



# **REPORT OF THE EXPERT COMMITTEE FOR THE REVIVAL OF MSMEs IN TAMIL NADU**

MARCH 2022

**MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEPARTMENT,  
GOVERNMENT OF TAMIL NADU**



**Report of the  
Expert Committee for the  
Revival of MSMEs in Tamil Nadu**

**Micro, Small and Medium Enterprises (MSME)  
Department,  
Government of Tamil Nadu**

**15 March 2022**

**Submitted to the Government of Tamil Nadu**

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## List of Abbreviations

AA	Account Aggregator
ACB	Atlantic Capital Bank
AEPC	Apparel Export Promotion Council
AI	Artificial Intelligence
APIs	Application programming interface
AR	Augmented Reality
ARC	Asset Reconstruction Company
B2B	Business-to-Business
B2C	Business-to-Consumer
BDSP	Business Development Service Provider
BFA	Tamil Nadu Business Facilitation Act, 2018
BHEL	Bharath Heavy Electricals Limited
BHELSIA	Bharath Heavy Electricals Limited Small Industries Association
CAF	Common Application Form
CC	Cash Credits
CDR	Conflict Detection and Resolution
CFC	Common Facility Centre
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CHA	Customs House Agents
CLCSS	Credit Linked Capital Subsidy for Technology Upgradation
CLRI	Central Leather Research Institute
CMDA	Chennai Metropolitan Development Authority
CMIE	Centre for Monitoring Indian Economy
CMM	Coordinate Measuring Machines
CNC	Computerised Numerical Control
CODISSIA	Coimbatore District Small Industries Association
COE	Centre of Excellence
COL	Commissionerate of Labour
CONCOR	Container Corporation of India
COVID-19	Coronavirus Disease 2019
CPCL	Chennai Petroleum Corporation Limited
CPSE	Central Public Sector Enterprise
CRISIL	Credit Rating Information Services of India Limited (formerly)
CSR	Corporate Social Responsibility
CTE	Consent to Establish
DBT	Direct Benefit Transfer
DCR	Development Control Rules
DGM	Deputy General Manager
DIC	District Industry Centre
DISH	Directorate of Industrial Safety and Health
DoL	Directorate of Labour
DOTE	Directorate of Technical Education
DPIIT	Department for Promotion of Industry and Internal Trade
DPT	Directorate of Town Panchayats
DSA	Debt Syndication Agent
DTCP	Directorate of Town and Country Planning
DTP	Director of Town Panchayats
ECLGS	Emergency Credit Line Guarantee Scheme
EDII	Entrepreneurship Development and Innovation Institute
EDP	Entrepreneurship Development Training Programme
EEPC	Engineering Export Promotion Council of India
EM	Entrepreneur Memorandum

EMD	Earnest Money Deposit
EoDB	Ease of Doing Business
ERP	Enterprise Resource Planning
ESDP	Entrepreneurship-cum-Skill Development Training Programme
ESIC	Employees State Insurance Corporation
EV	Electric Vehicle
FDI	Foreign Direct Investment
FGD	Flue Gas De-Sulphurisation
FIEO	Federation of the Indian Exporters Association
FMCG	Fast Moving Consumer Goods
FoF	Fund of Funds
FY	Financial Year
G.O.	Government Order
G2B	Government to Business Services
G2C	Government to Citizen Services
GCC	Greater Chennai Corporation
GDP	Gross Domestic Product
GeM	Government e-Market Place
GFA	Gross Fixed Assets
GOI	Government of India
GoTN	Government of Tamil Nadu
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
GTAI	Germany Trade Invest
GVA	Gross value added
GVC	Global Value Chain
GVO	Gross Value of Output
HB	Brinell Hardness
HR	Human Resources
HRb	Rockwell B
HRc	Rockwell C
HRIS	Human Resource Information System
HUD	Housing and Urban Development Department
IBBI	Insolvency and Bankruptcy Board of India
IBC	Insolvency and Bankruptcy Code
ICDIC	Industries Commissioner and Director of Industries and Commerce
ICO	Industrial Cooperative Officers
IFC	International Finance Corporation
IIFPT	Indian Institute of Food Processing Technology
IIM	Indian Institute of Management
IoT	Internet of Things
IP	Ingress Protection
ISO	International Organisation for Standardisation
ISRO	Indian Space Research Organisation
IT	Information technology
ITES	Information Technology Enabled Services
ITI	Industrial Training Institute
IVP	Innovation Voucher Program
KgF	Kilo Gram Force
Km	Kilo Meter
KN	Kilo Newton
KOICA	Korean International Cooperation Agency
KPIs	Key Performance Indicator
KPMG	Klynveld Peat Marwick and Goerdeler
KPs	Knowledge Partners
KYC	Know Your Customer /Client.
LLP	Limited Liability Partnership

LMIS	Labour Market Information System
LTPT	Low Tension Power Tariff
MCA	Merchant Cash Advance
MCA	Ministry of Corporate Affairs
MEIS	Merchandise Export from India Scheme
MIS	Management Information Systems
MLACDS	MLA Constituency Development Scheme
MLI	Member Lending Institution
MNCs	Multi-National Companies
MOU	Memorandum of Understanding
MR	Mixed Reality
MSE-CDP	Micro and Small Enterprises- Cluster Development Program
MSEFC	Micro and Small Enterprises Facilitation Council
MSME	Micro, Small and Medium Enterprises
MSMED Act	Micro, Small and Medium Enterprises Development (MSMED) Act, 2006
MTC	Metropolitan Transport Corporation
M-TIPB	MSME- Trade and Investment Promotion Bureau
MTPA	Metric Tonnes Per Annum
MTR	Mini Tool Room
NBFC	Non-Bank Finance Company
NEEDS	New Entrepreneur cum Enterprise Development Scheme
NEFT	National Electronic Funds Transfer
NGO	Non-governmental organisations
NH	National Highway
NMCP	National Manufacturing Competitiveness Programme
NOC	No Objection Certificate
NPA	Non-Performing Assets
NSDP	Net State Domestic Product
NSS	National Sample Survey
OD	Over Drafts
OECD	Organisation for Economic Co-operation and Development
OECN	Open Credit Enablement Network
OEMs	Original Equipment Manufacturers
OSHC	Occupational Safety, Health and Working Conditions
PAN	Permanent Account Number
PCB	Pollution Control Board
PEACE	Promotion of Energy Audit & Conservation of Energy
PHC	Primary Health Care centre
PMEGP	Prime Minister's Employment Generation Programme
PMKVY	Pradhan Mantri Kaushal Vikas Yojana
PPP	Public-Private Partnership
PSL	Priority Sector Lending
PSU	Public Sector Unit
PTC	Pass Through Certificate
QMS	Quality Management Standard
QTT	Quality Technology Tools
R&D	Research and Development
RA	Registered Architect
RBI	Reserve Bank of India
RBR	Risk-Based Regulation
RDPC	Regional Development Policy Committee
RDPR	Rural Development and Panchayat Raj
RE	Registered Engineer
RINL	Rashtriya Ispat Nigam Limited
RoSCTL	Rebate of State and Central Levies and Taxes
RPDR	Rural Development and Panchayat Raj Department
RTBI	Rural Technology and Business Incubator

RTD	Retired
RTGS	Real Time Gross Settlement
S&P	Stationery & Printing
SAIL	Steel Authority of India Limited
SBA	Small Business Administration
SC	Scheduled Castes
SCB	Scheduled Commercial Bank
SDP	Skill Development Training Programme
SEZ	Special Economic Zone
SFI	Sponsored Financial Institution
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SGST	State Goods and Services Tax
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SIEMA	Southern India Engineering Manufacturers Association
SIMA	Southern India Mills' Association
SIPCOT	State Industries Promotion Corporation of Tamil Nadu
SITRA	South India Textile Research Association
SMBA	Small and Medium Business Agency
SMEs	Small and Medium Enterprises
SOP	Standard Operating Procedure
SSI	Small Scale Industries
SWP	Single Window Portal
TANGEDCO	Tamil Nadu Electricity Generation and Distribution Corporation Limited
TANSIDCO	Tamil Nadu Small Industries Development Corporation
TANSIL	Tamil Nadu Startup and Innovation Council
TANSIM	Tamil Nadu Startup and Innovation Mission
TANSTIA	Tamil Nadu Small and Tiny Industries Association
TANTRANSCO	Tamil Nadu Electricity Transmission Corporation Limited
TCS	Tata consultancy Services
TDR	Transferable Development Rights
TEA	Tiruppur Exporters' Association
TIIC	Tamil Nadu Industrial Investment Corporation
TIDCO	Tamil Nadu Industrial Development Corporation
TL	Term Loans
TNEB	Tamil Nadu Electricity Board
TNEI	Tamil Nadu Electrical Inspectorate
TNFRS	Tamil Nadu Fire and Rescue Services
TNPCB	Tamil Nadu Pollution Control Board
TNPL	Tamil Nadu Newsprint and Papers Limited
TNSDC	Tamil Nadu Skill Development Corporation
TREAT	Trichy Engineering and Technology Cluster
TReDS	Trade Receivables Discounting System
TT Act	Tamil Nadu Transparency in Tenders Act, 1998.
UAM	Udyog Aadhaar Memorandum
ULBs	Urban Local Bodies
UNIDO	United Nations Industrial Development Organisation
US	United States
UYEGP	Unemployment Youth Employment Generation Programme
VFS	Visa Facilitation Services - Global
VR	Virtual Reality
WTO	World Trade Organisation

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# Letter of Transmittal

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15<sup>th</sup> March 2022.

To,

**Mr. V. Arun Roy, IAS**

Secretary to the Government, MSME Department,  
Government of Tamil Nadu,  
Namakkal Kavignar Maaligai,  
Fort St. George,  
Chennai – 600009.

Dear Thiru. Arun Roy,

**Sub: Submission of Report of the Committee for Revival of  
MSMEs in Tamil Nadu.**

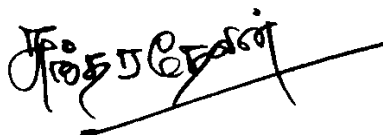
**Ref: G.O. (Ms.) No. 42, MSME (D2) Department dated 28 July 2021**

We are pleased to submit the report of the Committee constituted as per the G.O. cited in the reference for the revival of MSMEs in Tamil Nadu. The Committee had the privilege of working on a topic of considerable importance to the state and the nation as a whole. It had the opportunity to interact with a diverse group of stakeholders which helped understand the intricacies of this sector, problems faced (pre and post covid), opportunities and strengths of this sector. All of these formed the basis for recommendations in this report.

We sincerely thank you and the Government of Tamil Nadu for entrusting us with this responsibility. We hope the recommendations of the Committee will go a long way in enhancing the growth and development of the MSME sector of the state.

Thank you.


Sincerely,



**Dr. N. Sundaradevan IAS (Retd.)**

Chairperson, Committee for Revival of MSMEs in Tamil Nadu

**Signed by the Members of the Committee:**

Prof. M. Vijayabaskar (Member)	
Tmt. Bindu Ananth (Member)	
Thiru. N. Balasubramanian (Member)	
Tmt. Hemalatha Annamalai (Member)	
Thiru. Israr Ahmed (Member)	
Thiru. S. Anburajan (Member)	
Thiru. R. Anand (Member)	
Thiru. N. Muruganandam IAS (Ex-Officio Member)	
Thiru. S. Krishnan IAS (Ex-Officio Member)	
Thiru. V. Arun Roy IAS (Ex-Officio Member)	
Thiru. P. P. Sengupta (Ex-Officio Member)	
Tmt. Sigy Thomas Vaidhyan IAS (Member Convener)	

## Acknowledgement

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It has been an honour to serve on the Committee for Revival of MSMEs in Tamil Nadu, constituted by the Government of Tamil Nadu to look into the concerns of the sector, pre and post the COVID pandemic and to recommend solutions.

The Report of the Committee for the Revival of MSMEs in Tamil Nadu was made possible with the support of many individuals and organisations. The report covers a large spectrum of suggestions and appropriate interventions. The Committee endeavoured to identify key directional changes and focus areas.

The Committee is grateful to all stakeholders including departments and PSUs of the Government of Tamil Nadu, Representatives from the Economic Advisory Council of the State, MSME Units and Entrepreneurs, Associations and Representatives from entities such as FIEO, TANSTIA, Startup and Angel Funding Organisations such as pi Ventures, TiE India, Banking and Non-Banking Financial Institutions, Chiratae Ventures, SIDBI, Small Finance Banks, Consulting Organisations such as BCG, EY and Deloitte, who participated in its deliberations and provided inputs towards drafting recommendations to be considered for the revival of MSMEs in the state.

The Committee benefitted from the interactions which the Chairperson and Members had with Prof. Raghuram G. Rajan, Katherine Dusak Miller Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, and Member, Tamil Nadu State Economic Advisory Council, Dr. S. Narayanan IAS (Retd.), Former Finance Secretary, Government of India and Member, TN State Economic Advisory Council; Dr. A. Sakthivel, President FIEO and Chairman, Apparel Export Promotion Council, Dr. K. Rangarajan, Professor and Head, IIFT, Mr. V. Sundaram, Director, CODISSIA Defence Innovation and Atal Incubation Centre, Dr. K. Suresh Kumar, Executive Director, PSG – STEP, Mr. M.V. Ramesh Babu, President, CODISSIA, Dr. K. Selvaraju, Secretary General, The Southern India Mills' Association, Mr. S. Machendranathan, IAS (Retired), Mr M. Velmurugan, IES (Retired), former Executive Vice Chairman, GUIDANCE, Mr. Hans Raj Verma IAS, Chairman and Managing Director, TIIC Ltd; Mr. Sridhar Vembu of Zoho; Prof. Ashok Jhunjhunwala and the team at IIT Madras Research Park; Dr. G. Viswanathan, Chancellor, VIT Group of Institutions; Mr. C.R. Rajagopal, Former Partner Deloitte; Mr. Aniket Doegar, Founder and CEO, Haqdarshak, and other officials and representatives of Departments and Organisations who made presentations to the Committee.

The Committee invited submissions from members of the public and is grateful for a number of helpful suggestions received. The Committee greatly benefitted from the inputs received during the discussions held with various Industry Associations and MSME entrepreneurs. The Committee would also like to express gratitude to all the General Managers of the District Industries Centres (DICs) and the Industrial

Cooperative Officers (ICOs) who have provided useful inputs during various stages of report writing.

The Committee is indebted to Mr. V. Arun Roy IAS, Secretary, MSME Department, GoTN and Ms. Sigy Thomas Vaidhyan IAS, Industries Commissioner and Director, Industries and Commerce and Member Convener, for rendering their constant support and for bringing together the views and suggestions from a large group of stakeholders.

The Committee is grateful to Ms. K.M. Sarayu IAS, Executive Director, Tamil Nadu Guidance Bureau and her team, Consultants from GAME and their consortium partners, Ms. Bhuvana Anand and team from Trayas, who have helped in carrying out a detailed study and assisting with the chapter on Making TN Truly Business Friendly. The Committee places on record the efforts of the Industrial Cooperative Officers (ICOs) from the Industries Commissionerate and Directorate of Industries and Commerce, who have been instrumental in undertaking this study and collection of data for the aforementioned chapter.

The Committee expresses its gratitude to Mr. B. Krishnamoorthy IOFS, Project Director, Tamil Nadu Industrial Development Corporation Ltd. (TIDCO) for leading the technical sub-committee that studied the MSMEs in Tiruchirappalli that were affected due to internal changes at BHEL.

The Committee thanks Mr. Madhu Srinivas and the team at Dvara Research for their contributions to the chapter on Financing.

Finally, the Committee would like to thank the team from mByom Consulting and Management Services LLP led by Mr. Dhruv Goyal and supported by Ms. Vidya Padmanabhan, Mr. Arjun Charles, Ms. B Harishtha, Ms. Krithika V Kanth, Ms. D. Shruthilaya, Ms. Abhilasha Jain, Ms. Akshara Ashok, Mr. Athul K Shibu, Mr. Alan Anto, Ms. Nayana Rajan, Ms. Meena Priyadarsnee, Mr. Ishan Gupta, Mr. Tarun V Kanth, and Ms. Saumya Dubey in rendering secretarial and report writing support to the Committee.

## Preface

---

The Micro, Small and Medium Enterprises (MSMEs), by their sheer numbers and wide geographical spread, have always dominated the industrial landscape of India. Employing a large number of workers, many of them unskilled and semiskilled, the MSME sector has been the backbone of the Indian economy from time immemorial. A decline of the MSME sector affects not only the crores of smaller entrepreneurs but means a loss of livelihood for the crores of workers who may not find an alternative employment.

While the relatively smaller size of these enterprises confers them some operational flexibility, they are also affected by a number of structural issues on account of their smallness, and they have to surmount these structural constraints to survive. Faced as they are by a number of adverse issues on a regular basis, the COVID-19 pandemic has dealt a debilitating blow to many of them, which requires attention. It was therefore timely that the Government of Tamil Nadu constituted a committee to look into their concerns and make suitable recommendations.

## Constitution of a Committee for Sectoral Revival

The overarching concerns of MSMEs got exacerbated due to the COVID-19 pandemic. It was necessary to understand the problems faced by MSMEs in Tamil Nadu – COVID and Non-COVID (pre and post) and suggest measures for revival and growth of the sector.

The Government of Tamil Nadu in its order G.O. (Ms.) No. 42 dated 28 July 2021 constituted this committee<sup>1</sup>, following the announcements made in the Governor's address. The committee was mandated to provide tangible inputs to the State Government for the revival of MSMEs. The composition of the committee and its terms of reference are as follows:

### **Chairman:**

Dr. N. Sundaradevan, IAS (Retd),  
Former Industries Secretary, Government of Tamil Nadu.

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<sup>1</sup>Annexure 1: G.O. (Ms.) No. 42, MSME Department, Government of Tamil Nadu.

