-up (Google-Nassocm)
- Dairy Venture Capital Fund (NABARD)
- Poultry Venture Capital Fund (NABARD)
- Hellion Venture Partners
- Erasmic Venture Fund (Accel India Venture Fund),
- Seed Fund,
- Upstream
- Infinity Venture,
- IFI sponsored facilities such as Swiss Tech VCF
- Gujarat VF
- Aavishkaar India Micro Venture Capital Fund (AIMVCF).

While dealing with any venture, SME entrepreneur and professional representing the entrepreneur shall remember following caveat:

- Venture funding is costlier than debt funding;
- Strong MIS, strong inflows, potential of accelerated growth, transparency.
- Tolerance for Regular intervention by VCs representative on Board
- Every VC looks for solid and realistic exit opportunities
- VC investment is time consuming assignment
- Basic Info > Scrutiny of Business Plan >Letter of Comfort > Detailed Due Diligence > Reference Check > Sanction > Documentation >Disbursement > Regular Monitoring > Exit

- VC Investor looks for regular return as well as capital appreciation.
- VC usually provides networking and management support.

## Angel Investment

Angel investment happens at individual level or group of individuals. Angel investor may be known or unknown. Usually angel investor is busy in his own world and makes investment on the basis of credentials of Entrepreneurs rather than business model. Angel clubs are also becoming popular in India. Angel investor invests at the seed stage itself and undertakes role of mentoring as well. Most of the angel investors are successful entrepreneurs.

One of the Angel networks in India is "The Indian Angel Network", Delhi. Started in April 2006, the IAN, in addition to money, provides constant access to high quality mentoring, vast networks and inputs on strategy as well as execution. The Network members, because of their background are better able to assess the potential and risks at the early stage. The members of the Network are leaders in the Entrepreneurial Eco-System as they have had strong operational experience as CEOs or a background of creating new and successful ventures. They share a passion to create scale and value for start up ventures. The IAN looks at investing up to USD 1 mn, with an average of about USD 400-600K and exiting over a 3 to 5 year period through a strategic sale. The Network may consider investments over a million dollars but is only likely to do so through syndication.

TiE Turbo (Entrepreneurship Acceleration Program): The Bangalore based TiE Turbo Program supports the entrepreneur and his company by addressing funding issues. Their focus is on efficient utilization of existing resources and by bringing together the various elements required in the eco-system (entrepreneurs, mentors, investors, etc.) such that it is beneficial for all parties involved.

Editor's Comments: Opportunities for professionals are there in the form of handholding of Start Up Entrepreneurs in preparation of various reports and projections; assessment on behalf of angel investors; preparing periodic and event based MIS plan; regular monitoring of investment; due diligence including financial due diligence. Even starting own angel group is an opportunity.

## Public Listing

MSMEs with a good track record can access funding from the public through the public listing process. For SMEs, in addition of regular route of IPO, two additional routes are possible. First is getting listed on SME exchange of BSE/NSE. Second is getting listed without IPO on ITP of BSE/NSE; let the price discovery happen; and then raise funds through Right Issue. First alternative is more suitable to bigger SME whereas second alternative is suitable even for Start Up SMEs. About 83 companies are listed on BSE SME exchange. NSE SME platform is popularly coined as EMERGE.

## 1. SME Public Issues

So far So good. The journey of SEM IPOs is only three years old India. The story of SME Public Issues has tasted limited success till now. But the prime reason for not so successful journey in last three years is predominantly market sentiments. Even with bad market sentiments, there are more than three dozen successful stories on BSESME Exchange and / or EMERGE of NSE.

### Eligibility:

- Shall fulfil the criteria of SME.
- Proposed Post issue capital of Less than 10 crores.
- No disciplinary action against Company or its Promoters by any regulatory authority

### Listing Benefits:

- Exemption in Long Term Capital Gain Tax
- Better Valuation
- Increased visibility and prestige
- Alternate funding methods possible
- Efficient Risk Distribution
- Relaxation in Listing Fees

## Pre-Listing Essentials

- Conversion of Company into Public Company
- Alteration of AOA – suitable for listing at SE
- Increase in Authorized Share Capital
- Allotment of Bonus Shares and Shares against Unsecured Loan
- Preparation of Tentative Targets
- Appointment of Independent Directors
- Up dation of Investor relation Info on Website of Company

## Main Attractions:

- IPO to be 100% underwritten
- An Issuer with post-issue face value capital up to Rs.10 Crores will be invariably covered under the SME Exchange.
- Minimum 50 investors required while listing IPO. No post-listing continuous requirement of minimum number of shareholders
- The minimum application amount as well as minimum trading lot shall not be less than Rs.1,00,000/-.
- Unlike other companies, the IPO prospectuses of SMEs are vetted by exchanges rather than SEBI.
- Financial results shall be submitted on half yearly basis instead of on quarterly basis.
- SMEs need not publish their financial results, as required in respect of companies listed on the Main Board. The SMEs can make it available on their websites.
- SMEs can send the abridged version of the annual report of few pages with the details of the profit & loss account and balance sheet to the shareholders instead of sending physical copies of full annual report.
- SMEs have been exempted from the condition of having a track record of profit making for 3 years out of last 5 years as applicable for listing an IPO on the Main Board.

