

Standing Committee Report Summary

Implementation of the MSME Development Act, 2006

- The Standing Committee on Industry presented its report on the implementation of Micro, Small and Medium Enterprises Development Act, 2006 on August 8, 2013. The Committee was headed by Mr. Tiruchi Siva.
- **Definition of MSMEs:** Taking note of the long-term impact of inflation and changes in the business environment, the Committee suggested that the definition of Micro, Small and Medium Enterprises (MSMEs), as provided in the Act, should be revised every five years.
- **National Board of MSMEs:** The Committee noted that the National Board of MSMEs has so far held only nine meetings at random intervals against the requirement of one meeting every quarter. It also expressed concern over the proposal to place the meeting requirements under the rules framed through subordinate legislation by amending the Act.
- **Procurement Preference Policy:** The government notified a procurement preference policy in March 2012, covering all central government ministries, departments and Public Sector Undertakings (PSUs). This policy mandates these bodies to source at least 20% of their annual requirements of goods and services from Micro and Small Enterprises (MSEs).
- The Committee recommended that all central government organisations including autonomous and aided organisations should be brought under the ambit of this policy. It desired that state governments and the private sector should also adopt similar purchase preference policies.
- The Committee asked the Ministry of MSME (the Ministry) to explore the possibility of including medium enterprises in the policy while still maintaining the policy's focus on MSEs.
- **Dispute resolution:** The Industrial Facilitation Councils were set-up under the Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings Act, 1993. State governments have also established Micro and Small Enterprises Facilitation Council under the MSME Development Act, 2006. These councils act as dispute resolution forums for MSMEs, including those related to delayed payments.
- The Committee recommended that councils should be provided with sufficient powers to execute their awards. Appeals against their awards should only be allowed in the respective High Courts. It also suggested that the ministry should explore making payment methods like Letters of Credit mandatory.
- **FDI in retail:** The Committee noted that the Foreign Direct Investment policy on multi-brand retail required foreign retailers to source at least 30% of total procurement from 'small industries', i.e. units whose total investment in plant and machinery was below USD 1 million. A unit was considered as 'small industry' only as long as the investment limit was adhered to.
- The Committee noted that this definition excludes the service sector. It expressed concern that the definition may restrict the growth prospects of small suppliers. A recent cabinet decision has increased the investment limit to USD 2 million and removed the requirement for continued adherence.
- The Committee was concerned that foreign retailers may set up their own subsidiaries for sourcing, instead of sourcing from domestic 'small industries'. Hence, it desired creation of a monitoring mechanism to ensure compliance with the sourcing provision.
- **Access to and cost of financing:** The Committee expressed concern on the decline in bank credit to Small Scale Industries during the last decade. Noting the higher interest rates charged by banks to MSMEs, it suggested that the Ministry of Finance should fix an upper limit on the interest rates.
- The Committee recommended that banks should prescribe a time bound disposal of MSME's loan applications. It desired that the Act provide for new financing mechanisms like factoring services – which would allow MSMEs to sell their receivables to a third party, typically a bank – to improve MSMEs' access to institutional credit
- The Committee recommended that the Reserve Bank of India should consider extension of the repayment period for MSME loans and relaxation of the Non-Performing Asset classification norms for these loans.



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