**Members:**

- Prof. M. Vijayabaskar, Member, State Planning Commission and Professor, Madras Institute of Development Studies (MIDS).
- Tmt. Bindu Ananth, former Member of RBI Committees on financial inclusion, SME Finance and Housing Finance Securitisation. Currently, Co-founder and Chair of Dvara Trust.
- Thiru. N. Balasubramanian, former Chairman and Managing Director, Small Industries Development Bank of India (SIDBI).
- Tmt. Hemalatha Annamalai, President, Society for Smart Electric Mobility, Founder and Former CEO, Ampere Vehicles, Past President, TiE Coimbatore, and Past Global Chair TiE Women.
- Thiru. Israr Ahmed, Regional Chairman, Federation of Indian Export Organisations (FIEO).
- Thiru. S. Anburajan, President, Tamil Nadu Small and Tiny Industries Association (TANSTIA).
- Thiru. R. Anand, Partner (Retd.), EY, Chartered Accountant and former Member of RBI Committee on Asset Reconstruction Companies.

**Ex-Officio Members:**

- Secretary in charge of Finance Department, GoTN.
- Secretary in charge of Industries Department, GoTN.
- Secretary in charge of MSME Department, GoTN.
- Chairman, State Level Bankers Committee.
- Industries Commissioner and Director – Industries and Commerce, GoTN (Member Convener).

**Terms of Reference of the Committee:**

1. To assess the challenges faced by MSME sector in Tamil Nadu, including but not limited to the impact of COVID-19 pandemic.
2. To suggest immediate, medium term and long-term measures required for the revival of the MSME sector and build resilience in the MSMEs in the State.
3. To identify problems in MSME financing and recommend methods to ease the flow of credit and expand the coverage of MSMEs coming under the formal banking sector, including use of new financing models driven by technology.
4. To recommend measure needed to boost exports from MSMEs in the State.

5. To suggest measures to fill critical infrastructure and human resource gaps in the MSME sector including common facility centres, affordable industrial land and non-availability of skilled manpower.
6. To examine the effectiveness of the Capital Subsidy Scheme as a method to encourage investment in the MSME sector.
7. To recommend measures that will improve the Ease of Doing Business for MSMEs in the State.
8. To recommend methods for new market development for MSMEs.
9. To recommend measures that will encourage the growth of MSMEs in industrially backward regions of the State.
10. To identify a few sectors which have future growth potential including sunrise sectors, and suggest targeted interventions needed to stimulate growth in these sectors.
11. Any other aspect, which in the opinion of the Committee will contribute to the development of MSME sector in Tamil Nadu.

## Committee's Approach

Much as the Committee would have liked to meet as many stakeholders as possible, the COVID-induced concerns limited the scope for physical meetings. The Committee held a number of virtual meetings with various stakeholders, viz., the industry associations, export associations, bankers and government officials. The Committee also met representatives from the Economic Advisory Council of Tamil Nadu, Tamil Nadu State Planning Commission, State Level Bankers Committee, and Academicians. Further, the Committee had detailed deliberations with Consulting Organisations to obtain inputs on developments globally and in other states. The Committee also interacted with stakeholders and experts in the Startup and Angel Investments space to understand and propose recommendations to boost start-ups in the state.

To be precise, the Committee and its sub-committees held meetings with 16 Associations; 33 discussions with Government officials, Small Finance Banks (SFBs), SIDBI and other relevant financial stakeholders; 9 presentations from other experts and Consultancy Organisations; and 30 internal meetings. The Committee also received a number of written representations and suggestions from various stakeholders. In addition, the members also physically attended meetings with associations, visited Government offices including a District Industries Centre, business incubators and MSMEs.

Finally, to carry out a detailed drill down study into aspects of Doing Business in Tamil Nadu, a team of Industrial Cooperative Officers (ICOs) from the MSME department were deputed to study the processes across multiple departments and

make recommendations. A similar technical team was constituted to study the concerns of the MSMEs in Trichy that were affected due to the closure of BHEL.

Based on the above inputs, and internal deliberations, this report has been compiled.

## Structure of the Report

The report comprises the following chapters, apart from the Executive Summary and Annexures.

- Chapter 1 presents an overview of Tamil Nadu, the history and evolution of industries and MSMEs in Tamil Nadu. It then explains the current context of the MSME sector in India and provides further insights.
- Chapter 2 presents the Committee's understanding of the problems faced by the MSMEs compiled based on its discussions and deliberations with stakeholders. It also presents a snapshot of best practices identified from other states and countries, which the Committee believes would be useful for MSMEs in Tamil Nadu.
- Chapter 3 focuses on recommendations of the Committee – i.e. MSME strategy, micro units, COVID relief and measures, making Tamil Nadu 'truly' business friendly, finance, clusters, shared services and common facilities centres, schemes and subsidies, infrastructure, technology, marketing and branding (covering exports and imports), people and skilling, Tamil Nadu as a thriving state for start-ups, uniform development across the state, sectors and businesses with potential and sector specific recommendations.

The annexures provide the list of various meetings and the chapter specific data and observations (wherever relevant), and references made in due course of drafting of the report. The report of the Technical Committee on the Trichy cluster is included at Annexure 10.

## Executive Summary

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### Overview

1. Micro, Small and Medium Enterprises (MSMEs) play a major role in most economies world over. They represent about 90% of businesses and more than 50% of employment worldwide<sup>2</sup>. They have also dominated the industrial landscape of India. A decline of the MSME sector affects not only the crores of smaller entrepreneurs but means a loss of livelihood for the crores of workers who may not find alternative employment. The recent displacement of workers during COVID-19 is a case in point.
2. There are stated to be over 6.3 crore MSMEs in India. They contribute about 45% to manufacturing output, more than 40% of exports, over 28% of the Gross Domestic Product (GDP) and provide employment to about 11.1 crore people, which in terms of volume stands next only to the agricultural sector<sup>3</sup>.
3. In India, the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 classifies enterprises as micro, small or medium enterprises on the basis of the following criteria:
  - a. A **micro enterprise**, where the investment in plant and machinery or equipment does not exceed INR one and turnover does not exceed INR five crore.
  - b. A **small enterprise**, where the investment in plant and machinery or equipment does not exceed INR ten crore and turnover does not exceed INR fifty crore; and
  - c. A **medium enterprise**, where the investment in plant and machinery or equipment does not exceed INR fifty crore and turnover does not exceed INR two hundred and fifty crore.
4. According to the Sixth Economic Census, there are 50.29 lakh MSMEs in Tamil Nadu. However, the number of businesses in Tamil Nadu with GST registration is only around 10 lakh. This points to the informal nature of almost 80% of the enterprises.
5. While the relatively smaller size of these enterprises confers them some operational flexibility, they are also affected by a number of structural issues posed by their size, and they have to surmount these structural constraints to survive. In addition, the COVID-19 pandemic has dealt a debilitating blow to many of them.
6. It was therefore timely that the Government of Tamil Nadu constituted a Committee vide G.O. (Ms.) No. 42 dated 28 July 2021, to look into their concerns

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<sup>2</sup> [www.worldbank.org/en/topic/sme/finance](http://www.worldbank.org/en/topic/sme/finance)

<sup>3</sup> [www.timesofindia.indiatimes.com/blogs/voices/reform-msme-sector-and-revive-indian-economy](http://www.timesofindia.indiatimes.com/blogs/voices/reform-msme-sector-and-revive-indian-economy)

stemming from the COVID pandemic and other non-COVID related aspects, and make suitable recommendations.

7. The primary objective of the committee was to study the problems faced by the MSMEs across various sectors and suggest measures for revival and growth of the MSMEs.
8. The Committee was mandated to provide tangible inputs to the State Government for the revival of MSMEs, bearing in mind socio-economic indicators of combating unemployment, social support, structural, institutional, financial, technological and other infrastructural changes.
9. The report recognises the presence of disproportionately large section of micro enterprises that need the support of the government and other ecosystems. Gainful employment of its citizens is, at the end of the day, a key requirement for the government, and MSMEs fulfil this need.

### **Recommendations**

The problems faced by MSMEs include constraints due to size, limited formalisation, limited market access, finance, limited awareness of technology, on-ground challenges in doing business and inability to attract and/ or skill workforce. The recommendations made in this report also broadly follow this categorisation, as mentioned below:

1. Formalisation of MSMEs with specific focus on micro units.
2. Formal finance and access to resources for MSMEs.
3. Platforms for MSMEs across their business value chain.
4. A clusters and corridor-based approach for MSME growth.
5. Making TN 'truly' business friendly for MSMEs.
6. Other recommendations covering areas of infrastructure, technology, schemes, uniform development.
7. Sector specific recommendations.

The Committee has also articulated an MSME strategy aligned to the above, targeting systemic reorientation to ensure coverage of a diverse pool of MSMEs.

### **MSME Strategy:**

1. **Customised interventions:** Given the heterogeneity of MSMEs, it is important to design interventions specific to each category, i.e. the requirements of traditional artisanal units, ancillary units to OEMs and standalone units will be different. There is no one size fits all strategy for MSMEs.
2. **Sector specific schemes:** Given the limited resources, but vast number of MSMEs, the state should ensure that critical sectors with future growth potential get adequate resources for their development. A detailed list of such sectors is provided at the end of the executive summary.
3. **Focus attention on services:** The important, but often neglected Services sector should be encouraged to establish more management consulting, financial

services and legal services firms apart from the IT/ ITeS firms that Tamil Nadu is known for.

4. **Government as an enabler:** The Government should strengthen its role as an enabler. It should focus on resource aggregation (of land, labour, micro units); as a platform provider (to connect people; experts; academic – industry; knowledge sharing); and as a provider of shared services (technology, growth support, quality control and markets).

#### **Development of Micro Enterprises:**

Micro units, as highlighted above, will require far greater support as they are seen as an important means to generate employment. Some specific interventions for micro units are as follows.

5. **Formalisation:** Micro units should be formalised through Udyam registration. There is a need for creation of awareness on the benefits of formalisation and then handholding their registrations through mass campaigns. Aggregation of micro units and availability of information on welfare schemes should be the focus areas; and these can be driven through technology.
6. **Financing:** Since most micro units typically do not have collateral, under-writing them becomes costly for lenders. While electronic KYC (e-KYC), and higher proportions of digital transactions will help, new models such as cash-flow based underwriting should be encouraged.
7. **Risk mitigation:** Micro enterprises are largely subsistence units and very often the worst affected during natural calamities and/ or due to health risks of owners. It is therefore recommended that insurance cover be provided for owners, for risk mitigation on a co-pay basis. Micro enterprises which are unable to make further progress in their businesses, should be brought under the ambit of existing programmes such as provision of houses for the poor, assistance in education, access to the Public Distribution System (PDS) and several other social benefits.
8. **Micro cluster scheme:** The GoTN, through SIDCO is currently implementing a scheme called Common Production Infrastructure (CPI), using which a group of MSMEs can form an SPV and obtain this subsidy. The Committee endorses this scheme, and recommends that it be continued.
9. **Funds for MSMEs from TN Emerging Sector Fund:** A part of the funds of Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC), under the Tamil Nadu Emerging Sector Seed Fund (TNESSF) may be earmarked for MSMEs.

#### **Covid Relief and Measures:**

10. The committee strongly recommends that the existing measures continue. Once the Government of India schemes are phased out, a fresh look may be needed based on the status of MSMEs at that point in time.

**Making Tamil Nadu 'Truly' Business Friendly:**

11. **Single Window Clearance:** Several detailed recommendations have been made in the area of making it easy for businesses to function in Tamil Nadu. In essence, the following principles are proposed:
  - a. All G2B services to be brought under the Business Facilitation Act, and once brought in, the departments should not be permitted to entertain applications on their own portals, as this takes away from the advantages of a 'Single Window'. The MSMEs that applied on the SWP in 2019-20 were 34, while the MSMEs that obtained clearances from Tamil Nadu Pollution Control Board (TNPCB) in the same year were 16,966. This clearly shows the need to push more MSMEs under the Single Window Portal (SWP). Local factors that nudge MSMEs away from the SWP should also be strictly handled by the Government.
  - b. Single window payment: Government departments to harmonise their payment collection cycles and allow businesses to pay the fees quarterly/ half-yearly/ annually.
  - c. Self-certification with randomised inspections: Government should move to a self-certification regime for low risk MSMEs with randomised inspections, empanelment of private sector service providers for inspections, use technology and reduce human discretion in according approvals.
  - d. Agencies such as TNPCB and Directorate of Town and Country Planning (DTCP) should be made to toe the line on Single Window, as they actively discourage applicants from registering on the SWP.
  - e. Department specific recommendations on ease of doing business have been made which include – rationalisation of Trade License, introduction of risk based randomised inspections (instead of 100% inspections), rationalisation of No Objection Certificates (NOCs), and decriminalisation of minor offences.
  - f. The Committee also recommends that powers are delegated downwards and systems be put in place to monitor the processes centrally.
12. **"Once Only" principle:** Details once filed by an enterprise before a department/ agency, should not be called for again by any department. For this, the MSME department should build a MSME database and link it to the databases of the Ministry of Corporate Affairs, Central Board of Direct Taxes, Commercial Taxes Department, Electricity Department, Labour Department, Revenue and Registration departments and allow a digital locker facility for documents.
13. **Right to Services Act in Tamil Nadu to be introduced** to provide legislative backing to the services being provided to enterprises in the state.

14. **Institutional recommendations:** The re-organisation of the Industries Commissioner & Director of Industries and Commerce's (ICDIC) office, the District Industries Centres (DICs), integration of the Entrepreneurship Development and Innovation Institute (EDII) and Tamil Nadu Startup and Innovation Mission (TANSIM), better use of Tamil Nadu Small Industries Corporation Limited's (TANSI) land banks and the transition of Tamil Nadu Industrial Investment Corporation Limited (TIIC) to the MSME department are recommendations made on the institutional front. Indicative performance metrics for performance assessment have also been recommended.
15. The following functions should be offered by the redesigned DICs: (a) Front desk, as in the case of the Passport Office to assist MSMEs in filling of application forms, (b) Schemes/ Finance related support, (c) Export support, (d) Market linkages, and (f) Grievance redressal. Aligned to these new functions to be performed by the DICs, there is a need for DICs to be restructured to become performance based and accountable organisations.
16. It is also recommended to setup a dedicated entity to promote Coir and Coir based products in the state.

#### **TN as a thriving destination for Start-ups:**

17. Setup specialised startup centres housing product testing facilities, fab labs, maker labs, assembly facilities at regional locations.
18. Decentralised and proactive innovation funding schemes should be encouraged where deserving start-ups are identified at the district level and encouraged.
19. Equity for start-ups to be explored in early stages of businesses when funding is hard to source. This may be done through a fund of funds scheme or equivalent, run professionally.

#### **Formal Finance and Access to Resources:**

20. **Equitable financing to MSMEs** should be driven through NBFCs and banks with support from fin-techs. The government should incentivise banks, NBFCs and fin-techs to expand coverage to significant clusters and districts having low credit-GDP ratio.
21. **State sponsored financial institutions should diversify from direct lending to MSMEs:** These institutions should leverage capital to help mobilise funds from Banks and other Financial Institutions (FIs). State Financial Institutions (SFIs) should build capabilities to participate in securitisation of transactions to achieve this. All the existing and relevant schemes of SIDBI should be leveraged better to provide the last mile finance support to MSMEs.
22. **Introduce/ strengthen Credit Guarantee Programmes:** Make a representation to the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) on pain points of lenders (lack of clarity on claims approval and the significant time delays in claim settlement) in accessing the scheme. The state should ensure

- that in the Credit Guarantee scheme that is being designed, the guarantees are priced according to the risk of the exposure, the member lending institutions have skin in the game, and there is a clearly documented transparent claim management process put in place.
23. **Develop a secondary market** for movable assets, like machinery. This would allow MSMEs to access credit at reasonable rates by pledging these assets as collateral for loans.
  24. **Develop quasi-equity instruments** such as long-term debt with coupon and revenue-share components or convertible debt instruments that will provide growth capital for firms that are past the proof-of-concept stage.
  25. **On time payments:** Defaulting PSUs, Departments and private buyers should be fined for every day of default beyond the limit of 45 days set out by the MSMED Act and the proceeds should be transferred to the MSME. The state should develop a legally sound system to address the challenges that it is facing when orders passed by the Micro and Small Enterprises Facilitation Council (MSEFC) are challenged in court. A strong representation should be made to the MSME department, Government of India so that adequate teeth is given to the MSEFC process.
  26. **Onboarding of PSUs and Municipal Corporations on TReDS:** The state has already made it mandatory for the PSUs and ULBs to be onboarded on TReDS. The state should now look at auto updation of invoices on TReDS from the GST portal.
  27. **Work with General Insurers to develop an under-writing and distribution approach for insuring MSMEs against supply chain shocks.** This insurance could be bundled along with credit (similar to credit life insurance bundled with micro-loans) but the premium costs may need to be supported by the Government until such time as sufficient claims data exists for under-writing.
  28. **Notification of the Insolvency and Bankruptcy Code (IBC) rules on proprietary firms and individuals:** The state should request the Insolvency and Bankruptcy Board of India (IBBI) and the Central Government to notify Chapter 3 of the IBC.

#### **Infrastructure:**

29. While recommendations have been made on all aspects of infrastructure- power, water, and land, the Government should particularly explore options of land pooling, use of Transferable Development Rights (TDRs) for social housing, create databanks of un-utilised lands, digitisation of land records, and make flood proofing of estates integral to planning.
30. Battery recycling, reusing plastics, recycling and upcycling of industry wastage and by-products should be incentivised along with sustainable housing and water use technologies.

31. The state will also need to look at improving the quality of digital infrastructure, since it will serve as the bedrock for offering greater information and communication services.

**Industrial Corridors and Clusters:**

32. **Formulate a Coimbatore – Madurai – Rajapalayam – Thenkasi - Tirunelveli Industrial Corridor**, so that every district in the state falls in the vicinity of one Industrial Corridor or other.
33. **Clusters as ecosystems:** Clusters should be developed as ecosystems with a healthy mix of MSMEs that have interlinkages, common training and skilling centres, other common facilities like testing and/ or machining centres, support for common branding and similar marketing initiatives, and Research and Development (R&D) support. In the case of export-oriented clusters, they should also have Customs House Agents (CHAs). In addition, cluster level support can be developed for labour market information, and labour support like housing, healthcare and education.
34. **Plug and play facilities:** SIDCO is currently involved in building plug and play facilities for MSMEs. These facilities provide MSMEs with the requisite infrastructure for starting up and running their businesses. The Committee endorses that these initiatives be continued by SIDCO. Focus may be provided to newer, green sectors such as electric vehicles and digital technology.
35. **Diagnostic studies across value chain:** For every cluster, both old and new, a diagnostic study should be conducted to identify gaps in the value chain which should be followed by remedial action. This is to identify key areas of focus and other areas of assistance that the cluster may require to move on to a higher growth and value generation path.