For ICDR Chapter XA or detailed notification visit website of www.sebi.gov.in or alternatively www.bsesme.com or www.nse.com

## 2. Listing Without IPO

This may be interesting to note that 'Reverse Listing' / 'listing without IPO' method is available in India. Under this method the start ups and SMEs can get listed on the bourses without IPO. SEBI came out with detailed guideline by introducing Chapter XC in ICDR on 24th October, 2013. This way possibility of shares getting listed with 100% equity in the hands of promoters has become reality. Such shares are tradable at Institutional trading platform (ITP) of national level stock exchanges.

### The Benefits:

- Facilitate capital raising by SME
- Long Term Capital Gain Tax exemption
- Easier entry and exit options for institutional investors
- Provide better visibility and wider potential investor base
- Better Valuation and Pricing
- Relaxed compliance and cost effective listing
- Funding Possibility without Sacrificing Management Control
- Cheaper Listing

### The Eligibility Criteria:

### Regulatory Criteria:

- The company, its promoter, group company or director does not appear in the wilful defaulters list of Reserve Bank of India as maintained by Credit Information Bureau (India) Limited (CIBIL).
- There is no winding up petition against the company that has been admitted by a competent court.
- The company, group companies or subsidiaries have not been referred to the Board for Industrial and Financial Reconstruction within a period of five years prior to the date of application for listing.
- No regulatory action has been taken against the company, its promoter or director, by the Board, Reserve Bank of India, Insurance Regulatory and Development Authority or Ministry of Corporate Affairs within a period of five years prior to the date of application for listing.

### Exchange Criteria:

- At least one of the following as on date of application

  Net Tangible Assets of minimum Rs. 1 Crore. (Net Fixed Assets plus Net Current Assets)

  OR

  Net income* (excluding extraordinary and other income) of Rs. 50 Lacs as per the latest audited financials. *(Net income = Sales – Purchases)

- There has been no change in the promoters of the Company in preceding one year from date of filing application to BSE for listing on ITP segment.
- Mandatory signing tripartite agreement with both the depositories.

### Financial Criteria:

- The paid up capital not more than 25 crore rupees in any of the previous financial years.
- At least one full year's audited financial statements.
- Not more than 10 years old incorporation.
- Not more than 100 crore rupees as turnover.
- At least one of the following criteria:
  - Investment of at least INR 50 lakhs in equity shares by one or more SEBI approved alternative investment fund, venture capital fund or other category of investors/lenders; OR
  - Investment of at least INR 50 lakhs by one or more angel investor who is a member of an association/group of angel investors which fulfils the criteria laid down by the recognized stock exchange; OR
  - The company has received finance from a scheduled bank for its project financing or working capital requirements and a period of 3 years has elapsed from the date of such financing and the funds so received have been fully utilized; OR

- o A registered merchant banker has exercised due diligence and has invested not less than 50 lakh rupees in equity shares of the company which shall be locked in for a period of three years from the date of listing. The same merchant banker is also required to submit a Due Diligence certificate as per format given in Form A & Form H of Schedule VI of SEBI (ICDR) Regulations, 2009; OR
- o Investment of at least INR 50 lakhs by qualified institutional buyer(s) in the equity shares of the company which shall be locked in for a period of three years from the date of listing; OR
- o A specialized international multilateral agency or domestic agency or a public financial institution as defined under the Companies Act has invested in the equity capital of the company.

## Pre-Listing Essentials

- Conversion of Company into Public Company
- Alteration of AOA – suitable for listing at SE
- Increase in Authorized Share Capital
- Allotment of Bonus Shares and Shares against Unsecured Loan
- Preparation of Tentative Targets
- Appointment of Independent Directors
- Updation of Investor relation Info on Website of Company

## Procedure in Brief

- Preparation of Information Document (prospectus not needed)
- Application to BSE for Listing on ITP
- Hosting of ID on the Website of BSE
- In-principle Approval by BSE
- Signing of Listing Agreement and Other Documents
- Listing of Securities after satisfaction of Conditions of Regulation 106Y

For ICDR Chapter XC or detailed notification visit website of www.sebi.gov.in or alternatively www.bsesme.com

## Gap Funding In The Form Of Subsidies

Subsidy is nothing but silent equity capital which is neither recorded as capital nor awarded any dividend. Subsidy results into better returns in percent terms for the entrepreneurs. In India, many ministries run subsidy schemes for the growth of specific industries. Some of the subsidy schemes provides seed capital by way of subsidizing capital at various stages of business. To support MSME entrepreneurs, ministry of MSME also runs capital subsidy scheme. Basics of some of the subsidy Schemes are:

Credit Linked Capital Subsidy Scheme (CLCSS): Refer Chapter 6 Relevance of SIDBI for MSMEs.

Technology Up gradation Fund Scheme-Textile Sector (TUFS) : Refer Chapter 6 Relevance of SIDBI for MSMEs

Integrated Development of Leather Sector Scheme (IDLSS): Refer Chapter 6 Relevance of SIDBI for MSMEs

Food Processing Industries Technology Upgradation Fund Scheme (FPTUFS) : Refer Chapter 6 Relevance of SIDBI for MSMEs.

Chapter 10

# DEVELOPING RELATIONS WITH EMERGING ENTREPRENEURS

CA profession emerged very early in independent India. This is interesting to recall that this early was earlier than adopting Constitution of India. Developing acquaintance with emerging entrepreneurs is win-win model for both entrepreneurs as well as for professional. To be successful, the emerging entrepreneur has to completely focus on business model and business related operational issues. Because of specialist, technical or low profile educational background, he may not be that much aware about commercial compliances.