**Market Access, Imports and Exports:**

36. **Create a platform:** that helps aggregate raw materials and experts; helps MSMEs connect with large buyers (public and private), vendors for shared services, and provides access to spare capacity available with MSMEs.
37. **Canton like Fair:** The fairs (B2B only) can be conducted in a distributed manner across various parts of the state based on the natural concentration of SMEs. There should be and Multipurpose Trade Centres near transport hubs across the state.
38. **Common brand for artisanal MSMEs:** A common brand for artisanal products, either based on clusters or for the state as a whole, needs to be designed and promoted. This should be accompanied by facilities for testing and quality certification.
39. **Marketing** support for MSMEs is critical. The government can support this by creating an improved mechanism to monitor the adherence to the purchase

preference policy of the Government, since presently there is no mechanism to track the same.

### **People, Skills and Training:**

40. **Labour Market Information System (LMIS):** The state should roll out a LMIS system to capture data on both demand and supply of labour. The database should be linked to the Census, and MSME data from other sources such as Udyam. This in turn would allow for aggregation of available data and hence easier labour (and other resource) demand – supply matching.
41. **Mandatory internships:** Paid internships for students in polytechnics and in colleges should be mandatory from year 1. For this, the Singapore and German models of internships can be studied. Government incentives should be introduced for students to intern with the MSME sector.
42. **Training Entrepreneurs:** A typical entrepreneur, particularly in the micro and small category is best equipped to operate the business. However, ‘business’ is a sum of many parts. The MSME department should look at targeted, sectoral interventions in which specific sectoral plans are made to train entrepreneurs based on their needs. Examples of such interventions include, trade visits, links with design schools, links to e-markets, training in digital and social media marketing.

### **Schemes and Subsidies:**

43. **Mass awareness campaign:** The Government of Tamil Nadu, through the ICDIC and M-TIPB, should undertake a targeted campaign to make the public/ MSMEs aware of the existing schemes.
44. **Periodic review and redesigning of schemes:** Every three to five years, the Government of Tamil Nadu and the ICDIC shall re-look at the existing schemes of MSMEs and re-design them to ensure that they are aligned to the needs of MSMEs.
45. **Enforcement of Purchase Preference:** The Purchase Preference of 25% for Micro and Small enterprises, under the Tamil Nadu Transparency in Tenders Rules 2000, shall need to be enforced clearly across all Govt. depts./ organisations in Tamil Nadu. In addition, it is recommended that specific purchase preference benefit be given to entrepreneurs from the SC/ ST communities.
46. **New schemes:** The Committee recommends the following new schemes for MSMEs:
  - i. Employer insurance scheme for micro and small enterprises, to address business risks and failures, aggregated across MSMEs.
  - ii. Reimbursement and buyback incentive for solar power.
  - iii. Schemes for start-ups, clean/ green energy, conservation and recycling businesses and initiatives.

**Uniform Development Across the State:**

47. Industrial development should be accompanied with development of schools, healthcare facilities, housing, and training centres. Therefore, the state industrial development agenda should align institutionally with the development agendas of other line departments. Development should be such that it allows for inter and intra industry/ sectoral linkages for growth of sectors such as tourism, and trade.

**Sectors and Businesses with Potential and Sector Specific Recommendations:**

48. The Committee has made sector specific recommendations in line with the inputs provided by MSME Associations. These recommendations are detailed in Sections 3.10 and 3.15 of the report.
49. The Committee has also identified sectors with potential in Tamil Nadu, to be promoted by the state. These include:

Table 1: Sectors with Potential

<b>1. New Age</b> <ul style="list-style-type: none"> <li>• Fintech</li> <li>• Smart Materials</li> <li>• Med-tech</li> <li>• Ed Tech</li> </ul>	<b>2. Manufacturing</b> <ul style="list-style-type: none"> <li>• Auto, auto-components, Electric Vehicles (EVs)</li> <li>• Fabrics, medical textiles, technical textiles</li> <li>• Agriculture</li> <li>• Leather</li> <li>• Plastics</li> <li>• Gems and Jewels</li> </ul>
<b>3. Services</b> <ul style="list-style-type: none"> <li>• IT/ ITeS</li> <li>• Medical services</li> <li>• Hospitality and entertainment</li> <li>• Design</li> <li>• Facilities management</li> <li>• Advisory services</li> <li>• Logistics</li> </ul>	<b>4. Media and Entertainment</b> <ul style="list-style-type: none"> <li>• Television</li> <li>• Films</li> <li>• Out-of-Home (OOH)</li> <li>• Radio</li> <li>• Animation and Visual Effects (VFX)</li> <li>• Gaming</li> <li>• Music</li> <li>• Digital Advertising and Print</li> </ul>
<b>Cross cutting themes:</b> Internet of Things (IoT), Industry 4.0, Blockchain, Artificial Intelligence (AI), Machine Learning (ML), Augmented Reality (AR), Virtual Reality (VR), Mixed Reality (MR)	

50. Recommendations made by the Committee have also been classified into short, medium and/ or long-term recommendations based on the probable time required for implementation and urgency of reforms. This comprehensive list of commendations has been presented in section 3.16 of the report.

In conclusion, this report attempts to cover a large canvas. Having met a diverse group of stakeholders – MSME units, entrepreneurs and industrialists, associations, Government departments, sector experts, bureaucrats and several others; specific and tangible recommendations have been indicated for the revival of MSMEs in Tamil Nadu. It is hoped that these recommendations will provide a template for transformation of the MSME sector in the years to come.





Part A

**MSMEs IN TAMIL NADU:  
BACKGROUND & CHALLENGES**

# 1 Overview of the MSME Sector

## 1.1 History and Evolution of MSMEs in Tamil Nadu

### ***Tamil Nadu's manufacturing ecosystem dates back to 1<sup>st</sup> Century AD...***

Tamil Nadu has had vibrant handicrafts and cottage industries for thousands of years and it has had a flourishing maritime trade even as early as 3,200 years ago<sup>4</sup>. In fact, the Indian subcontinent and the Tamil region's excellence in textiles is legendary. The Indian looms have run continuously for almost five thousand years<sup>5</sup>; and that cotton and textile export to ancient Greece and Rome thrived so much so that Pliny, the Roman historian of the 1<sup>st</sup> century AD, complained that India was draining Rome of her gold... (through textile imports from India)<sup>6</sup>; there indeed were colonies of Roman merchants in Vellalore near Coimbatore and Arikamedu (near Puduchery), sourcing textiles from Tamil Nadu. Recent excavations in Keeladi (near Madurai) have further confirmed the prevalence of sophisticated pottery as early as 2,600 years ago. *"The workmanship of the native hilts can scarcely be surpassed. The districts of Salem, Koimbatour (sic), and North Arkat (sic), (in Tamil Nadu, are those) in which the best Indian steel has been manufactured from time immemorial..."*<sup>7</sup>, wrote M. J. Walhouse (1878)<sup>8,9</sup>.

Sangam Literature is replete with references to the exquisite quality cotton fabrics of the ancient Tamil kingdoms. Metal works, carpentry, shipbuilding, salt making and Jewellery crafts also thrived throughout ancient Tamil Nadu.

### ***The Industrial Revolution ushered in modern factories in Tamil Nadu...***

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<sup>4</sup> <https://timesofindia.indiatimes.com/blogs/tracking-indian-communities/in-search-of-tamil-nadus-ancient-global-trade-links/>

<sup>5</sup> Uzramma (2006), Textile Narratives & Conversions: Proceedings of the 10th Biennial Symposium of the Textile Society of America, October 11–14, Toronto, Ontario. "Remnants of cotton thread have been found in the ruins of the Harappan civilisation [5000-3500 BC], and the weavers of India have supplied the markets of the world with cotton cloth since at least the first century of the Christian era. The golden age of Indian cotton in recorded history stretches from that time until the beginning of the nineteenth century and there are testaments to the quantity, quality and variety of Indian cotton fabrics scattered through written records. Indian textiles were traded for Roman gold at the time of the Roman Empire; Pliny, the Roman historian of the 1st century AD, calculates the value of imports of Indian fabrics to Rome at a hundred million sesterces [equal at the time to INR 1.5 crore] every year, and complains that India is draining Rome of her gold..."

<sup>6</sup> "Excavations in the area [Coimbatore] have unearthed hordes of Roman coins here. The earliest dates back to 27 BCE – 14 CE during the reign of Roman Emperor Augustus Caesar. There are also coins with the image of Constantine dating to 306 CE – 337 CE. One can also find a lot of coins belonging to the reign of Tiberius".

<sup>7</sup> Salem, Trichy and Golconda. By the late 1600's, shipments running into tens of thousands of wootz ingots were traded out from the Coromandel coast to Persia.", Sharada and Ranganathan (2004).

<sup>8</sup> "From the mid-17th century onwards, there are numerous vivid eyewitness accounts of European travellers to the Indian subcontinent. These describe the production of steel by crucible processes spread over different parts of Southern India. These include accounts by Jean Baptiste Tavemier in 1679, Francis Buchanan in 1807, H. W. Voysey in 1832, and others who travelled to locales such as Mysore, Malabar.

<sup>9</sup> Walhouse, M. J., 1878, Archaeological Notes: The old Tanjore Armoury, Indian Antiquary, 7, pp. 192-96, quoted in Sharada and Ranganathan (2004).

Though the advent of the Industrial Revolution had an adverse impact on Indian industries, particularly textiles, the transition from the traditional cottage industry to the modern factory-based production did take place in Tamil Nadu from the second half of the 19<sup>th</sup> century onwards. Taking advantage of the plentiful availability of high-quality cotton and cheap labour, Sir Robert Stanes established the Coimbatore Spinning and Weaving Mills (CS & W Mills) in 1888, sowing the seeds for the emergence of the now-vibrant “Manchester of South India.” The enterprising and industrious local elite followed suit<sup>10</sup>. The establishment of many such mills gave birth to Textile Machinery manufacturing units<sup>11</sup>. These units initially produced tools required for textile mills but later diversified into small machines like centrifugal pumps, electrical motors, and agricultural machineries. Similar is the story of the emergence of clusters of Automobile manufacturing, Leather, Sugar, Knitting, Printing, Crackers, and Safety Matches. Following the lead given by the pioneers, the local entrepreneurs were quick to seize the opportunity to establish their own units to carve a niche for themselves in these sectors in Tamil Nadu. Today, Tamil Nadu can boast of a number of industrial clusters of different sectors across the state.

***Tamil Nadu was one of the earliest states where Government directly promoted manufacturing...***

During the British period itself, Madras Presidency witnessed one of the earliest attempts by the Government to directly promote local manufacturing and as a result, the Department of Industries was born in August, 1906, the first of its kind in British India. The State Aid to Industries Act was passed in 1923 by the Madras Legislative Council which allowed the flow of Government assistance to cottage and village industries. Post-Independence, the first-ever industrial estate in the country was set up in Guindy in 1958. Tamil Nadu Industrial Investment Corporation (TIIC), the State Finance Corporation, was established in 1948, only the second such institution to be established in India. Significant milestones in the growth of industries in Tamil Nadu were the establishment of Tamil Nadu Small Industries Development Corporation (TANSIDCO) for the MSME sector in 1970 and the State Industries Promotion Corporation of Tamil Nadu (SIPCOT) for medium and large industries in 1971, again pioneers in their own right.

## 1.2 MSME Definition

A standard global definition of small and medium-sized enterprises does not exist. MSMEs are defined differently across countries, since the terms “small” and “medium” are relative and depend on the overall size of the domestic economy.

<sup>10</sup> Legend has it that G. Kuppuswamy Naidu, a visionary entrepreneur, visited CS & W Mills as an industrial tourist by paying one anna, and went on to establish the Lakshmi Mills (Rajesh Govindarajulu, 2017)

<sup>11</sup> like Textool Company limited, The Rama Krishna industries Private limited, The P.S.G and Sons Charities Industrial Institute etc. (Baliga 1966) quoted in Smitha K (2019).

A small-scale enterprise, or more simply, a small business, is one which functions on a small scale involving less capital investment, less number of workers and a few machines. While many countries define and differentiate them on the basis of the number of employees and investment levels, countries like India defined them on the basis of investment until recently; and now (i.e., with effect from 1<sup>st</sup> July, 2020<sup>12</sup>), the definition is based on a combination of investment and revenue (turnover). Even among those countries that classify industries on the basis of employment, there is no uniformity<sup>13</sup>. The current definition of Micro, Small and Medium Enterprises, as per the MSMED Act, 2006, in India is as follows:<sup>14</sup>

- A **micro enterprise**, where the investment in plant and machinery or equipment does not exceed INR one crore and turnover does not exceed INR five crore;
- A **small enterprise**, where the investment in plant and machinery or equipment does not exceed INR ten crore and turnover does not exceed INR fifty crore; and
- A **medium enterprise**, where the investment in plant and machinery or equipment does not exceed INR fifty crore and turnover does not exceed INR two hundred and fifty crore.<sup>15</sup>

The definition of “plant and machinery or equipment” is the same as in the Income Tax Act; it is worth noting that while computing investment in “plant and machinery or equipment,” building and furniture are not included as per the Income Tax Act. Similarly, while calculating the turnover, revenue from exports of goods or services is excluded.

Very recently (i.e., from July 2<sup>nd</sup>, 2021), wholesale and retail trade have also been brought under the definition of MSMEs; consequently, they have become eligible for priority sector lending by Financial Institutions<sup>16</sup>.

The phrase used today is Micro, Small and Medium *Enterprises*<sup>17</sup>. The expression used till 2006 was “Small Scale Industries” (SSIs), which referred only to manufacturing units.

<sup>12</sup> Government of India Gazette notification S.O.2119(E) of the Ministry of Micro, Small and Medium Enterprises.

<sup>13</sup> For example, in the U.S In the case of Manufacturing and Mining Industries, an enterprise employing 500 or less persons is classified as a small business. Whereas, many countries treat microenterprises as those with less than five workers; small enterprises as those with 5–49 workers; medium-sized enterprises as those with 50–199 workers; and large enterprises, as those with 200 or more workers.

<sup>14</sup> There is a view that the upward revision of the limits of investment (and turnover) will bring in a large number of larger industries within the MSME fold and consequently crowd out the smaller among the existing MSMEs, most of which are family-run, from availing benefits earmarked for MSMEs: Business line, “Classify MSME /SMEs on basis of employment, turnover,” August, 04, 2018.

<sup>15</sup> The earlier definition under the Micro, Small and Medium Enterprises Act, 2006 for manufacturing enterprises was based on their investment in plant and machinery: a micro unit was one with an investment of up to Rs. 25 lakh, a small enterprise with investment between Rs. 25 lakh and Rs. 5 crore and a medium one with investment between Rs. 5 crore and Rs. 10 crore. In case of services, the investment limit was: micro (up to Rs. 10 lakh), small (Rs. 10 lakh to Rs. 2 crore) and medium (Rs. 2 crore to Rs. 5 crore).

<sup>16</sup> In 2017, Government of India had removed wholesale and retail trade from the ambit of MSMEs.

<sup>17</sup> “The terms **enterprise**, **firm**, and **establishment** are often used interchangeably, although, strictly speaking, they are distinct concepts. An establishment is a single physical location at which business is conducted or where services or industrial operations are performed. An enterprise or firm is a business organisation consisting of one or more

After the enactment of the Micro, Small and Medium Enterprises Development Act (MSMED Act) in 2006, the term “enterprises” was introduced, which includes the service sector as well<sup>18</sup>.

It is generally considered that where the classification of MSMEs is based on investment and turnover, a periodic revision of the limits is warranted due to inflation, technology up-gradation and modernisation<sup>19</sup>. Moreover, many sectors like pharmaceuticals, and auto-components are capital-intensive and require larger investments to comply with mandatory legal requirements and industry standards, even to achieve a reasonable level of turnover. The investment-based definition puts new enterprises at a disadvantage *vis-a-vis* older enterprises; while older units continue to remain within the MSME fold because of their historical levels of investments, their new counterparts slip out of the MSME net due to higher investment needed for units of similar capacity.

The turnover-based criterion and the periodical revision of limits resolve many such ills of the earlier regime. It is a transparent criterion and is easily verifiable through platforms like the Goods and Services Tax Network (GSTN). It also allows a unit to move across the definitions of micro, small and medium with varying turnover. But, due to the adoption of a turnover limit, a few sectors like gem-and-jewellery and apparel, where the investment is low, but turnover is high, stand to lose their MSME status (barring export-oriented units). Also, year on year fluctuations in turnover give rise to new issues of classification and hence entitlements to benefits under specific categories.

### 1.3 The Relevance of MSMEs Globally

MSMEs are the predominant form of enterprises globally. They also account for a major share in employment generation.

MSMEs are major contributors to value creation, generating between 50% and 60% of value added on average<sup>20</sup>. The contribution of manufacturing MSMEs in the country's total manufacturing Gross Value of Output (GVO) at current prices has also been as high as 30%. It contributes about 40% to the exports in the country and contributes about 29% towards the Gross Domestic Product (GDP)<sup>21</sup>.

MSMEs contribute to innovation, and this dynamic has increased in recent decades. Ability to leverage new digital technologies that are scale neutral and their foray into

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domestic establishments under common ownership or control. For companies with only one establishment, the enterprise and the establishment are the same” (ADB (2009), emphasis supplied).

<sup>18</sup> Various Committees had recommended this change over: “The term small scale industry should be replaced by “Small Enterprises” (Gupta (1999), Hussain (1995)); “Turn-over based definition would be transparent, progressive and easier to implement” (Sinha (2019)).

<sup>19</sup> Bala Subrahmanya (2021), Anil Bhardwaj (2018).

<sup>20</sup> Ibid.

<sup>21</sup> <https://www.ibef.org/industry/msme.aspx>

niche markets have enabled MSMEs achieve this feat, overcoming resource constraints, and structural disadvantages due to their size. While all MSMEs are not innovative, start-ups have been able to exploit opportunities and commercialise new knowledge emanating from universities and research organisations. MSMEs are also successful in adopting innovation generated elsewhere and contributing to value creation. They have been instrumental in supplying new or niche products. They also serve remote locations hitherto unserved by larger firms.

MSMEs create job opportunities across geographic areas and sectors, employing broad segments of the labour force, including low-skilled workers, and providing opportunities for skills development. They also help support their employees' access to health care and social services. MSMEs are therefore an important channel for inclusion and poverty reduction, especially in emerging economies like India. Thus, improving the productivity of MSMEs, especially in the traditional artisanal segments and the informal economy, will greatly enhance economic growth and social inclusion.

Many MSMEs are social enterprises, which bring innovative solutions to the problems of poverty, social exclusion and unemployment.

In addition, entrepreneurial opportunities provided by MSMEs provide an avenue for disadvantaged or marginalised groups, like the youth, women, senior citizens, migrants, ethnic minorities and the disabled, to create their enterprises and thus achieve upward mobility. Many MSMEs also contribute to societal goals through the corporate social responsibility (CSR) programmes.

## 1.4 MSMEs in India and Tamil Nadu

As in many other countries, MSMEs in India form the backbone of the country's economy. MSMEs contribute significantly to economic development, and employment. The key source of information about MSMEs in India and Tamil Nadu are the Economic Census and the National Sample Surveys (NSS). However, these sources reveal marginally different data as tabulated below.

Table 2: Profile of MSMEs in India and TN

SOURCE	INDIA	TAMIL NADU	TN's Rank in terms of number of MSMEs
Sixth Economic Census	5.85 crore	50.29 lakh (8.6%)	4 <sup>th</sup> , behind Uttar Pradesh (11.43%), Maharashtra (10.49%) and West Bengal (10.10%).
73 <sup>rd</sup> Round of NSS, 2015-16	6.34 crore	49.48 lakh (7.8%)	3 <sup>rd</sup> , behind Uttar Pradesh (14.14%) and West Bengal (13.98%).

Source: Sixth Economic Census Report and 73<sup>rd</sup> round of NSS report.

**MSMEs are dominated by micro enterprises...**

As per the 73<sup>rd</sup> Round of NSS, more than 99% of these enterprises were in the micro sector; only 0.52% were small-scale enterprises and only a miniscule 0.01% were medium sized in Tamil Nadu. The survey also showed that 51.25% of all MSMEs were located in rural areas.

When examined along sectoral lines, in Tamil Nadu, agro-processing enterprises account for almost one third of all MSMEs; manufacturing enterprises account for 18.57%...

Table 3: Sector wise profile of MSMEs in India and TN

Sectors (excluding primary)	INDIA	TAMIL NADU
Agricultural	22.45%	32.69%
Manufacturing (including mining)	19.87%	18.57%
Wholesale trade	3.36%	3%
Retail trade	27.46%	22.22%
Services	26.85%	23.52%

Source: Sixth Economic Census Report

In terms of nature of ownership, Proprietorship is the most prevalent mode (~90%) among MSMEs...

Table 4: MSMEs by type of ownership in India and TN

Type of ownership	INDIA	TAMIL NADU
Government	3.59%	1.96%
Proprietorship	89.39%	91.13%
Partnerships	0.74%	0.44%
Companies	0.33%	0.10%
Self Help Groups (SHGs)	0.41%	0.26%
Others (co-operatives, non-profit)	0.20%	6.11%

Source: Sixth Economic Census Report

**More than 95% of MSMEs employ 5 or less workers...**

Table 5: MSMEs based on number of workers in India and TN

	INDIA			TAMIL NADU		
	Size	No. of workers	% of Total	Size	No. of workers	% of Total
Size/ by number of workers	1-5	558.6 lakhs	95.50%	1-5	48.12 lakhs	95.68%
	6-9	18.3 lakhs	3.13%	6-10	1.36 lakhs	2.72%
	=>10	80 lakhs	1.37%	=>11	0.46 lakhs	1.60%

Source: Sixth Economic Census Report

**Almost two thirds of MSMEs employ no hired workers at all<sup>22</sup>**

Table 6: Own account enterprises in India and TN

	INDIA	TAMIL NADU
Own account enterprises (i.e., with no hired workers)	71.74%	63.40%

Source: Sixth Economic Census Report

**Tamil Nadu has the highest number of MSMEs employing 10 or more workers...**

If confined to enterprises employing 10 or more hired workers, Tamil Nadu accounts for 13.81% of such units in the country, and occupies the first place, followed by West Bengal (11.07%) and Maharashtra (10.02%)<sup>23</sup>.

**Tamil Nadu has the highest number of MSMEs employing at least one hired worker...**

Among establishments with *at least* one hired worker, Tamil Nadu has 11.13% share of all such units in India, which is the highest among the states. Other states including Maharashtra (10.43%), Uttar Pradesh (9.89%), West Bengal (7.21%) and Gujarat (7.14%) have a smaller share of such units.

<sup>22</sup>Thriving MSME entrepreneurs are usually considered to be “Capitalists in waiting”, i.e. given proper encouragement and support, they will blossom into full-blown capitalists. However, as per the Sixth Economic Census, 71.74%, (4.2 crore) of SMEs were “Own Account Establishments” (i.e. establishments without any hired workers; in other words, family-run enterprises or self-employed persons). This category consists of persons looking for a paid employment elsewhere and will happily leave if they get a job; for them, their micro units are only a stop-gap arrangement. They are, therefore, by no means “capitalists in waiting”. Between the years 2005 and 2013, Own Account Establishments grew at the rate of 56.02% compared to 15.11% recorded by enterprises employing at least one hired worker.

<sup>23</sup> Sixth Economic Census, 2013.

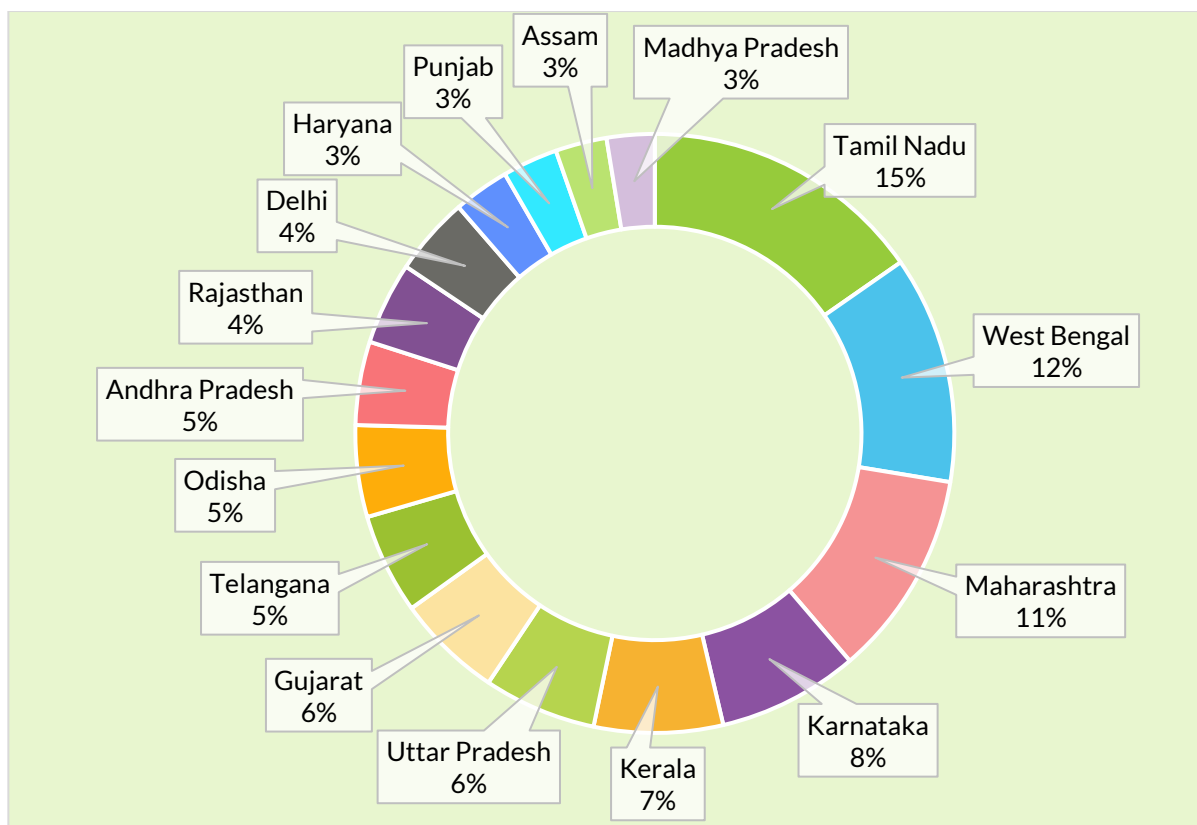


Figure 1 Distribution of establishments with 10 or more workers (states with more than 2% share)

Source: Sixth Economic Census, 2013

**Within Tamil Nadu, districts in the Western and Southern regions accommodate most of the manufacturing units:**

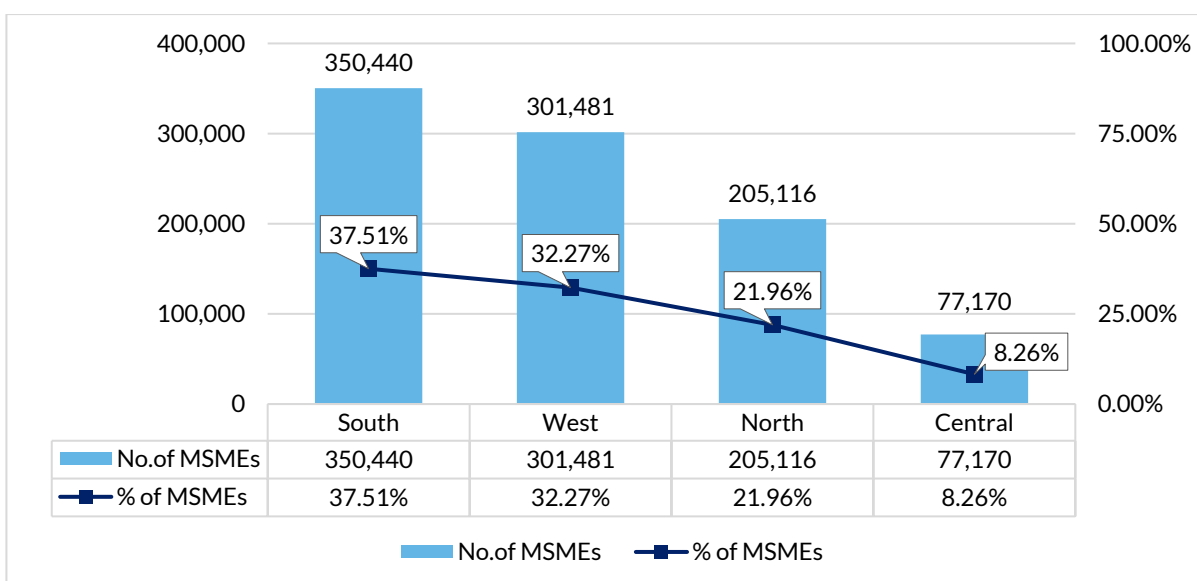


Figure 2 Distribution of MSMEs in Tamil Nadu by number of workers.

Source: Computed from data from Sixth Economic Census, 2013

The relatively larger MSMEs are concentrated in a few districts...

When enterprises employing more than five persons in the manufacturing sector are considered, 57.56% of firms are concentrated in ten districts, viz., Chennai, Kanchipuram, Vellore, Villupuram, Tiruppur, Coimbatore, Namakkal, Erode, Thanjavur, and Madurai.

**The distribution is further skewed if we confine ourselves to MSMEs employing more than 10 hired workers...**

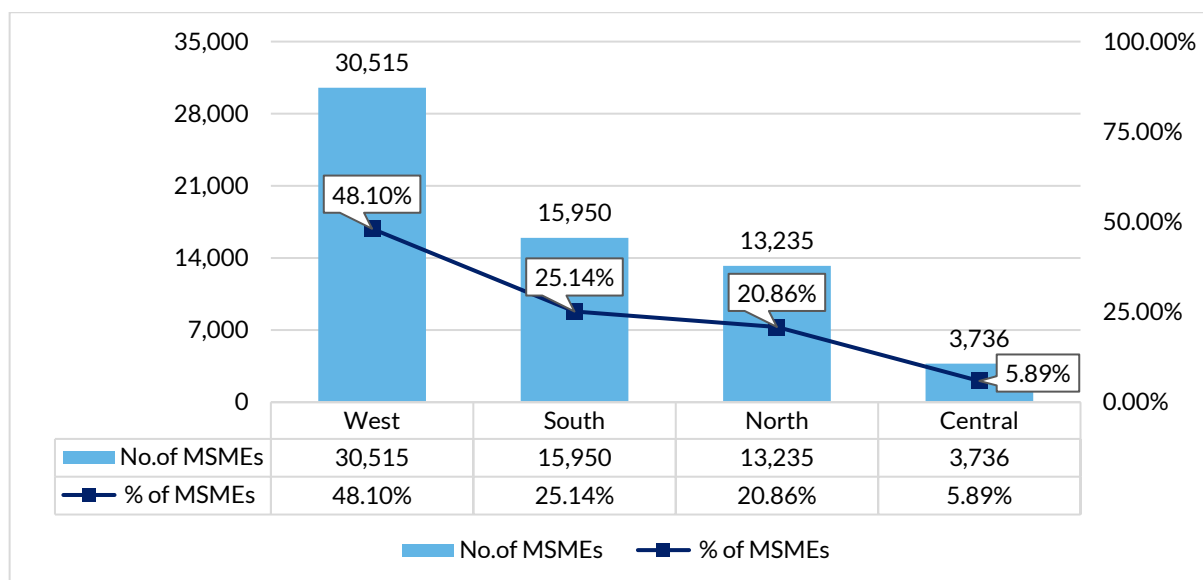


Figure 3 Distribution of manufacturing MSMEs with 10+ workers

Source: Computed from data from Sixth Economic Census, 2013

However, among the larger MSMEs employing more than 500 workers, Kancheepuram, Namakkal, Tiruvallur, Coimbatore, Tiruppur and Krishnagiri districts occupy the top positions<sup>24</sup>.

**An overwhelming majority of MSMEs are self-financed and finance initial investments from their own sources of funds or through informal sources. Less than 5% of MSMEs in Tamil Nadu have access to formal credit...**

Table 7: MSMEs by Source of Finance in India and TN

Source of finance	INDIA	TAMIL NADU
Self-financed	78.20%	81.32%
From formal sources	9.70%	4.72%
From informal sources	12.10%	13.96%

Source: Computed from data from Sixth Economic Census, 2013

<sup>24</sup> It should be kept in mind that many of these districts have been bifurcated after 2013.

The MSMEs in Tamil Nadu manufacture a wide range of products... with twenty-two sectors accounting for more than 90% of manufacturing enterprises in Tamil Nadu, with textiles topping the list.

The following table summarises the overall position of Tamil Nadu across sectors, and presents a comparison with other states.

Table 8: Tamil Nadu at a Glance

Parameter	Rank	Value	Value of Leader	States above TN	Source
Nominal GDP	Second	INR 21,36,351 Cr.	INR 32,24,013 Cr.	Maharashtra	Maharashtra Budget, TN Budget
Per capita NDSP	Eighth	INR 2,13,396	INR 4,35,959	Goa, Sikkim, Haryana, Gujarat, Karnataka, Kerala, Telangana	Economic Survey, Statistical Appendix, Pg - 32
Number of factories	First	38,131 factories	38,131 factories	NIL	Handbook of Statistics on Indian States 2020-21, Pg - 245
People engaged	First	21,12,058 People	21,12,058 People	NIL	Handbook of Statistics on Indian States 2020-21, Pg - 258
Gross Output	Third	INR 9,39,53,310 Lakh	INR 16,19,30,548 Lakh	Gujarat, Maharashtra	Handbook of Statistics on Indian States 2020-21, Pg - 265
Gross Value Added	Third	INR 1,68,28,175 Lakh	INR 2,32,38,343 Lakh	Gujarat, Maharashtra	Handbook of Statistics on Indian States 2020-21, Pg - 270
Invested capital	Third	INR 4,22,33,024 Lakh	INR 9,23,85,348 Lakh	Gujarat, Maharashtra	Handbook of Statistics on Indian States 2020-21, Pg - 256
Automobiles and auto parts	First	INR 1,88,603.23 Cr.	INR 1,88,603.23 Cr.	NIL	Policy note on Industrial Policy, GoTN, Pg - 4