## The Natural Edge

The profession has an edge because Statutory Auditor is first true professional to get connected with emerging entrepreneur. This early mover advantage can be used effectively for the benefit of both – emerging entrepreneur and professional. Some of the platforms are identified herein:

## 1. Membership of BMOs

Every District, every city, every township has number of Business Member Organizations (BMOs). BMOs are more popularly known as Chambers of Commerce and Industry; Industries Association; Traders Association; Manufacturers Association; Small Industries Association; etc. Industry Specific Associations are popular in industry specific towns and cities. In addition, there are State level, regional level and national level BMOs. Entrepreneurs love to frequently attend BMOs meetings and freely interact in such meetings with other members. Businessman derives following key advantages

- Updated and valuable information
- Get a common forum at which they can discuss problems and exchange views on matters of common interest
- Get enriched by educational and training facilities
- Impress upon Governmental authorities with their views on policies, laws and their implementation

- Opportunity to interact with Government officials and air their grievances and suggestions for betterment of economy
- Sense of belongingness with each other amongst members of BMOs

This makes sense to become member of at least one BMO. Not only membership, a professional shall frequently attend programs organized by such BMO. Not only mere attending, rather a professional shall actively participate in such programs and discussions. Not only participation in discussions but a professional shall volunteer to share his knowledge by a way of becoming panellist in discussion and speaker on various topics of the interest of business community. Not only being speaker, a professional shall take the lead and shall develop a mechanism to regularly update BMO members about proposed legislations, proposed changes in policies, new policies. The professional shall carefully note that entrepreneurs also feel hesitant while talking to professionals. The idea is that while discussing their issues and problems with the professional, an entrepreneur shall not feel hesitant. Most of the BMOs have soft membership window for professionals. The reason is that they are considered as knowledge bank and asset for the members.

## 2. Visiting Faculty in EDPs

Focus on EDPs (Entrepreneurship Development Program) is in thing. EDP modules include management, labor laws, accounting, financial markets, procurement and marketing skills. Industry specific entrepreneurship programs besides having modules on technical aspects also have modules on management, labor laws, accounting, financial markets, resource procurement and marketing skills.

To be effective, faculty for any EDP should have academia – non-academia mix of fifty -fifty percent; fifty –fifty mix of regular faculty and visiting faculty. Even out of visiting faculty, fifty percent should be manufacturing entrepreneurs and other fifty percent should be service sector entrepreneurs. 30-40% of EDP curriculum is core strength of CA professionals. There is absence of capable and knowledgeable visiting faculty.

Ministry of MSME has taken the lead and has developed number of Entrepreneurship Institutes.

### National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA

NIESBUD is engaged in training, consultancy, research, etc. in order to promote entrepreneurship. NIESBUD has tied up for more than 386 Institutes under it scheme of 'Infrastructure Providers' (complete list is available at www.niesbudtraining.org). Important activities of NIESBUD are:

- 'Training of Trainers'
- Management Development Program
- Entrepreneurship –cum-Skill development Program
- Entrepreneurship Development Program
- Cluster Intervention

### National Institute of Micro, Small and Medium Enterprises (NIMSME), Hyderabad

NIMSME is one of the premier institute and involved in promotion of small enterprise. The institute has gained immense experience and expertise in the areas of entrepreneurship development, technology, management, extension and information services. NIMSME has 33 partner institution primarily spread across Southern part of India. (Complete list is available at www.nimsme.org)

### Indian Institute of Entrepreneurship (IIE), Guwahati

The institute has been established with the aim to undertake training, research and consultancy activities in small and micro enterprises focusing on entrepreneurship development. IIE has entered into tie up with about 100 institutes under ATI scheme (complete list is available at www.iie,nic.in). Core activities are:

- Designing and organizing training activities
- Undertaking research in entrepreneurship
- Improving the efficiency, effectiveness and delivery of the change agents and development practitioners i.e. trainers, support organizations engaged in enterprise building. etc.
- Provide consultancy service to the prospective and existing entrepreneurs.
- Increasing the outreach of activities of the institute through collaborative activities and increasing their effectiveness

### Training-cum-Incubation Centre (TIC) - National Small Industries Corporation Delhi

NSIC Training-cum-Incubation Centres provide an opportunity to first generation entrepreneurs to acquire skill for enterprise building and also incubating them to become successful small business owners. At these centres, exposure in all areas of business operations are being provided such as business skills development, identification of appropriate technology, hands on experience on working projects, project / product selection, opportunity guidance including commercial aspects of business. In addition, low cost project technologies required for setting up new small business enterprises are being displayed in working condition. Till now TIC NSIC has partnered with more than 90 institutes spread all across India. (Complete list is available at www.nsic.co.in/incubator).

### Mahatma Gandhi Institute for Rural Industrialization (MGIRI), Wardha

MGIRI is providing trainings to promote rural industrialization.

## 3. Empanelling as Mentor

Very recently, MSME ministry has revamped Rajiv Gandhi Udhyami Mitra Yojana (RGUMY) and has renamed this scheme as Business Accelerator and Start up Program (BASP) program. The scheme provides for four layer structure. Screening Committee is at the top whereas at the bottom are individual mentors. BASP scheme proposes to compensate Mentors provided to Start-up Entrepreneurs and also to existing entrepreneurs.