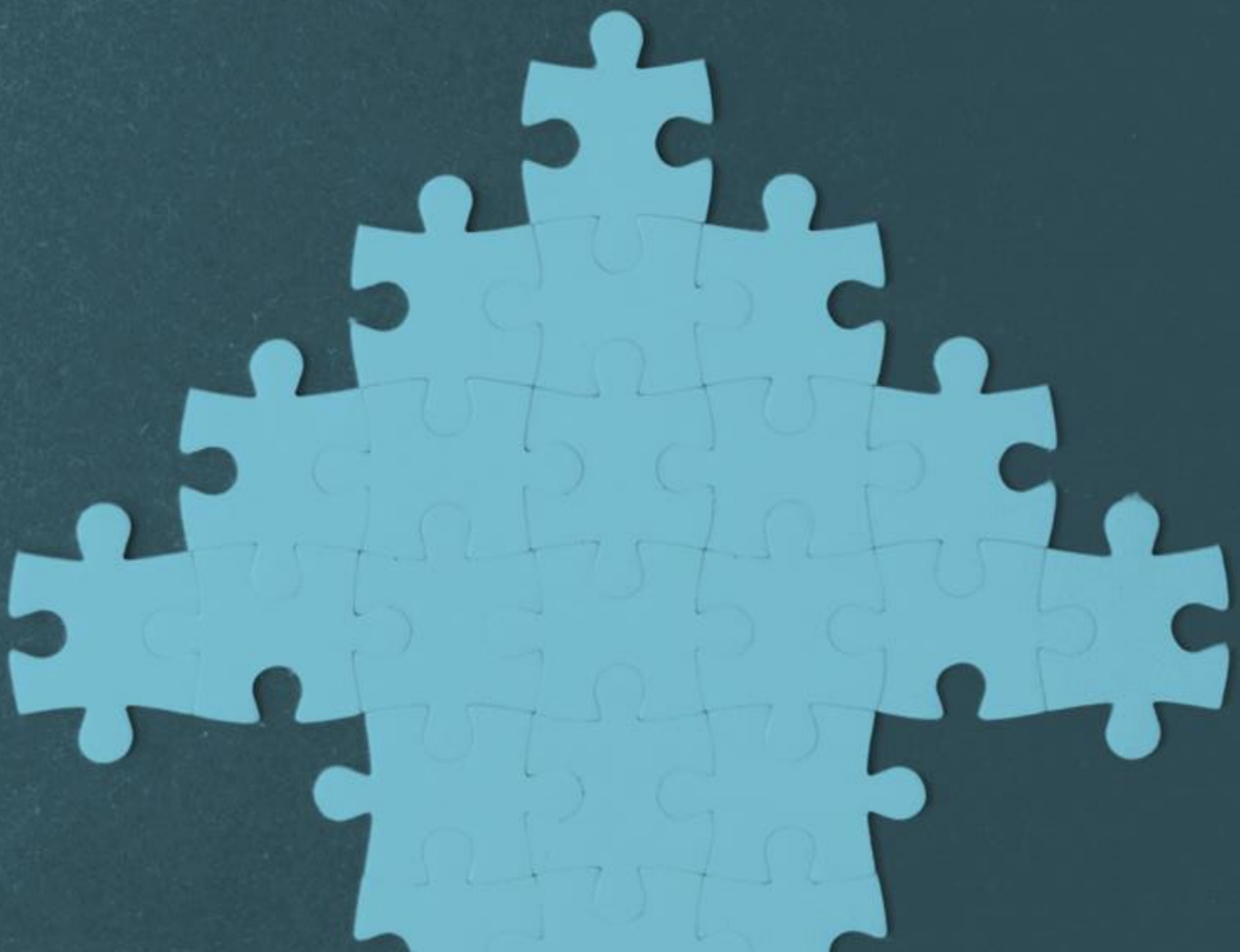
Parameter	Rank	Value	Value of Leader	States above TN	Source
Apparel	First	INR 44,175.20 Cr.	INR 44,175.20 Cr.	NIL	Policy note on Industrial Policy, GoTN, Pg - 4
Leather	First	INR 15,677.30 Cr.	INR 15,677.30 Cr.	NIL	Policy note on Industrial Policy, GoTN, Pg - 4
Textiles	Second	INR 92,422.84 Cr.	INR 96,932.28 Cr.	Gujarat	Policy note on Industrial Policy, GoTN, Pg - 4
Machinery	Second	INR 71,630.63 Cr.	INR 96,784.62 Cr.	Maharashtra	Policy note on Industrial Policy, GoTN, Pg - 4
Electronics	Second	INR 30,052.02 Cr.	INR 62,521.02 Cr.	Uttar Pradesh	Policy note on Industrial Policy, GoTN, Pg - 4
Fabricated metal products	Second	INR 28,743.32 Cr.	INR 53,587.31 Cr.	Maharashtra	Policy note on Industrial Policy, GoTN, Pg - 4
Ease of doing business	Fourteenth	N. A	N. A	Andhra Pradesh, Uttar Pradesh, Telangana, Madhya Pradesh, Jharkhand, Chattisgarh, Himachal Pradesh, Rajasthan, West Bengal, Gujarat, Uttarakhand, Delhi, Maharashtra.	DPIIT Annual Report 20-21, Pg - 45

To sum up from the above table, while the state ranks high among most parameters of industrial development, considerable scope exists for improvement in the process of regulation. Though improving regulatory processes alone are insufficient to dynamise MSMEs, they can contribute to improving the eco-system.



## Part B

# CHALLENGES FACED BY MSMEs IN TAMIL NADU



## 2 Challenges Faced by MSMEs

This chapter gives an overview of the challenges faced by MSMEs in India, particularly Tamil Nadu. The Committee benefited from the earlier reports of many committees constituted by the Government of India and the state Government on MSMEs, numerous other studies and publications on MSMEs already available in the public domain and the extensive discussions it had with various stakeholders. This chapter also draws heavily from the OECD report of 2017 titled '*Enhancing the contributions of SMEs in a global and digitalised economy*' and the OECD report of 2018 titled '*Strengthening SMEs and entrepreneurship for productivity and inclusive growth*'.

MSMEs in Tamil Nadu are a very heterogeneous mix – in terms of their size, sector, nature, and the stage of their lifecycle. While certain challenges which confront MSMEs are common and faced by all these categories, some challenges are particularly disproportionate for some of the categories. This chapter tries to look at the common challenges faced by them first and thereafter the specific challenges faced by some of the categories.

### 2.1 On-ground challenges in Doing Business

The OECD report, 2017 states that a sound business environment and a well-functioning entrepreneurial “eco-system” for business are essential at the local and national levels for the growth of MSMEs, especially in the context of a globalising economy. Intense competition and the fast pace of technological change demand agility and innovative behaviour on the part of the MSMEs; this is made possible only by a nurturing government which makes it easy for the MSMEs access strategic resources.

However, the common feedback from meeting various industry associations was that the road to receiving regulatory approvals is full of potholes, delays, and red-tapism<sup>25</sup>. There is enormous scope for improvement, more so in the current age of using technology as an enabler for granting approvals.

### 2.2 Limited Finance and Access to Resources

The most important issue hindering the growth of MSMEs is the timely and adequate availability of finance. MSMEs (particularly micro enterprises and start-ups) lack adequate collateral, have limited credit history and, and may lack the expertise needed to produce the financial statements required by banks and other formal lending institutions. Moreover, the cost of credit for MSMEs in India is higher than for its international peers. To add to these woes, banks are reluctant to lend to MSMEs due to their higher risk profile (owing to zero collateral or their limited years of operations).

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<sup>25</sup> This is reflected in the lowly fourteenth rank occupied by the state in the Ease of Doing Business Index.

Several experts have therefore opined that a transparent credit rating system, simplification/ reduction in documentation for accessing finance, and providing interest rate subvention to the MSME sector are needed to maintain and enhance the growth of the MSME sector.

## 2.3 Infrastructure

At a macro level, the quality and efficiency of physical infrastructure, such as roads, ports, and airports can make a big difference to the competitiveness of MSMEs as a whole. An added layer of information technology enabled infrastructure further improves competitiveness as information becomes far more readily accessible.

At a more local level, it is the facilities provided within a cluster, institutions governing the cluster, the linkages between the clusters and an overall corridor, the shared services (like tool rooms, testing labs, design houses, buying houses, and centres of excellence), or the quality of facilities within an industrial park that can impact MSMEs. The recent flooding within the industrial parks is a case in point. The recent flooding within the industrial parks in the Chennai region are a case in point.

Infrastructure requirements and expectations can vary quite widely across micro, small and medium enterprises. The requirements can vary based on size of the enterprise, location, or even the sector of operation. While to some artisanal MSMEs, the important infrastructural requirements could include cheap telecommunication capabilities, for others it could include faster turn-around times at ports and airports, lower logistics costs and a more digitised value chain itself.

## 2.4 Limited Market Access

MSMEs have to withstand competition from large enterprises. They also need to respond to evolving market requirements and innovations. However, they have limited access to brand promotion solutions, marketing support, logistics and sales support and IT support. This restrains MSMEs from expanding or diversifying into new markets.

Many MSMEs are not part of global value chains (GVCs). Stronger participation by MSMEs in GVCs can help them scale up, adopt innovations, facilitate spill-overs of technology and managerial know-how, broaden and deepen their skill-set, thereby enhancing their productivity. MSMEs have greater flexibility and the capacity to customise their products faster. This can give them a competitive advantage in global markets relative to larger firms.

There are a few highly innovative MSMEs that are fully integrated into global markets ("small multinationals"). A number of MSMEs that export are embedded in GVCs as suppliers to exporters. At the same time, for many MSMEs, export relationships can be short-lived, with new exporters ceasing to export after one or two years, for longer-term exporters, frequent switching of products and destinations. Smaller and

less experienced exporters or buyers are typically more vulnerable to a sharp drop in external demand, such as in the aftermath of a global crisis.

Furthermore, recent evidence suggests that MSMEs might struggle to take advantage of new opportunities offered by the evolving GVC landscape. Many MSMEs might integrate with the GVCs at the low-value end, where links between multinational Corporations (MNCs) and their local suppliers can be limited and difficult to develop. Often such MSMEs face strong barriers to move into value adding activities because of lack of technology or design and branding capabilities.

Access to public procurement is another area which is generally more difficult for MSMEs than for large firms. Barriers include lack of information on procurement opportunities, large volumes and capability requirements, high technical and financial qualification levels demanded, limited time frames to submit tenders, costs of submission, insurance and financial guarantees required, and finding bidding partners.

## 2.5 Gaps in Digitisation

Barriers in the space of technology hinder the potential of MSMEs to compete and grow. In a national level study carried out by the Ministry of MSME, the National Institute of Entrepreneurship and Small Business Development and the National Small Industries Corporation, it was observed that there exist five major barriers to technology adoption in the MSME sector<sup>26</sup>:

- Cost (including those associated with formalisation),
- Lack of skilled labour, entrepreneurial capabilities and other resources needed to adopt technology.
- Lack of awareness around the benefits of technology, and uncertainty over the return on investment (RoI) from adopting new technology.
- Questions on privacy and data security.
- Concerns over the reliability of infrastructure, namely broadband and connectivity.

Additionally, while it is seen that digitisation of MSMEs can help them reach global markets, the reality is that a large number of MSMEs have not been able to ride this wave. Small and medium enterprises have not invested in R&D, human resources, ERP systems and this in turn has impacted their ability to systematize. The situation is perhaps distinct only in the case of MSMEs integrated into OEM supply chains where the buyers mandate and/ or take ownership over systematisation of their vendors.

The IT revolution has made it possible for MSMEs to work collaboratively including multinationals, and universities. However, this capacity to collaborate is available only

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<sup>26</sup> <https://www.firstpost.com/business/biztech/five-barriers-to-tech-adoption-among-india-msmes-1889941.html>

for the relatively larger enterprises. Innovation on the other hand, while widespread, has been limited to a few businesses only where access or knowledge to means to scale is available.

Moreover, for many MSMEs, digitalisation has resulted in disruption of markets, including increased competition in local markets, rapid obsolescence of knowledge, skills and business models, and increased complexity in the business environment. In addition, “winner-takes-all” dynamics, whereby digital technologies allow for full and instant upscale of the winning product or idea, often at the global level, could have far-reaching implications for the distribution of dividends and participation of new firms and MSMEs in markets.

## 2.6 Technology Upgradation

Innovation and adoption of new technologies are increasingly becoming key drivers of global development. In this era of globalisation, the MSME sector needs to compete not just at the local or the national level but also at the global level. Lack of access to modern technology is acting as a serious threat to the growth of the sector.

Though India has a vast pool of technical talent with a well-developed intellectual infrastructure, the country still scores low in the matter of developing and adapting new technologies in the MSME sector<sup>27</sup>.

## 2.7 Inability to Skill or Attract Manpower

MSME participation in the knowledge-based economy is held back by

- skills shortages
- poor internal management practices and
- inadequate training of workforce, and access to quality digital infrastructure.

MSMEs have higher skills deficiencies than large firms and MSME training effort is on average significantly weaker per employee than in larger firms.

MSMEs often face challenges in attracting and retaining highly qualified personnel and staff with relevant skills and have greater difficulties in identifying workers with sought-after skills in the labour market. Furthermore, MSMEs appear to be relatively lagging in establishing collaboration with education and training institutions, and in the use of company-level learning strategies, i.e. the use of managerial practices and methods that promote learning. Lack of investments in this area also limits the uptake of digital technologies and their effective use to enhance productivity and access markets. In addition, lack of entrepreneurial skills may hold back adjustment to and

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<sup>27</sup> <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>

greater participation of MSMEs and entrepreneurs in the “new world of work” brought about by increasing digitalisation and fragmentation of production processes.

Poor management practices, as well as lack of an appropriate corporate governance structure, also pose challenges to business transfer and management transition processes in many MSMEs, particularly family enterprises. In some cases, management limitations are compounded by financing constraints, regulatory hurdles, administrative and tax burdens, and small markets.

## 2.8 Lack of Formalisation

Formalisation of MSMEs has often been cited as a necessary first step to provide access to MSMEs – access in terms of finance, markets and other infrastructural support. The Governments have also taken steps continuously to bring about formalisation of enterprises. Small Scale Industries (SSI) registration was the first step towards the same. As of 2006, there were 2,33,881 SSI units in Tamil Nadu<sup>28</sup>.

SSI registration was subsumed under Enterprise Memorandum – I (EM – I) registration and Enterprise Memorandum – II (EM – II) registration. Both EM – I and EM – II were started in 2006. As on September 2015, there were 5,80,169 EM – II registered MSMEs in Tamil Nadu<sup>29</sup>.

Both EM – I and EM – II were subsumed under the Udyog Aadhar registration, in September 2015<sup>30</sup>. As on December 2019, there were 9,46,890 MSMEs registered under Udyog Aadhar, in Tamil Nadu<sup>31</sup>.

From 1<sup>st</sup> July 2020, Udyam registration replaced all existing MSME registrations (including Udyog Aadhar registration), and is now the single point of formal registrations for MSMEs in India. As on 30 January 2021, there are 7,29,917 MSMEs registered under Udyam, in Tamil Nadu.

While registration of MSMEs in some ways is a good first step from a policy making perspective, formalisation is perhaps not foremost on the mind of MSMEs – particularly the micro enterprises. The perception that formalisation brings the micro unit under the scrutiny of the government is also one reason often cited to skirt the Udyam registration process. Other reasons could include that the Udyam registration process treats the applicant as an entity, while the largest chunk of enterprises in India and Tamil Nadu are proprietorships and partnerships.

<sup>28</sup> [https://msme.gov.in/sites/default/files/Udyog\\_Aadhar\\_Booklet.pdf](https://msme.gov.in/sites/default/files/Udyog_Aadhar_Booklet.pdf) (Page 20).

<sup>29</sup> Ibid. Page 19.

<sup>30</sup> [https://msme.gov.in/sites/default/files/Udyog\\_Aadhar\\_Booklet.pdf](https://msme.gov.in/sites/default/files/Udyog_Aadhar_Booklet.pdf)

<sup>31</sup> Page 18 of the UAM report published by the Office of the Development Commissioner, Ministry of MSME, Government of India

It could be argued that not enough communication has been carried out to educate the micro entrepreneur about the benefits of formalisation and that a lot more needs to be done on this front. In the meantime, however, the micro entrepreneur continues to obtain loans through informal channels at exorbitant interest rates.

The thematic areas covered in this section broadly address the key concerns of MSMEs. The following sections provide the overall strategy and the recommendations with relevant reasoning to address each of these concerns.





## Part C

# RECOMMENDATIONS

## 3 Recommendations

### 3.1 MSME Strategy for Tamil Nadu

#### 3.1.1 Context

To develop an overall strategy to address these issues, it is important to recognise the heterogeneity of MSMEs on one hand, and the common challenges on the other. The strategy therefore requires identification of two sets of measures or interventions. One set of measures that are sector or size agnostic and are meant to improve the ecosystem in which MSMEs function in the state. The second set of measures are targeted at specific segments.

The proposed strategy emphasises the need for a cluster-based approach to ensure that MSMEs get access to inputs, credit and technologies at lower costs. This approach is not new, and has been a part of MSME development strategy at both the state and all-India level since the late 1990s. The same is however re-emphasised, particularly with the emergence of disruptive technologies across sectors, demand for greater specialisation and possibility of entry into global markets through access to e-commerce platforms.

In adopting a cluster-based approach, a distinction is made between the following types of clusters:

1. **Artisanal Clusters:** These are traditional clusters of firms using artisanal methods of production that have historically evolved in a particular location. The enterprises in this category consist of craftsmen, weavers, and stone workers. Programmes such as Scheme of Fund for Regeneration of Traditional Industries (SFURTI) are well aligned to these ecosystems, but they need an ‘anchor’ such as in the case of Jaipur Rugs to rally around. A special cluster development programme helping largely home based and small units involved in wood carving, leather accessories, goldsmiths, silver anklet making, and others can be developed. This would enable them procure common machinery and also source marketing design and support.

**These Artisanal enterprises require design inputs to develop new products, and contemporary designs; they require support in quality control and packaging practices and aggregation mechanisms for demand generation and supply.**

2. **Natural resource based MSMEs:** These MSMEs typically form based on geography or locally available natural resources. These are often dependent on agriculture, like in the case of coconut and coir enterprises; climatic conditions in the Nilgiris that enabled tea cultivation; the sea for salt and fish processing.

**These enterprises also require a set of shared services that can ensure business generation, quality control, cost optimisation, mechanisation support and marketing support. Collectivisation efforts also may be required.**

- 3. Modern MSME Clusters:** These are clusters of MSMEs that use relatively modern technologies such as the garments cluster in Tirupur, the poultry and the lorry body building MSME cluster in and around Namakkal, Fireworks, Matches and Printing Units in Sivakasi. There are yet others like the Coimbatore pump industry which grew out of the maturity of the textile machine and engineering sector. Proximity to a neighbouring urban hub like Bangalore as in the case of Hosur resulted in the creation of some clusters.

**As the cluster expands in scale or diversifies into new segments, individual firms should be facilitated to aid cluster level efficiencies.**

- 4. Ancillary MSME Clusters (that cater to large industry):** Large enterprises are dependent on an ecosystem of ancillary MSMEs. Examples of these include pressure vessel ancillaries that grew around BHEL in Tiruchirappalli or the automotive ancillary MSMEs that grew in Chennai around large private automotive OEMs. These MSMEs are governed by the process metrics, quality standards and rigorous checks mandated by the large industries that they supply to. They are also the first to adopt international best practices, and quality control systems given the requirements of their buyers.