## 4. Incubators

Incubators are support programs designed to accelerate the successful development of entrepreneurial companies through a range of business support resources and services. These resources/services may be offered either in the incubator or through its network of contacts. Unlike research and technology parks incubators are dedicated towards start up and early-stage companies. Every incubator program also has modules on finance and accounting. They also introduce the potential entrepreneur to the networks, commercial mind-set, mentoring, etc. As a professional, this is not very difficult to get connected with incubator programs in the capacity of visiting faculty. Some of the prestigious incubators are:

SIDBI Innovation and Incubation Centre (SIIC): SIDBI Innovation and Incubation Centre (SIIC) have been set up at Indian Institute of Technology, Kanpur.

National Small Industries Corporation – Training cum Incubation Centers (NSIC-TIC): operated at various locations across the country.

Incubation Support by DST: National Science & Technology Entrepreneurship Development Board (NSTEDB), Department of Science & Technology: NSTEDB is an institutional mechanism to help promote knowledge driven and technology intensive enterprises. It has several schemes and Technology Business Incubators (TBI) is one of such unique initiatives. TBIs, besides providing a host of services to new enterprises (and also to existing SMEs in the region), also facilitate an atmosphere congenial for their survival and growth.

Editor's Comments: For professional, this is always useful to devise ways to get connected with emerging entrepreneurs. And the dictum is: "Early the Better."

# Chapter 11
# INTERNATIONALLY SPONSORED OPPORTUNITIES

Indian economy is attractive to the advanced nations. They are in awe of solid foundation of Indian economy which didn't melt when whole world was facing slowdown. Many developed nations and dominant nations wish to explore business opportunities in India and wish to provide better chance of entry to their companies and corporate houses. Keeping this in mind, many nations organize India- centric international training programs. Most of the times, these are heavily subsidized. Such short term programs are useful for first generation and MSME entrepreneurs. In particular, MSME entrepreneurs in first / initial phase of success, who were deprived of international exposure for any reason whatsoever it may be, must go for at least one such training. This has been felt that single short term training not only accelerates growth but also changes mindset to manage their respective companies. Two such training programs are reproduced herein:

## 1. Indo-German Manager Training Programme (IGMTP)

Can you just imagine what should be cost of staying on Germany for one month? What should be the cost when you get opportunity to interact with entrepreneurs and companies of your industry? What should be the cost when training is also provided, that too for managing the business? This all is possible at dirt cheap cost for MSMEs.

This may be interesting to note that this training is primarily sponsored by Government of Germany. That too not one batch but around four batches in a year. The Indo – German Training program is further supported by DIPP, Ministry of Commerce and Industry, Government of India. The facilitators are: GIZ of Germany and FICCI / CII of India. Though the name suggests that this training is for managers but in reality, most of first generation entrepreneurs occupying top position in their respective companies are being selected for training. Most of the selected entrepreneurs are from technology, energy efficiency, mining, healthcare, professionals sectors. Sometimes batches are industry specific.

### Background

On 9th September 2008 a Joint Declaration was signed between Ministry of Commerce & Industry Government of India and Federal Ministry of Economics and Technology, Germany, where they expressed their common aspiration to foster economic cooperation between the two countries by implementing a bilateral training programme for Indian Executives and Managers. Under this initiative already, 10 delegations of more than 200 Senior Manager / SME Owners and Entrepreneurs have been taken to Germany. Usually, there is each batch comprises 20 participants.

### The Objectives

- To expose Indian Industry to make them fit for bilateral trade
- To gain first hand experience of doing business with German companies.
- This programme promotes business orientation, competitiveness and the international exposure of companies.
- To enhance administrative, social, intercultural and professional competencies
- To enhance foreign economic potential of Indian enterprises by establishing contacts with German enterprises;
- To create attractiveness of the selected enterprises to foreign investors;

### Training Components

- In House Training
- Factory Visits
- Participation in Exhibitions
- Participation in Seminars
- Individual Meetings
- Group Meetings
- Networking Sessions

### Duration

About one month in Germany.

## Highlights of Indian Leg of Training

To make the IGMTP training more fruitful, Indian leg of training precedes training in Germany. This part of training is mandatory and is recommended to make IGMTP more fruitful.

- Focus on Macro and Micro Economic Factors, Foreign Trade, Cross-Cultural
- Communication etc.
- Leveraging IT, Negotiation Skills, Costing and Project Management
- Experience sharing with previous batches.
- Relevant discussions to facilitate German leg of training programme

## Selection and Training Process

- The process starts about 3 months before the actual training schedule.
- The procedure sets in with public announcement by FICCI or CII
- Followed by filing of application for interview with complete details along with processing fee of INR 5k-6k
- Followed by interview by GIZ India representative who is generally German national
- Followed by sensitization and detailed brochure about training (at this stage, participants are asked to identify the industries they would like to interact or visit individually. GIZ in Germany facilitates such meetings)
- Followed by Indian leg of training
- Followed by German leg of four weeks training
- Followed by follow-up

## Cost of Training for Participants

- Processing fee for interview: INR 5000/6000
- Administrative Charges: 40000/- (for facilitation of
- Indian leg of training: Cost of stay at Delhi or place of training
- German Leg of Training: Air fare Cost plus Visa Charges

Stay at Germany, Boarding and Lodging, Local travel in the form of Daily Allowance is paid by Government of Germany.

### Fuller Details

Complete details and brochure of the IGMTP can be downloaded from FICCI website www.ficci.com

## 2. Program on Business Planning for Indian MSMEs (Japan)

This type of two weeks training can start accelerated growth prospect for any MSME. Japan is considered as global leader in many industries. Japanese corporate have invested heavily in China, Thailand, India and number of other nations. Can you just imagine such trainings are heavily subsidised as much as 70-90%? Can you imagine that cost of entire training is less than the cost of visiting Goa for three days? Can you imagine that participants get opportunity to have open discussions and one to one interaction with Japanese corporate? What should be the cost when you get opportunity to interact with entrepreneurs, global corporate; to visit a developed nation; to enjoy your outings; chance to develop relations with co-participants – that too when most of them are MSME entrepreneurs? What should be the cost international commercial and industrial exposure? This all is possible at the cost of three days Goa Tour.

Program on Business Planning for Indian MSMEs (INBP) is organized regularly. HIDA organizes this training programs in collaboration with HIDA/AOTS Alumni Societies in India in order to enhance the business efficiency and competitiveness of micro, small and medium sized enterprises (MSMEs) in India. The purpose is to contribute to the mutual economic growth of developing countries and Japan as well as enhancing friendly relations between those countries.

### Background

HIDA (Japan) was established in 1959 with the support of the Ministry of International Trade and Industry (which is the present Ministry of Economy, Trade and Industry: METI) as the first technical cooperation organization on a private basis in Japan, and the total number of participants having received training in Japan has reached more than 166,000, representing 170 countries from around the world, while the total number of participants in HIDA training activities in overseas countries exceeded 190,000-mark in fiscal 2011. The

Overseas Human Resources and Industry Development Association (HIDA) is an organization for human resources development in developing countries to promote technical cooperation through training, experts dispatch and other programs.

Usually the batch comprises 25-30 participants. MSME entrepreneurs or top level executives with working knowledge of English and University Graduate within the age bracket of 25-60 are some of the essentials conditions.

### The Objectives

- Develop knowledge and skill to evaluate new business plan
- Skill to develop new business concepts and strategy
- Entering into new business filed and implement new business plan

### Training Components

- Theoretical study
- Case studies
- Company Visits
- Study Tour
- Preparing and presenting action plan

### Duration

About 14 days in Japan.

### Selection and Training Process

- The process starts downloading application form
- Collecting essential annexures
- Getting recommendations of HIDA-AOTS of India.
- Online Submission of application form to HIDA
- Scrutiny by Screening Committee at HIDA Japan
- Invitation Letter
- Flying to Japan for Training
- Followed by follow-up and membership of HIDA-AOTS of India

### Cost of Training for Participants

- Somewhere between INR 50000/ - 70000/-

Training is subsidized by ODA (Official Development Assistance) from Japanese Ministry of Economy, Trade and Industry (METI).

### Fuller Details

Complete details and brochure of the INBPP can be downloaded from HIDA website www.hidajapan.or.jp

**Editor's Comments:** Most of the MSME entrepreneurs are into 24x7 working mode. Due to lack of time and awareness, they miss world class training opportunities. Creating awareness about such opportunities; connecting them with right training opportunities; handholding them during application filing and interview and other procedure compliance for international travel is win-win model and can be used to develop deeper and stronger bond with MSME entrepreneurs.

# Chapter 12
# PAYMENT RECOVERY MECHANISM FOR MSMES

Working capital is scarce. The irony is that on one side, MSME units have to pay comparatively higher interest rate and on the other they have to extend interest free credit to their customers. The challenge of timely credit from formal banking channels gets further aggravated due to delayed recovery. Delayed recovery carries the danger of triggering sickness in the MSME sector. MSME Development Act provides not only alternative mechanism for payment recovery but certain other measures also to ensure timely payment to MSME sector.

Most of the States have constituted MSE Facilitation Council. Micro and Small Units can file application with MSE Facilitation Council of the state (for recovery of amount along with interest) in which their unit is situated.

## The Credit Period

One of the main objectives of the Act is to make provisions for ensuring prompt and smooth flow of funds to MSMEs and curtail the incidence of sickness among them. As per the Act, once MSMEs supply goods or services to buyers, the buyer is duty bound to release payment on or before the agreed date or within a period of 45 days, whichever is earlier. If the client fails to make the payment within the stipulated deadline, registered MSMEs can take up the issue directly with the Micro and Small Enterprises Facilitation Council for recovery of dues.

*The provision is as under (Section 15 of MSMED Act, 2006):*

*“Where any supplier, supplies any goods or renders any services to any buyer, the buyer shall make payment therefore on or before the date agreed upon between him and the supplier In writing or, where there is no agreement In this behalf, before the appointed day.”*

*“Provided that: In no case the period agreed upon between the supplier and the buyer In writing shall exceed forty-five days from the day of acceptance or the day of deemed acceptance”.*

## The Interest on Delayed Payment

As per the Act, once payment to MSMEs is delayed beyond agreed period or forty five days, the buyer is liable to pay interest at the rate of 3 times the bank rate for delayed period. MSME supplier can approach respective State MSE Facilitation Council for recovery of interest on delayed payments.