In developing the cluster strategy, the evolving changes taking place in the overall production, financing and marketing ecosystems have been kept in mind:

- As a result of their “China plus one” strategy, many MNCs are looking at India to locate their units; this is a huge opportunity for Tamil Nadu MSMEs to enter into strategic partnership with foreign companies, get a foothold in global value chains and benefit from new markets, technologies and business processes;
- Of late, there has been a paradigm shift in the MSME financing ecosystem. Banking is getting unbundled and new models and sources of capital are being opened up. There is an emergence and growth of a new class of alternative financiers – *fintech* companies, *crowdfunding*, *peer-to-peer lending*, and *new-age digital NBFCs*, (alternate lending platforms) many of which are now designing products specific to clusters since there is much better visibility of the cluster supply chains and production.

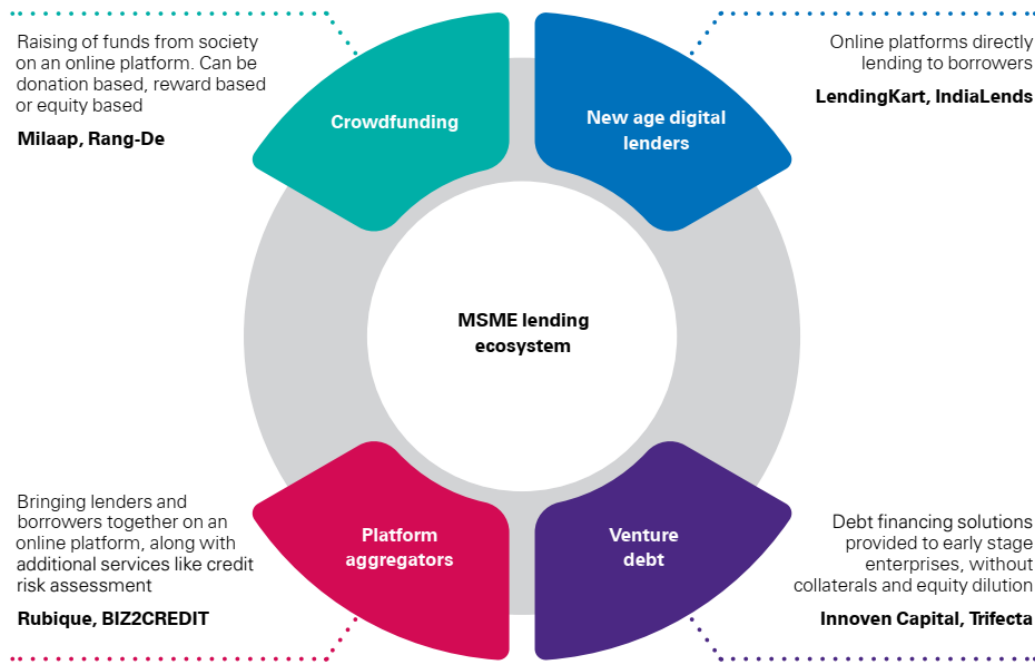


Figure 4 MSME Lending Ecosystem

Source: [www.home.kpmg/in/en/home/insights/2021/08/digital-lending-ecosystem-business-mantra-intelligent-automation-surrogate-data.html](http://www.home.kpmg/in/en/home/insights/2021/08/digital-lending-ecosystem-business-mantra-intelligent-automation-surrogate-data.html).

### 3.1.2 Proposed Strategy

1. A “Corridors and Clusters” approach will be ideal for Tamil Nadu. The state Government should endeavour to bring as many enterprises as possible under the umbrella of one cluster or other, identify gaps in the value chain of those clusters and concentrate on plugging the gaps through shared services in each of the clusters. Within clusters, the following are recommended:
  - a. Offering shared services: Clusters should be provided shared services such as testing facilities, common packaging and branding support, skill development support, logistics optimisation, quality control and market access support.
  - b. Incentivising technology upgradation through a technology upgradation fund.
  - c. Facilitating Exports: Create awareness and take up sector specific interventions such as the analysis of - product specific value chains, existing sources and destinations of raw-materials, contribution of firms at the all-India level and in Tamil Nadu to these value chains, and possibility of nudging existing enterprises into these value chains.
2. **Incentivising formalisation:** Existing MSMEs operating in the informal sector should be incentivised to get formalised (like benefits of being registered on the

**UDYAM portal**), to enable them to access the schemes of the Governments, among other advantages.

3. **Building a Digital Platform:** Digitalisation is the ability of technology to collect data, establish trends and help businesses make better business decisions. The Government should make data available to businesses so that they are able to make better decisions – on buyer identification, market opportunities, raw material procurement, business process standards, access to information on availability and use of new technologies and digital new age financing.
4. **Improving Access to finance:** Improved access to finance can be made possible through new-age financing tools, co-lending and fin-techs; creation of fund of funds to provide credit to MSMEs and the institution of Credit Guarantee Schemes.
5. **Support for R&D** and innovations through speedy and discounted registration of IP Trademarks and patents in India and Overseas.
6. **Setting up of Centres of Excellence (CoEs) along with facilitating industry-academia-private research interactions exclusively for the sunrise sectors and Industry 4.0:** CoEs should be set up that support the establishment of local SOPs, provide training and capacity building, provide access to experts for problem solving and troubleshooting, and linkages to R&D entities for carrying out research (along with trademark and patent support). CoEs could also allow for R&D projects and specific prototyping or development tasks which could include piloting new product features, and other forms of innovation from time to time.
7. **Developing Start-ups:** A vibrant start-up ecosystem (including incubators, accelerators and venture capital) should be developed in the clusters through appropriate partnerships with incubators, accelerators, venture capitalists, providing access to labs in neighbouring academic institutions.

## 3.2 Making Tamil Nadu 'truly' Business Friendly

### 3.2.1 Context

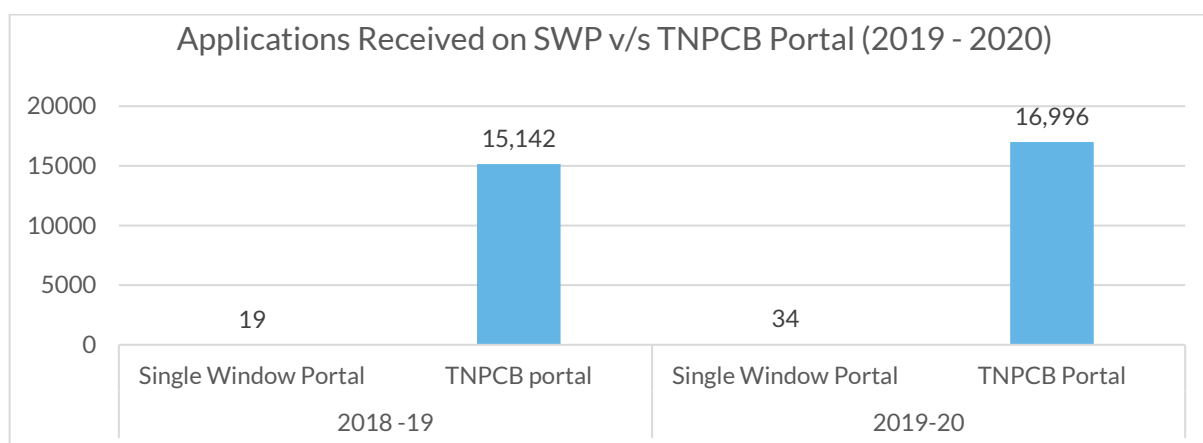
One of the problems faced by the MSME sector, both in the context of the pandemic and otherwise, is the plethora of procedural formalities that they need to go through both at the time of formation and during the running of the business. The implications of Ease of Doing Business (EoDB) are even more profound in the case of MSMEs, where capital and resources are scarce. It is therefore important to make it as simple as possible for MSMEs to apply for, and comply with licenses and regulations.

### 3.2.2 Overarching Recommendations

From all discussions with the associations and MSMEs, the following cross cutting recommendations are made:

1. **Single Window Clearance:** This system was designed by Guidance Bureau in Tamil Nadu to facilitate a single point clearance mechanism for large enterprises and MSMEs. However, most MSMEs apply on the respective dept. websites/portals for clearances, than on the Single Window Portal (SWP). A comparison between the applications received on the department website and those on the SWP, for the Tamil Nadu Pollution Control Board (TNPCB), has been given below:

Table 9: Comparison of applications on the SWP and the portal of TNPCB



Source: Data provided by Guidance and TNPCB.

The above data reflects the large disparity between department portals and the SWP. While MSMEs can be transitioned onto the Single Window Portal (SWP), the challenge remains that the enterprises are not necessarily competent to fill in the application form, which, as witnessed in some discussions with MSME Associations, is a fairly long form designed for an enterprise that is being set up for the first time.

In light of the above, the following recommendations are made:

- a. Guidance Bureau and MSME Department (through MTIPB) work to create a simplified application form for MSMEs. If required, separate application forms can be designed for first time applicants and repeat applicants. For example, for a business that is only applying for a subsidy scheme, the entire Combined Application Form (CAF) need not be filled.
- b. All clearances for MSMEs be brought onto the SWP, and that each time a clearance is brought on the SWP, the line department should not permit independent registration on their own portal/ offline. This in essence takes away the advantage of the SWP. Some departments such as DTCP that have resisted efforts to digitise and continue to hamper EoDB efforts will need to be required to toe the line of the state.
- c. Alternatively, two-way APIs should be adopted by Guidance; i.e. even if an application is filed on the department's portal, it will automatically reflect on SWP and will be considered under the contours of the Business Facilitation Act.
2. **Making compliance by MSMEs easy:** Each department should proactively take steps to create help guides, tutorials, videos on how to fill forms, that are common in the private sector, or for that matter in the Passport Department. The role of the departments should be to also make it easier for the MSMEs to meet their compliance requirements. Absence of customer centricity is visible in the numerous websites developed. For example, CMDA and DTCP have independent processes even though they are administering a similar mandate, only across different geographies.
3. **Moving department processes online:** Departments have not moved their entire process flows online, but have instead only brought intermediate stages online, on a piecemeal basis. This has meant that parallel offline channels of paperwork continue (supposedly for audit purposes). As a first step, departments should:
  - a. Institutionalise a mechanism where the MSME can submit an application/ grievance online, without interaction with the officer concerned. This submission and the life cycle of this application should be trackable by the MSME and the HoD (Secretary/ Commissioner/ Director) at any point in time. Here, a distinction is being made between a routine office file (which can be tracked through an e-office mechanism) and an MSME's application for an approval/license. The focus is on the latter.
  - b. In parallel, the departments should move their processes online and eliminate offline files completely.
4. **Harmonisation across departments ("Once Only" Principle):** Each department has adopted its own independent processes of registration of MSMEs. These

registration processes stem from Acts, Rules and Regulations that were framed independently by departments at different points in time. However, when these processes, and registration requirements are looked at from an MSME stand point (cutting across departments), the following can be observed:

- a. Variations in data fields across departments (e.g., while some departments capture just 'Name' others capture 'First Name' and 'Last Name').
- b. Absence of standardisation of definitions (e.g., while infrastructure is defined in the MSME department as buildings and machinery, the TNPCB defines it as Land, Building and Machinery).
- c. The list of NOCs that are demanded from MSMEs for similar applications, across districts varies. There is no comprehensive list of NOCs across all departments, leaving it to the discretion of the local Officials.
- d. Even though MSME data such as owner details, GST number, PAN number, Udyam Number, and Address are already available across Government databases, either with the Government of India or GoTN, the entrepreneur is required to enter all these data points during his/ her application process – even on the CAF developed by Guidance.

In light of the above, the following recommendations are made:

- a. MSME department should take the lead in building on the existing Udyam Database. On this database can be built a profile of each MSME, which draws on data, through APIs from various Government departments. The MSME department should then make this information available to other departments on a need-to-know basis. For example, the Municipal Bodies can be made aware of new enterprise registrations, that will facilitate Property Tax collections.
  - b. Renewal of licenses for each business should be harmonised across departments; i.e. all renewals should take place at defined intervals and these intervals should be the same fixed dates in each quarter/ half-year/ year across all departments. The payments for these renewals also should be received in one-go and distributed internally across departments.
  - c. Departments such as MSME, Industries, RD&PR, Labour, Agriculture, Animal Husbandry are servicing overlapping sets of customers. Therefore, their planning, surveys, infrastructure creation (e.g. for uniform development across TN) should be harmonised. For example, if RD&PR integrates its routine surveys with MSME, Agriculture, and Labour a common state wide database of business, crops, informal employment can be generated which will be a remarkable, country first tool for data backed policy making.
5. **Use of technology to provide approvals:** The line departments should move to a system where human discretion in providing approvals is eliminated. For this, the departments should adopt two strategies. First, use technology to accord

approvals, such that the online application form itself is able to assist the MSME in the application process. The online form should have field level validation and should be able to provide prompts to the MSME to avoid submission of wrong details. Second, in cases like building plan approvals, organisations such as CMDA, DTCP, DTP and RD should adopt Auto CDR software in all earnestness.

6. **Moving to self-certification:** World over, there has been a move towards self-certification by businesses, followed by randomised risk-based inspections. To enable ease of doing business, the MSME department should work with the line departments (over the next 2 – 3 years) to enable this transition to self-certification. A separate note on Risk based Assessments has been detailed in the next sub-section of this report.
7. **Empanelment of private enterprises:** The MSME department should work with the line departments and create an empanelled pool of experts who are certified. These third-party experts should be authorised to conduct inspections and certifications of the factories, pollution, and land and charge on a per-case basis. The system followed by VFS for Visa Processing is the model that the Committee recommends. In case of poor performance by these experts, the departments should go in for de-licensing them. Departments such as CMDA, DTCP, TNPCB, Labour, Boilers and Fire can initiate the process of such empanelment.
8. **Initial approval free period:** States such as Kerala and Haryana have brought in legislation that allows MSMEs to setup and commence business operations and apply for approvals and clearances within the first three years of their operations – subject to certain conditions. The committee recommends that a similar legislation is issued in Tamil Nadu also.
9. **Rewarding compliant MSMEs:** Today, while non-performance has disincentives, there is no recognition for MSMEs that comply. The Committee recommends that the MSME department include compliance as one more criterion in the awards that are given to the best performing MSMEs. In addition to the above, appreciation letters/ recognition letters should be issued to MSMEs who have had a history of on-time compliance. Such behaviours should also be given recognition by giving them priority for accessing Government schemes. Finally, to make the process stay, compliant MSMEs should also be accorded better credit ratings.
10. **Institutionalising MSME feedback:** For any system to function effectively, it is important to seek user feedback. In the case of the existing systems of approvals/ clearances, the MSME department should collect adequate feedback with a pre-determined frequency. The industry associations also suggested that actual on-ground feedback be collected as the realities on ground were not changing.
11. **Data backed policy making:** Chapter II (Section 3 to Section 8) of the Collection of Statistics Act 2008, deals with the 'Collection of Statistics'. It states that the appropriate government can direct the collection of statistics on various topics including matters related to the welfare of labourers or condition of labourers

including price of commodities; attendance; indebtedness; rent (of dwelling house); wages (and other earnings); provident fund (and other funds provided to the labour); hours of work; benefits and amenities to labour; living conditions (including housing, water supply, and sanitation); industrial and labour disputes; labour turnover; employment and unemployment; trade unions.

In this day and age, it is time that the MSME department integrate into its online MSME database the provision of collection of statistics. By allowing MSMEs to fill compliance forms online on this page, it also allows the department (and therefore the government) to collect data on MSMEs. This data will be useful for policy making, and should be linked to other schemes such as employee insurance, Samadhaan, Udyam registration, and the ability to apply for government schemes and subsidies.

**12. Relooking at the institutional setup within the MSME Department:** DICs were designed at a time when technology and the internet were not widely accessible and therefore for a time when information was not as readily available online. As more and more services are offered online, and as applicants are aggressively encouraged to apply online, the role of the DICs can be relooked at. The following recommendations are made with respect to the above:

- a. The following functions should be offered by the redesigned DICs: (a) Front desk, as in the case of the Passport Office to assist MSMEs in filling of application forms, (b) Schemes related support, (c) Export desk, (d) Enabling finance, (e) Market linkages, and (f) Grievance redressal. MTIPB should create centralised platforms and databases that the DICs will disseminate to the MSMEs. Similarly, the DICs should collate data about walk-ins, and MSME feedback and relay it to MTIPB to keep the service offerings current.
- b. Each DIC should therefore carry out a detailed study of at least 3 major sectors in their district and map out the complete business value chain – with details about sourcing, production, sales and financials. This will help build a comprehensive understanding of the businesses operating in the district. For each such study, interventions can then be planned in a targeted manner.
- c. As a facilitative function, the DICs should be responsible not just for ‘guiding’ or ‘connecting’ MSMEs but should be accountable for defined outcomes. For example, it is not adequate for an MSME to be connected with a local bank for a loan, but the DIC should hand-hold the MSME in preparing a business plan, calling for a joint meeting with the local bankers and hold accountability until sanction of the loan. While this may seem a tall order, true transformation of MSMEs at the ground level can only take place if such mechanisms are built in. Suitable leeway should be given to DICs in the above since not every MSME will meet the desired requirements. The focus however should be on the turn-around-time and the customer centric nature of interactions with MSMEs.

- d. There is a need for introduction of a performance culture in the DICs. For this, simple performance metrics can be introduced at the DIC level. Some sample performance indicators are shown below:

Table 10: Indicative Performance Metrics for DICs

Sl.	Key Result Area	Key Performance Indicator	Weightage
1	Business facilitation	Average turn-around-time for scheme disbursement (date of application to GM approval)	10%
2		Average turn-around-time for approvals in the district (across all line departments)	10%
3		% Reduction in walk-ins for approvals	10%
4	Finance	No. of Block level Bankers Committee Meetings held	6%
5		Value of funds disbursed to micro enterprises (INR)	4%
6	Marketing	New market linkages established	5%
7		DIC facilitated sales generated (INR)	5%
8	Customer centricity	Average waiting time for walk-ins	10%
9		Customer feedback	10%
10	New initiatives	Subjective: Any new initiatives proactively taken up.	10%
11		Capacity building: Details of capacity building initiatives taken.	10%
12		Systems thinking: Details of systems/ processes put in place.	10%

- e. The DICs should outsource the process of filling the application form to a private firm which will staff personnel in each DIC office in a separate section called “Business Facilitation”. The role of this private firm should be as follows:
- Validate the documents submitted by the MSME and ensure that the forms submitted go through departments (including departments such as DTCP and TNPCB<sup>32</sup>) in the first round itself without the need for any changes. Firms such as VFS and TCS carry out such roles in case of Visa processing and Passport processing. Equivalent firms can be engaged for such services preferably employing local youth who **can be trained**.
  - Enable the MSMEs to fill the online application form; and if required, to fill the application form for the MSMEs.