*The provision is as under (Section 16 of MSMED Act, 2006):*

*"Where any buyer falls to make payment of the amount to the supplier, as required under section 15, the buyer shall notwithstanding anything contained in any agreement between the buyer and the supplier or in any law for the time being in force, be liable to pay compound interest with monthly rest to the supplier on that amount from the appointed day or, as the case may be, from the date Immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank."*

## Creation and Composition of MSE Facilitation Council

MSMED Act empowers respective State Government to create one or more Micro and Small Enterprise Facilitation Council (MSEFC), decide their jurisdiction and areas. MSEFC can have not less than three but not more than five members with Director of Industries as its Chairman. Respective State Government is also authorised to frame rules for MSEFC.

*The provision is as under (Section 20 of MSMED Act, 2006):*

"The State Government shall, by notification, establish one or more Micro and Small Enterprises Facilitation Councils, at such places, exercising such jurisdiction and for such areas, as may be specified in the notification."

*The provision is as under (Section 21 of MSMED Act, 2006):*

"(1) The Micro and Small Enterprise Facilitation Council shall consist of not less than three but not more than five members to be appointed from among the following categories, namely:-

(i) Director of Industries, by whatever name called, or any other officer not below the rank of such Director, in the Department of the State Government having administrative control of the small scale industries or, as the case may be, micro, small and medium enterprises; and

(ii) one or more office-bearers or representatives of associations of micro or small industry or enterprises in the State; and

(iii) one or more representatives of banks and financial institutions lending to micro or small enterprises; or

(iv) one or more persons having special knowledge in the field of industry, finance, law, trade or commerce.

(2) The person appointed under clause (i) of sub-section (1) shall be the chairperson of the Micro and Small Enterprise Facilitation Council.

(3) The composition of the Micro and Small Enterprise Facilitation Council, the manner of filling vacancies of its members and the procedure to be followed in the discharge of their functions by the members shall be such as may be prescribed by the State Government."

## The Role of MSE Facilitation Council in Recovery of Delayed Payment

In case of non-payment or delayed payment, Micro and Small Enterprise can file application with MSEFC for recovery of payment from buyer. MSE Facilitation Council acts as conciliator or arbitrator; is empowered to appoint some other agency or individuals as conciliator or arbitrator; enjoys power of being conciliator or arbitrator in supersession of other laws; duty bound to solve the issue within 90 days. MSEFC are gradually gaining prominence vis-a-vis recovery suit.

*The provision is as under (Section 17 of MSMED Act, 2006):*

*"For any goods supplied or services rendered by the supplier', the buyer shall be liable to pay the amount with Interest thereon as provided under section 16."*

*The provision is as under (Section 18 of MSMED Act, 2006):*

"*(1) Notwithstanding anything contained in any other law for the time being In force, any party to dispute may, with regard to any amount due under section 17, make reference to the Micro and Small Enterprises Facilitation Council".*

*"(2) On receipt of a reference under sub-section (1), the Council shall either itself conduct conciliation in the matter or seek the assistance of any Institution or centre providing alternate dispute resolution services by making a reference to such an Institution or centre, for conducting conciliation and the provisions of sections 65 to 81 of the Arbitration and Conciliation Act, 1990 shall apply to such a dispute as if the conciliation was initiated under Part 111 of that Act."*

“(3) Where the conciliation Initiated under sub-section (2) Is not successful and stands terminated without any settlement between the parties, the Council shall either itself take up the dispute for arbitration or refer it to any Institution or centre providing alternate dispute resolution services for such arbitration and the provisions of the Arbitration and Conciliation Act, 1996 shall then apply to the dispute as if the arbitration was In pursuance of an arbitration agreement referred to In sub-section (i) of section 7 of that Act.”

“*(4) Notwithstanding anything contained in any other law for the time being in force, the Micro and Small Enterprises Facilitation Council or the centre providing alternate dispute resolution services shall have jurisdiction to act as an Arbitrator or Conciliator under this section in a dispute between the supplier located within Its Jurisdiction and a buyer located anywhere in India.”*

“*(5) Every reference made under this section shall be decided within a period of ninety days from the dale of making such reference.”*

## Appeal Against Award, Decree or Other order of MSEFC

An appeal (by any person other than supplier) against award, decree or other orders of MSEFC or Centre or institution referred by the MSEFC can be entertained by any court only after deposition of 75% of the amount in terms of the decree, award ot other order. This provision has been validated by higher courts including Supreme Court. In the years to come, MSEFC constituted by States will gain momentum and will become decisive factor.

*The provision is as under (Section 19 of MSMED Act, 2006):*

*“No application for setting aside any decree, award or other order made either by the Council itself or by any institution or centre providing alternate dispute resolution services to which a reference is made by the Council, shall be entertained by any court unless the appellant (not being a supplier) has deposited with it seventy-five per cent of the amount in terms of the decree, award or, as the case may be, the other order in the manner directed by such court.”*

“*Provided that pending disposal of the application to set aside the decree, award or order, the court shall order that such percentage of the amount deposited shall be paid to the supplier, as it considers reasonable under the circumstances of the case subject to such conditions as it deems necessary to impose.”*

## The Reporting Mechanism

Every buyer who has to get his accounts audited need to separately report:-

- Principal amount outstanding to micro and small enterprises;
- Various amounts of interest due thereon and unpaid;
- Various amount of interest paid in terms of provisions of section 18 along with amounts of the payments made to the supplier beyond the appointed date.

*The provision is as under (Section 22 of MSMED Act, 2006):*

*"Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:-*

*(i) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;*

*(ii) the amount of interest paid by the buyer in terms of section 18, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;*

*(iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;*

*(iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and*

*(v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23."*

## The Disallowance

There is deterrence to allow specific interest as deduction while computing income tax. Disallowed interests are:

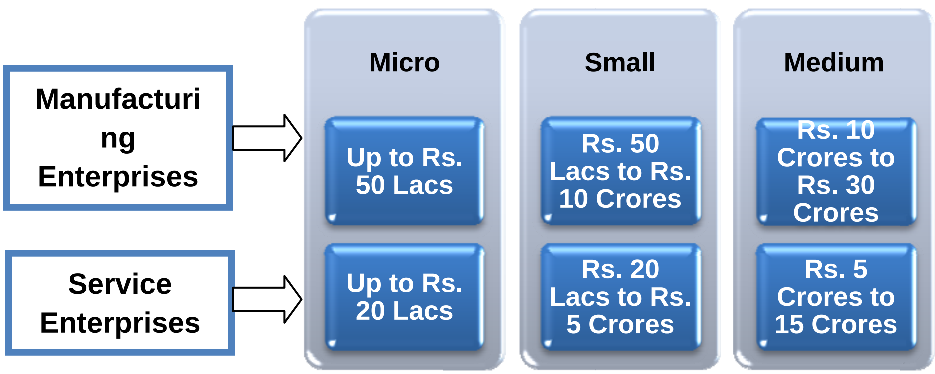
- Interest paid as per the provisions of MSMED Act
- Interest due as per the provisions of MSMED Act

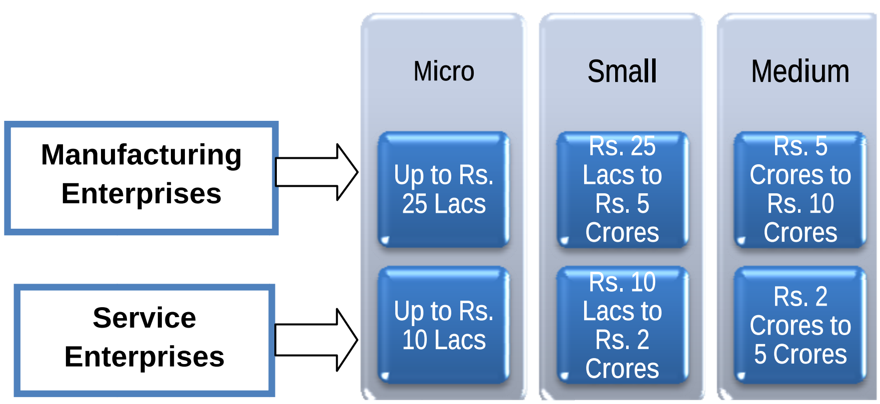
*The provision is as under (Section 23 of MSMED Act, 2006):*

*“Notwithstanding anything contained in the Income-tax Act, 1961, the amount of interest payable or paid by any buyer, under or in accordance with the provisions of this Act, shall not, for the purposes of computation of income under the Income-tax Act, 1961, be allowed as deduction.”*

# Chapter 13
# FAST CHANGING SCENARIO

**MSME Redefined:** This is interesting to note that Germany and other developed nations have globally competitive SMEs. Can India also have globally competitive SMEs? Is it possible for Indian SME to achieve the scale and global recognition? SMEs are defined differently in different nations. The European Union defines SMEs as those employing up to 250 employees and having 50 million euro (`400 crore) in annual turnover. In other words, EU SMEs are not defined in terms of capital investment. The main reason why SMEs of India do not have global scale is definition criteria – which is upper cap in capital investment in Plant and Machinery. This upper is also very small in terms of numbers. Present limits defining MSMEs are depicted here in below:



Proposal to change definition of MSME has already been mooted by Ministry of MSME. The proposed amendment to MSME Development Act, 2006 is available on the official website (www.msme.gov.in). The new definition is likely to become effective within six months to one year. Need is already being felt for another amendment in light of opening of hi-tech sectors like aviation, armaments, aero equipments, electronics, etc. as capital base for supporting R&D need more capital investment. But this is heartening to note that things have started moving in right direction.

Labour Laws: Positive vibrations are gaining momentum. Launch of UAN Number by PF offices; online filing of PF returns; issuance of permanent number; initiating portability of PF number; facility of online transfer of contribution are welcome signs. ESIC is also changing. Powers of Labour inspectors are being curtailed. The government has proposed Small Factories (Regulation of Employment and Condition of Services) Bill, 2014. In days to come, this new single legislation will replace compliances under twelve different labour Acts. Small Factories are defined in term of number of workers. This new legislation will open new opportunities in terms of proposed LIN number for Factory Owner and Unique Number of each factory worker. Small factories will be asked for composite contribution towards social security and the need to file separate challan under PF, ESIC and many more will get merged into one. Even online preparation and maintenance of labour related records are being permitted. Draft of the SF (RECS) Bill, 2014 is available on official website of Ministry of Labour and Employment (www.labour.gov.in).