<sup>32</sup> These two departments have been specifically mentioned since across most MSME Association meetings the feedback given to the committee was that obtaining clearances from these two departments is the most cumbersome, and time taking. Both departments insist on applying directly on their portals (instead of applying through the SWP); in addition, DTCP insists on offline applications.

- The firms supporting the DICs should identify trends across districts, common reasons for rejection and take steps to ensure that forms go through in the first round itself. For this, the firms should obtain sample application forms from the line departments (i.e., completed forms with masked details that are considered to be of good quality) and create sample forms – department wise, and make it available for public viewing and use. These sample forms can be created sector wise as well.
- f. Finally, the ambience in the DICs requires upgradation, and standardisation. The MSME department can define the standard aesthetic theme, look and feel of the office, and define the minimum standards that each office needs to adhere to. If the DICs are to function as nodal offices for businesses, they need to be seen as inviting spaces where constructive discussions can take place.

### **Re-looking at roles of other entities in the MSME Department Ecosystem**

In the pages above, a detailed set of recommendations on the role of DICs has been provided. The DICs however, operate in an ecosystem of other entities. For the purpose of comprehensiveness, recommendations on the other entities within the institutional setup of the MSME department are provided below:

#### **1. Commissionerate of Industries and Commerce**

The Commissionerate of Industries and Commerce is responsible for enabling the growth of the MSME sector in the state. It does this through disbursement of subsidies, implementation of schemes, through oversight over Industrial Co-operatives, through interface with banks through the SLBC, and by setting up common service centres (e.g. Laboratories). It plays a regulatory role<sup>33</sup> under the MSMED Act 2006, wherein it helps MSEs obtain payments from buyers through operation of MSE Facilitation Councils. It implements its mandate through a network of District Industries Centres in the state.

Since the creation of the Commissionerate, a lot has changed in the MSME ecosystem. Now several services are being offered by the private sector; online arbitration options are available; and states are re-defining the Co-operative model. The committee therefore recommends that an institutional re-organisation study is carried out for the Commissionerate to re-align itself as an enabler of MSMEs.

#### **2. MSME-Trade and Investment Promotion Bureau (M-TIPB)**

M-TIPB was established in September 2019, with an aim to promote trade, investments, and exports of MSMEs in the state. It supports MSMEs in various aspects including access to market, export support, providing innovative solutions for bottlenecks in technology, finance, and management. The committee envisions a

<sup>33</sup> It also has Regulatory powers under the Essential Commodities Act, 1955 – for Electrical wires/ appliances; Bureau of Indian Standards Act, 1986 – for Cement and Steel; Industries (Development and Regulation) Act, 1951.

substantial role for MTIPB in enabling marketing, branding, vendor connects, creation of platforms for MSMEs and in the actual transformation of specific MSME sectors in Tamil Nadu. The proposed role for MTIPB has been discussed across this report in relevant sections.

### **3. Tamil Nadu Small Industries Development Corporation Limited**

TANSIDCO was established in 1970 to promote and provide assistance to MSMEs in the state. It primarily focused on establishment and maintenance of industrial estates. It maintains 121 industrial estates including 41 government owned industrial estates. It has established product specific parks for sea food, food, textile, and apparels. In general, land acquisition and park management entities in Government face some standard problems that SIDCO also should address. The Committee recommends the following areas that SIDCO should improve upon: a) Optimising the land acquisition time and cost – since these inefficiencies of SIDCO are passed onto the buyers; b) Building parks in phases as they get occupied – as this will optimize cash flows; c) Strengthening of project management capacity and park housekeeping; d) GPS and Geo-tagging of parks such that the entire journey from searching for land, application, payments, land allotment, legal documentation is carried out seamlessly online; and e) Instituting an online grievance redressal mechanism for park occupants such that the speed and effectiveness of redressal is a performance metric for the MD.

### **4. Entrepreneurship Development and Innovation Institute (EDII) and Tamil Nadu Startup and Innovation Mission (TANSIM) – Startup TN**

EDII was established in 2001, with an objective of promoting the field of entrepreneurship education and self-employment. It provides awareness training on entrepreneurship to higher education institutes. It also plays a role in extending entrepreneurship training to entrepreneurs under the UYEGP and NEEDS schemes.

TANSIM was established with the aim of providing an enabling and innovative ecosystem in the state for startups. It provides a networking platform connecting mentors and startups, provides financial support to startups and incubators, and operates an “ecosystem portal” which acts as a registry and repository of key information for startups.

Both TANSIM and EDII are essentially working in the same ecosystem serving a similar set of stakeholders. In fact, from the stakeholders’ point of view, it would be easier for them to approach a single entity for all matters related to entrepreneurship. The Committee therefore recommends that EDII and TANSIM be integrated into a single entity – Startup TN.

### **5. Tamil Nadu Small Industries Corporation (TANSI)**

TANSI was established in the year 1968, involved in manufacturing of wooden and steel furniture for domestic and office use, especially for state and central government institutions. The Committee recommends that TANSI re-orient itself as

a buying house, purchase from MSMEs and sell to Government. However, for this it will need to operate as an almost virtual, but nimble organisation. In this avatar of an asset light-online first model, its land banks can be monetised through a partnership with SIDCO.

#### **6. Tamil Nadu Industrial Investment Corporation Ltd. (TIIC) – earlier under the MSME department**

TIIC is a financial institution that is presently administratively under the Industries Department. TIIC however was in the past under the MSME department. TIIC's current context is that its customers are largely MSMEs; it should be re-purposing itself to become relevant in the current context and lend to MSMEs – including through FinTech adoption, it is proposed that the Government move TIIC back under the administrative control of the MSME department given its customer profile and the synergies it can draw on with TAICO Bank.

2. **Proactive Communication by MSME Department to MSMEs:** During the course of numerous meetings the Committee had with the MSME Associations, one common thread that emerged was the lack of awareness of the MSMEs about the schemes and benefits offered by the MSME Department, or for that matter, all departments. Therefore, the following multi-pronged approach is proposed:
  - a. Upload data on Schemes/ G.Os on the MSME portal: The committee recommends that the MSME department maintain a single portal wherein all relevant scheme information and G.Os are put up. These should be schemes not just offered by the MSME department but also those offered by other line departments (e.g. Animal Husbandry, Agriculture etc.) since the businesses supported by these line departments also are very much MSMEs.
  - b. MSME department should first build a cadence of communication with Associations, which should then percolate down to the MSMEs. The state can first begin by creating a list of registered associations, and then initiating a process of communication.
  - c. MSME department should introduce a reward scheme for recognising and celebrating associations that contribute meaningfully, and in a committed manner to policy making, and in engaging their members.
  - d. Industry – MSME Connect: The large/ medium firms in each district should be connected with the smaller firms in their vicinity by the DICs. For example, in Kanchipuram District, large industries such as Hyundai/ Salcomp can be encouraged to take the lead in that region. The nature of engagement should be that of mentoring and advisory support, training, best practices, quality control, exposure visits to large enterprises, and vendor development. The active contributors to the programme should be recognised periodically by the Government at public forums. The GMs

should take this up as one of their on-going tasks, with support from Programme Managers.

- e. Communication through Messenger platforms: During discussions with the MSME associations it was learned that while the Labour Department had put in place a simplified inspection mechanism for MSMEs, the information was not known/ available to the MSMEs. Hence, even though at the Department level, EoDB related activities had been taken forward, it did not really change the perception of the MSMEs about the line departments on the ground. To address such information asymmetries, the MSME department should communicate with the Associations/ MSMEs (e.g. through a WhatsApp/ Telegram/ Signal group).
- f. Awareness sessions through MSME scheme beneficiaries: The MSME department disburses large amounts of money annually in the form of grants- given for capital subsidy, and for visiting international trade fairs. However, the learnings of the beneficiaries of these programmes are not disseminated across the other MSMEs. The department should therefore facilitate knowledge sharing sessions after each such exhibition/ fair; and organise sessions in which the beneficiaries of the schemes talk about the challenges they faced in putting together their applications as this will also serve as a feedback loop to the department for further improvement.

3. **Right to Services Act in Tamil Nadu:** The Right to Services Act is essential to provide services to citizens in a time-bound manner. Each department defines its own Citizens Charter and the Act then mandates the delivery of services as per the Citizens Charter. The Act makes delivery of service within the stipulated time legally binding, failing which officials can be penalised. The Government of Tamil Nadu, in the Governor's address on June 21, 2021 stated that Tamil Nadu will also roll out the Right to Services Act.

While the line departments will be responsible for providing their services as per the timelines mentioned in the Act, there should also be nodal departments that take care of the interest of their 'clients'.

For example, the 'customers' of the state could include the following:

- Senior citizens, men, women, and children
- Differently abled citizens
- Large industries and MSMEs

Each of these constituent groups obtains services across line departments but they also have 'nodal' departments. For example, the Commissionerate of Welfare of the differently abled is the nodal entity for addressing the requirements of the differently abled. Similarly, the Office of the ICDIC is the nodal entity to address the requirements of Industries. Specifically in the context of MSMEs, the Act should provide adequate provisions for ensuring that the data

pertaining to the services provided by the line departments are made available to the 'nodal department', in this case, the Office of the ICDIC.

4. **Department websites:** to be designed keeping user personas in mind (rather than serving as a repository of government data). The government should come out with a Guidebook on GoTN Website Design specifying the minimum data points that each department should place online (e.g. Acts, Rules, Approvals accorded- with reference to the relevant clauses, Forms, GPS locations of land parcels, and list of upcoming projects).
5. **Continuous engagement with line departments:** The process of engaging with the line departments and simplifying application forms, and compliance modalities should continue under the ambit of MTIPB beyond the tenure of this committee since this is an on-going exercise. MTIPB can build on the learnings/ experiences of Guidance Bureau and continue with a specific focus on MSMEs and their compliance needs. It would be prudent if Guidance Bureau and MTIPB work together in making EoDB a reality for all businesses in Tamil Nadu.

### 3.2.3 Detailed recommendations on EoDB in Tamil Nadu

In addition to the above recommendations, the Committee undertook a study of the different Acts and processes followed for MSMEs in Tamil Nadu, for approval/ clearances. The same was done with the assistance of the Secretariat to the Committee, members of the GAME consortium, and the Industrial Cooperative Officers of the ICDIC. The team met with the following line departments and studied their Acts/ clearance processes, for MSMEs:

1. Chennai Metropolitan Development Authority (CMDA).
2. Department of Agriculture.
3. Directorate of Boilers.
4. Directorate of Industrial Safety and Health (DISH).
5. Directorate of Town and Country Planning (DTCP).
6. Directorate of Town Panchayats (DTP).
7. Greater Chennai Corporation (GCC).
8. Labour Department.
9. Rural Development and Panchayat Raj Department (RDPR).
10. Tamil Nadu Electrical Inspectorate (TNEI).
11. Tamil Nadu Fire and Rescue Services (TNFRS).
12. Tamil Nadu Generation and Distribution Corporation Ltd. (TANGEDCO).
13. Tamil Nadu Pollution Control Board (TNPCB).

A summary of the recommendations made is provided below.

Table 11: Summary of recommendations of the study on approval processes for MSMEs in TN

Sl.	Reform/ recommendation	Relevant dept.
<b>Legislative reforms/ recommendations</b>		
1	<b>Administrative Procedures Act:</b> Drafting of an act/ G.O. that lists the legislative, quasi-judicial and executive functions of each department of the Government of Tamil Nadu.	Pan-government reform.
2	<b>Standards:</b> Evaluate and perform dynamic cost-benefit analyses of all existing and forthcoming standards set out by the Government of Tamil Nadu and reform them based on consultation with key stakeholders.	Pan-government reform.
3	<b>Classification of industries/ businesses:</b> Undertake a risk-based classification of all industries/ businesses to ensure appropriate regulatory and statutory compliance.	Pan-government reform.
4	<b>Third-party certification:</b> Identify processes/ depts. where third-party certification is not used and if applicable, introduce the same. Clearly outline functions for third-party certifications and work towards institutionalising the same.	Pan-government reform.
5	<b>Single point approvals</b> for assessment of building plans and permits.	Pan-government reform.
<b>Department specific process reforms/ recommendations</b>		
6 To 8	<b>Trade Licence:</b> Increase of validity of licence (with auto-renewal), reduction in documentary requirement, and reduction in approval timeline.	Directorate of Town Panchayat (DTP), Rural Development and Panchayat Raj (RDPR) and Greater Chennai Corporation (GCC)
9	<b>Site inspections for construction permits:</b> Modified process of identifying sites to be inspected, based on the applicant's risk classification and compliance history. Random inspections to also follow similar logic.	<ul style="list-style-type: none"> <li>Directorate of Town and Country Planning (DTCP)</li> <li>Chennai Metropolitan Development Authority (CMDA)</li> </ul>
10	<b>Tamil Nadu e-Gazette:</b> Transformation of the e-Gazette into a user-friendly, push-notified, online portal.	Department of Printing & Stationery
11	<b>Factory licence and contract labour licence:</b> Definition of timelines for approval (with deemed approval), online downloading of approved licences and auto-renewal of licences.	The Directorate of Industrial Safety and Health
12	<b>Empanelment of Architects/ Engineers:</b> Moving the empanelment process online, with an integrated portal	<ul style="list-style-type: none"> <li>Directorate of Town and Country Planning (DTCP)</li> </ul>

Sl.	Reform/ recommendation	Relevant dept.
	for CMDA and DTCP. A ranking/ compliance score for these professionals is also recommended.	<ul style="list-style-type: none"> <li>Chennai Metropolitan Development Authority (CMDA)</li> </ul>
<b>Pan-government process reforms/ recommendations</b>		
13	<b>Inspections:</b> Making inspection checklists publicly available on the dept.'s website, along with definition of timelines.	Pan-government reform.
14	<b>Rationalisation of No-Objection Certificates (NOCs):</b> Identification and rationalisation of NOCs across all depts. to remove redundancy.	Pan-government reform.
15	<b>"Once Only policy":</b> Documents uploaded by an applicant for an application, not to be asked again by a different dept., for a different application. Adoption of an online digi-locker system.	Pan-government reform.
16	<b>Periodic data-driven assessments/ reviews:</b> Conduct dept.-wise periodic reviews using application data to ensure approval timelines.	Pan-government reform.
17	<b>Decriminalisation:</b> Removal imprisonment terms attached to low-risk and medium-risk offences.	Pan-government reform.

**Tamil Nadu is India's second largest economy, and a leading manufacturing hub.** It leads in the production of automobiles and auto-components, textiles, leather products and electronic software. It has consistently attracted 9% Foreign Direct Investment in India since the 2000s<sup>34</sup>. Despite this, the state does not rank that high on the Department for Promotion of Industry and International Trade's sub-national index on annual progress in making the business environment less onerous.

**A typical MSME in Tamil Nadu faces a regulatory framework of 59 Acts (10/ 59 are State Acts) and 57 attached rules (26/ 57 are State Rules)**<sup>35</sup>. These Acts and Rules generate 626 compliances; 356 of these arise from State laws.

**While Tamil Nadu maintains its status as a leading economic performer in India, it should not overlook the challenges it faces.** A recent report suggests that the state has not been able to create "enough good jobs to absorb its high-quality technical workforce"<sup>36</sup>. States like Andhra Pradesh and Telangana are the fastest growing

<sup>34</sup> Tamil Nadu Industrial Policy, 2021, Industries Department, Government of Tamil Nadu (URL: [https://www.indembassybern.gov.in/docs/1617966871Tamil\\_Nadu\\_Industrial\\_Policy\\_2021.pdf](https://www.indembassybern.gov.in/docs/1617966871Tamil_Nadu_Industrial_Policy_2021.pdf))

<sup>35</sup> Analysis conducted for a manufacturing MSME with ~100 employees in the Greater Chennai Area.

<sup>36</sup> Tamil Nadu is in need of an economic reboot, 10 July 2021, Sanjev Ahluwalia, Observer Research Foundation (URL: <https://www.orfonline.org/expert-speak/tamil-nadu-is-in-need-of-an-economic-reboot/>)

economies in India. In 2019 and 2020, Andhra Pradesh performed better than Tamil Nadu in terms of investment commitments and grounded investments<sup>37</sup>.

**For Tamil Nadu, the challenge therefore is two-fold:** (i) ensure that its key and dynamic manufacturing and service sectors compete with similar sectors in states like Gujarat, Maharashtra and Karnataka; and (ii) improve Tamil Nadu's *de jure* and *de facto* business environment for attracting investment to compete with emerging economies.

To prepare for these challenges, three types of reforms are recommended for GoTN: (i) growth focused reforms that have the potential to transform Tamil Nadu's business landscape; (ii) Department-specific business-process reengineering; and (iii) pan-government reforms to institutionalize new ideas and systems that operate across departments.

## 1. Administrative Procedures Act

### *Rule-making hygiene and procedural predictability in Tamil Nadu*

Establishing Rule of Law in state-business interactions is probably the most important way to achieve economic gains state-wide. The broader objective of such a law is to improve the efficacy of state-business interactions. Every interaction of state government departments with enterprises has the potential to improve or degrade the business environment in Tamil Nadu.

However, visualising this lost economic activity also presents an opportunity to do better. Putting in place a thorough but simple administrative procedures law will allow the leadership to institutionalise many recent piece-meal process improvements. It will also allow the state to signal greater transparency to businesses and citizens, and help public servants discharge their duties more effectively. This time-tested measure will allow Tamil Nadu to reap percentage points of GDP growth with little financial commitment.

### *Elements of an administrative procedures law for Tamil Nadu*

A good administrative procedures law should cover all the possible interactions between the government and the business. State government departments are responsible for making subordinate legislation in the form of rules and regulations. These constitute the rule-making functions of the department. They are also responsible for preliminary findings and penalty imposition when businesses are accused of violating Acts and Rules implemented by the department. These functions can be classified as quasi-judicial functions. The residual functions like approving licenses, carrying out inspections, and investigating violations are executive functions.