BASP Scheme: Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is being renamed and refurnished under the proposed name of Business Accelerator and Start Up Program (BASP). The objective of the scheme is to provide handholding support and assistance to the potential first generation entrepreneurs. Once the scheme becomes operational then Business Mentors will come to the fore and will become popular. The absence of timely information relating to the market; trends in the economy; a proper understanding of how to approach financial institutions and potential investors; and ignorance of the plethora of acts, rules and regulations can make the difference between success and failure for the first generation entrepreneur. Business mentors are also required for existing enterprises which want to grow and internationalize. Rating of enterprises throws up gaps in performance which a mentor can help overcome. In order to address this problem mentoring assistance needs to be institutionalized through a scheme to mould and guide potential and existing entrepreneurs in starting and running a business. The Scheme of RGUMY is being completely revamped.

BASP is likely to be implemented on pilot basis within few months. The scheme proposes four layer mechanism with Screening Committee at the top followed by Nodal Agency further followed by Implementing agency and finally followed by individual mentors. BASP scheme proposes to pay Mentorship Charges to Mentors. The complete draft of BASP scheme can be downloaded from the official website of Ministry of MSME (www.msme.gov.in)

MSME Policy: Recently Ministry of MSME came out with Draft Consultative Paper as precursor to first ever MSME Policy of India. The MSMEs are expected to act as cradle for the "Make in India" vision. This would be the nursery where small existing businesses have the potential to become world beaters tomorrow. The larger players amongst the MSME space also are in a unique position to become global players attracting partners with technology and funds. The Policy framework is expected to encourage this phenomenon. It will also help creating employment on a massive scale. India is itself large market. If the requirements of the national programmes of 100 "smart cities", industrial corridors, NIMZ, Digital India into requirement of cement, steel, computers, furniture, locks, hinges, construction equipment, etc, it may give voice to the accelerating demands for manufactured goods within India. And accelerating demands will result into further push to MSMEs.

Draft consultative paper rightly explains that major and accelerating trend observed in the last one decade has been the role that innovation is playing in driving the growth and expansion of small businesses to a billion dollar enterprise. Several factors are playing a role in this growth:

Development of Information Technology;

- Complex but, easy to use IT Technologies has become a major driver;
- Growth of e-commerce as a new business platform which hardly existed 15 years back;
- Growth of cellular networks and smart phones combined with the above two mentioned technologies have created a new market place;
- Data analytic tools and advanced IT Systems have given new insights into understanding of markets and consumer behaviour and shaped the marketing as well as growth strategies;
- Context of globalisation has ensured that the logistics and supply chain has become global, whether it is manufacturing or services;

- Global financial crisis of 2008-10 has only accelerated these processes and trends.

Complete draft consultative paper is available on official website of ministry of MSME (www.msme.gov.in).

Special Dispensation for Revival and Exit of MSMEs: Recently Ministry of MSME has proposed new sub-chapter by way of amendment in MSME Development Act, 2006. The primary objective of proposed amendment is to address issues of sickness, NPA and exit policy for MSMEs. This is proposed to establish Revival and Exit Committee as adjunct to existing MSEFC in States along with appellate Authority at national level attached to NBMSME. The concept of Provisional Trustee is also proposed. CA, CS and Cost Accountants are being proposed to be Provisional Trustee in case of revival and exit. Back up note and proposed amendment is available on official website of ministry of MSME (www.msme.gov.in)

'Ease of Doing Business' and 'Ease of Doing Practice' 'Ease of Doing Business (EoDB)' has come to the forefront not only in India but world over. Nation wise, India's current ranking is 142nd out of 189 nations in the world. Ease of Doing Business is dependent upon laws and legislations. The stroke of the legislation is powerful indeed. The legislations and regulations of the country can take the economy to accelerated growth path or can take it to slippery growth path. For better ranking, business regulations need to be investor friendly. This does not mean free run and leaving the economy in the hands of investors. But to improve EoDB ranking, the nation has to expedite registration processes; remove multiplicity of compliances; complex structure of laws; set clear cut and transparent policies; implement digitization in a big way. However, the real question is: do such strokes of the legislative changes lead to better business environment? Sometimes answer may be different: "not always" / "May not be instantly" / "may not have any impact"

'Ease of Doing Practice (EoDP)' is very relevant for the professionals. The professionals provide support services like registrations and approvals; compliances and return filing services; certifications and audit services; facilitation of resource connectivity and managerial services; opinions on complex local and global issues; creating awareness about legislations and other Governmental schemes for the good of business community. This has been felt that some of the professionals work less and enjoy more whereas most of the professionals work more and enjoy less. Work pressures and enjoyment have inverse relations. Both are dependent upon super specialization by the individual professional. The professionals focusing on Certification and Audit services are likely to be under severe work pressure whereas the professionals focusing on creating awareness about legislations and governmental schemes enjoy more. Anyway, one shall live as per his or her choice. This should be 'my way, my life'.

# Feedback Page

This is the first edition of the handbook by the Committee. As such, there is scope for its improvement. We intend to make it as useful as possible in its present format. The committee, therefore, hopes to keep updating this handbook on a regular basis to make it functional.

We solicit comments and suggestions from practitioners and other to improve the usefulness of the Handbook. In particular, we welcome the views of the practitioners on enhancement of their knowledge base.

Your valuable inputs may be sent to ccbcaf@icai.in.

We are thankful to CS. Ajay Garg for preparing the draft of this book on CA Professionals & SMEs in Make in India: A handbook for the Practitioners.

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