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<sup>37</sup> AP fared better than Tamil Nadu, TS on the investment front, 08 March 2021, The Hindu (URL: <https://www.thehindu.com/news/national/andhra-pradesh/ap-fared-better-than-tn-ts-on-the-investment-front/article34015231.ece>)

Arranging the functions of a department in this manner helps identify and codify the procedures for each in the administrative procedures law.

**For legislative functions, i.e. making rules and regulations, the procedural law should require four activities—dynamic cost-benefit analysis, notice and comment, response to comments, and periodic review.**

- Proposed regulations should be accompanied by a cost-benefit analysis of the regulation that includes second and third order benefits. The departments should look at moving in a direction where efforts are taken to quantify the impact from research and available data. A process of discussion on the impact should also be initiated to improve over the long term.

**For quasi-judicial functions, the hearings in the department should follow the best principles of procedural law for judicial proceedings.**

- The department should be represented by an officer in an adversarial system where the business and the department are on an equal footing.
- The department should refrain from issuing show-cause notices which presume violation on behalf of the business. Instead, a formal charge should be issued which state the findings of the department along with the appropriate laws governing the case.
- All evidence that the state wishes to use in a proceeding should be available to the other party. Affected businesses should have access to all documents that the department relies on to make decisions.
- Hearings should be held before an officer not involved in the chain of command which carries out the investigation for the department.
- The best practice should be to record the entire proceedings including the charge, the response, any verbal submission of the parties, and the detailed ruling of the impartial officer.

**For executive functions, procedures should be made to ensure that the state does not impose undue burdens on the business that is interacting with the department.**

- The law department would need to examine the elements listed in the previous section, and outline their scope in Tamil Nadu's context. They should propose a draft law, or failing this, a comprehensive government order, with the expanded duties and responsibilities of line departments clearly outlined.

It is fully understood that the Act, in the form discussed above, could be seen as stalling or even negatively impacting policy making. There could be a perception that legal processes will be initiated to impact any kind of policy making. The committee therefore recommends that an attempt be made by departments to move in this direction, while actual implementation of this Act in letter and spirit can be a long-term aspirational intervention.

## 2. Setting Standards and Enterprises to meet Standards

Governments and lead firms within value chains set standards that enterprises should comply with. Often adhering to standards involve costs to individual firms not just in financial terms but also in terms of effort and time. MSME support institutions and relevant departments should play an active role in enabling firms to meet such standards through information support among others. Second, in certain instances, standards also evolve with time and technological changes. Hence standard setting itself should be a dynamic process that recognises and responds to such shifts.

Government of Tamil Nadu should carry out a pan-government exercise to evaluate the appropriateness, and effectiveness of standards laid down in different legislative instruments. The state should use this exercise to be the basis to reset standards wherever required and feasible.

The department's analysis should be made available to the public for comments and consideration. Prior to setting standards, the government will need to institutionalise a process for estimating costs and benefits in a dynamic framework. It is also important to understand as to who are likely to bear the costs and benefits.

## 3. Risk Based Regulation

*Explaining how risk-based regulation should work ...*

**Governments across the world use risk-based approaches to simplify regulatory compliance and improve enforcement.** Risk-based regulation (RBR) allows the government to tailor the regulatory tools based on the risk posed by an enterprise; a high risk-business will require strict regulatory oversight as compared to a low-risk business that could use third-party certification or self-certification. GoTN should recognise the scope for RBR for businesses and undertake a systematic exercise across departments to introduce risk-based classification.

Currently, some departments of GoTN have introduced a risk-based approach to tailor regulatory activities (Table 6). GoTN needs to go a step further and lay down the guiding philosophy and SOPs. The idea is to plug gaps in the current system, leverage technology and install a neat, effective system in place.

Table 12: Current status of risk-based classification across different departments of GoTN

Dept.	Classification based on	Purpose	What is missing
CMDA and DTCP	<ul style="list-style-type: none"> <li>Height of the building</li> <li>Built-up area of the building</li> </ul>	Delegation of inspection powers: <ul style="list-style-type: none"> <li>All low-risk buildings inspected by assistant planner/director</li> <li>All medium-risk buildings inspected by assistant planner/director.</li> </ul>	<ul style="list-style-type: none"> <li>Risk-based criteria restricted to a few regulatory tools: licensing,</li> </ul>

Dept.	Classification based on	Purpose	What is missing
	<ul style="list-style-type: none"> <li>Dwelling units (for residential buildings)</li> </ul>	<ul style="list-style-type: none"> <li>All high-risk buildings will be inspected by deputy or chief planner/ deputy or joint director.</li> </ul>	<ul style="list-style-type: none"> <li>and occasionally inspections.</li> <li>No consistency in RBR across departments</li> </ul>
Commissionerate of Labour (CoL)	Number of workers in factory	Frequency of inspections: <ul style="list-style-type: none"> <li>Low-risk establishments inspected every 5 years.</li> <li>Medium-risk establishments inspected every 2 years.</li> <li>High-risk establishments inspected once in every year.</li> <li>Self-certification scheme:               <ul style="list-style-type: none"> <li>Low-risk and medium-risk establishments can enrol under self-certification cum combined annual returns scheme</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Criteria used for designing risk profile only account for the magnitude of risk</li> <li>Criteria defining the probability of the risk event missing</li> <li>Departments do not use risk-based classification for randomised inspections and third-party certifications</li> </ul>
TNPCCB	Large-medium-small classification based on Gross Fixed Assets Red-orange-green-white classification	Frequency of inspections: <ul style="list-style-type: none"> <li>Large red industries inspected every 3 months</li> <li>Small green industries inspected every 2 years</li> <li>Medium orange industries inspected every 6 months</li> <li>White industries do not need 'Consent to Operate'</li> </ul>	

Source: Based on meetings with the departments.

The department should outline clear, tangible and measurable objectives it seeks to achieve. For example, reducing worker casualties/injuries in factories by 30% or achieving a 20% reduction in incidents of factory buildings falling. Subsequently, the department needs to chart out the factors that have a direct bearing on the identified risk:

- Factors like the height of the enterprise, built-up area of the enterprise, and location of the enterprise impact the magnitude of the damage.
- Factors like the type of activity and compliance history of the firm impact the probability of the hazard occurring.

The department can use tools like risk matrices to classify the enterprises based on the magnitude and probability of the risk they pose (given below).

Table 13: Risk matrix based on the magnitude and probability of the harm

Magnitude ↓ / Probability →	High	Medium	Low
Low	Medium	Low	Low
Medium	High	Medium	Medium
High	High	High	Medium

- Departments have several regulatory tools at their disposal, like:
  - Ex-ante controls: registration, permits, licenses, inspections and standards
  - Ex-post controls: inspections, audits, regular reporting, maintaining compliance with standards
  - Third-party certification: Setting standards, self-regulation by industry and professional associations
  - Self-declaration of compliance.
- Based on the risk profile of the firm, the department should tailor its regulatory interventions:
  - High-risk enterprises should be subject to strict oversight using strict licensing, ex-ante inspections, certification, ex-post controls and strict, risk-averse standards.
  - For enterprises posing medium risk, the licensing process can be simplified, third-party professionals can certify them and ex-post controls can be applied by the enforcement authority or by third-parties.
  - For enterprises posing low risk, the department can remove the requirement of ex-ante controls, allow them to self-certify and pare down ex-post controls.

The government should also consider introducing **randomised inspections** based on risk. Once the risk profile of an enterprise has been determined, the next step should involve auto-assigning file for inspections, for instance:

- 100-75% of the building applications marked red are to be inspected;
- 75-50% of the building applications marked yellow are to be inspected;
- 50-25% of the building applications marked green are to be inspected.

#### What will it take to execute this recommendation?

GoTN needs to lay down the foundations for the second generation of reforms in RBR. Table 8 lists out the gaps for 4 departments. For instance, TNPCB has identified the risk, designed the criteria to account for the probability & magnitude of the hazard and assigned a risk-profile to each enterprise. However, it is yet to: (i) build a technology-

driven algorithm that auto-assigns files for randomised inspections; (ii) track the compliance performance of enterprises; and (iii) adjust more regulatory tools like licensing and third-party certifications based on risk. Thus, GoTN should first bridge the gaps in the RBR used in these 4 departments.

**Departments using RBR need to account for the probability of the hazard.** Currently, most of the criteria used for RBR accounts for the *magnitude* only, like height of the building, built-up area, and number of workers employed. TNPCB does account for the *probability* by using the pollution index score to classify enterprises. Risk is a combination of magnitude and probability of the hazard. Thus, we recommend that departments should consider criteria that account for probability of the hazard as well.

Table 14: Illustrative criteria for ascertaining probability of the hazard

Department	Criteria to ascertain probability of the hazard
CMDA and DTCP	<ul style="list-style-type: none"> <li>• Compliance track-record of the empanelled professionals</li> <li>• Type of activity carried out inside the building</li> </ul>
CoL	<ul style="list-style-type: none"> <li>• Compliance track-record of the enterprises</li> <li>• Type of activity carried out inside the building</li> </ul>
TNPCB	<ul style="list-style-type: none"> <li>• Compliance track-record of the enterprises</li> </ul>

GoTN should leverage technology to build an ever-learning RBR system. RBR is not a static system; accounting for probability of the hazard necessitates the use of smart technology and data monitoring and collection to improve risk-profiling and planning. GoTN should design a 'how-to' handbook for consistent, effective, and enforceable risk-based regulation.

#### 4. Third-party certification

##### *Setting a SoP to source market expertise for enforcement*

GoTN should consider laying out guiding principles and a standard operating procedure for departments to comprehensively select functions to be delegated/outsourced to third-parties, and implement a vigilant back-end to use certifiers to improve compliance. For roping in private parties to perform regulatory functions, the state government needs a robust framework to:

- decide what can be certified by outsiders,
- locate and empanel domain experts for certification,
- outline the terms of engagement between the government and the private party,
- build a reward-punishment mechanism to monitor performance, and
- integrate third-party certification with a broader risk-based approach.

**First, GoTN should identify G2B services and line departments that could benefit from an immediate application of third-party certification. Second, GoTN should**

**commission a handbook outlining the principles, and standard operating procedure for introducing third-party certification. Third, for building a compliance track-record, GoTN should use technology to its benefit.**

Table 15: Illustrative Indicators to track compliance record of third-party certifiers

For fire safety certifier	<ul style="list-style-type: none"> <li>• How many fire-safety complaints were received about buildings audited by the professional?</li> <li>• How often have buildings worked on by the professional experienced a fire accident?</li> <li>• Were all the fire-safety related equipment in place and in proper working condition?</li> </ul>
For architect or engineer certifying building plans	<ul style="list-style-type: none"> <li>• Were deviations from the approved building plan reported accurately and timely?</li> <li>• Were progress certificates, completion reports and other reports submitted timely?</li> <li>• How often have buildings certified by the professional destabilised in the last X years?</li> </ul>

**Finally, GoTN should also integrate independent third-party certification schemes with the risk-based approach to help effective and efficient deployment.** The compliance track-record of the professional can help forecast the probability of adverse events (refer to note on risk-based regulation). On the basis of the track-record, the professional should get an annually updated score. A persistent high compliance score could translate into low-frequency oversight by the government. A low compliance score should translate into the certifier's projects being classified as higher risk. Repeated defaults should result in a revocation of empanelment status.

## 5. Single Point Assessment of Building Plans and Permits

An entrepreneur has to get factory plans approved by the Directorate of Industrial Safety and Health (DISH) and Housing and Urban Development Department (HUD) before construction. Rule 3 of the Tamil Nadu Factories Rules, 1950 and Rule 73 of Tamil Nadu OSHWC (draft) Rules lay out the process to get the factory building plans approved. Tamil Nadu Combined Development and Building Rules, 2019 separately regulate the building construction activities of all types of buildings including industrial buildings, and require submission of building/site plans and grant building permits under them.

We recommend that the building plan approval requirements be transferred from the remit of the Labour department. The Directorate of Industrial Safety and Health (DISH) can set the standards for industrial buildings like floor space and breathing space per worker, and minimum height requirements for a factory.

Building plans should be evaluated and permits issued by one entity. This will ensure that only one line department is responsible for construction permits, and the entrepreneur only interfaces with a single nodal department for all construction-related approvals.

## **6. Reforming the Trade License by Directorate of Town Panchayat (DTP)**

Every enterprise located in the municipal areas of Tamil Nadu is required to obtain a valid trade licence<sup>38</sup>. The licence has to be renewed at the end of every financial year. Local bodies (under the Directorate of Town Panchayats) collect fees on issuance and renewal of trade licences in their municipal limits. The Trade Licence acts as permission to an entrepreneur to start a particular trade or business activity in a particular area of the state. The state government uses licence data to monitor the different types of trades and to ensure that only permitted business activities are carried out in the state.

### *Key issues*

- Trade licences have to be renewed every year which increases the annual compliance burden for entrepreneurs.
- An entrepreneur has to furnish approximately 15 documents including NOCs to obtain the licence.
- The time limit prescribed for issuing a licence is 14 days, relatively higher than states such as Punjab (7 days), Haryana (7 days), Karnataka (7 days).
- Currently, the trade licence issuance process is completely offline, which makes it difficult for entrepreneurs to track their application.

### *Recommendation*

- Increase the validity period of the Trade licence from one year to five years;
- Reduce the number of documents required for obtaining a trade licence to only two: ID Proof and address proof (Lease Deed/ Legal Occupancy document/ Electricity bill);
- Reduce service delivery timeline for issuing fresh Trade licences to seven working days.

### *Action required*

- Amend point 4 of Section 249 of Tamil Nadu District Municipalities Act, 1920, to reflect the inclusion of extended trade licence validity, auto renewal process and reduced service delivery timelines.

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<sup>38</sup> Refer to Tamil Nadu District Municipalities Act, 1920 (Chapter 12, Sections 249)

## 7. Reforming the Trade License by the Department Rural Development and Panchayat Raj (RDPR)

Every enterprise located in the panchayat areas of Tamil Nadu is required to obtain a valid trade licence<sup>39</sup>. The licence is renewed every three years. An existing business building an annex or an extension requires going through a process similar to obtaining a new trade license. While a pilot for online implementation of the trade license was initiated in 10 out of 385 blocks, both issuance and renewal of a trade licence remain largely offline today. Trade licence data allows for monitoring different types of trades and ensuring that only permitted business activities are carried out in the state.

### Key Issues

- Trade licence has to be renewed every three years which increases the compliance burden for entrepreneurs.
- The time limit prescribed for issuing a licence is 14 days, which is higher than states such as Punjab (7 days), Haryana (7 days), and Karnataka (7 days).
- The offline procedure makes it difficult for an entrepreneur to track progress.
- There are approximately 15 pre-requisite documents including NOCs that require entrepreneurs to make multiple visits to various departments.

### Recommendation

- Increase validity period of Trade Licence from three to five years and enable auto renewal thereon.
- Reduce the number of documents required for obtaining a trade Licence to only two: ID Proof and address proof (Lease Deed/ Legal Occupancy document/ Electricity bill);
- Reduce service delivery timeline for fresh Trade Licence issuance to seven working days.

### Action required

- Amend section 159 of the Tamil Nadu Panchayat Act 1994 (Tamil Nadu Act 21 of 1994) to reflect the inclusion of enhanced trade licence validity, auto renewal process and service delivery timelines.

## 8. Reforming the Trade License issued by the Greater Chennai Corporation (GCC)

Every entrepreneur setting up a trade “within the limits of the city” of Chennai must obtain a Trade Licence from the Greater Chennai Corporation<sup>40</sup>. This is mandated by Section 287 of the Chennai City Municipal Corporation (CCMC) Act, 1919. Chapters VII

<sup>39</sup> Refer to Tamil Nadu Panchayat Act 1994 (Tamil Nadu Act 21 of 1994) (Section 159)

<sup>40</sup> Section 287 of the Chennai City Municipal Corporation (CCMC) Act, 1919 specifies that industries and factories, shall need to obtain a licence from the GCC.

and XII of the CCMC Act, 1919 mentions the different trades that have to obtain a Trade Licence (nine such trades are mentioned here). More trades (that need to get a Trade Licence) are mentioned in Schedule VI (125 such trades are mentioned) of the Act. The GCC, separately, has a list of 575 trades for which trade licences are required to be obtained<sup>41</sup>.

### *Recommendation*

- Increase validity period of Trade Licence to five years and enable auto renewal thereon.
- Reduce the number of documents required for obtaining a trade Licence to only two: ID Proof and address proof (Lease Deed/ Legal Occupancy document/ Electricity bill);
- Reduce service delivery timeline for fresh Trade Licence issuance to seven working days.
- GCC can also consider the **removal of the issuance of Trade Licences** by the GCC. The relevance of and the need for the Trade Licence has now been replaced with multiple other clearances that the entrepreneur is to obtain from GoTN Departments. Approvals are required from Department of fire safety and rescue services for fire safety, DISH & Labour Commissionerate for labour safety, and TNPCB for pollution related clearances. Trade licences served as revenue for the GCC during its inception (revenue raised through issuing licences) but account for less than 1% of total GCC revenues.

### *Action required*

- Amend the CCMC Act of 1919 to reflect the changes suggested above/ removal of the Trade Licence issuance process. The amendment also needs approval from the Council of the Greater Chennai Corporation and the Government of Tamil Nadu.

## **9. Randomising inspections for construction permit for DTCP and CMDA**

Construction of a building requires physical/site inspection by officials at different stages. In the case of Tamil Nadu, these site inspections take place before issuing the building permits<sup>42</sup>. Rules 9 and 20 of the Tamil Nadu Combined Development & Building Rules, 2019 delegate the powers to the competent authority to conduct inspections “for such developments where its risk assessment deems it fit for inspection”.

A 2019 [Government Order](#) (GO)<sup>43</sup> by the Housing and Urban Development Department introduced risk-based classification and delegation of powers for the site inspection of residential and commercial buildings under CMDA and DTCP. As per the

<sup>41</sup> List of 575 trades provided by GCC, not mentioned explicitly in the Act.

<sup>42</sup> Rule 20 of Tamil Nadu Combined Development & Building Rules, 2019 exempts all types of industrial buildings from acquiring completion certificates.

<sup>43</sup> G.O.(Ms) No. 86 dated 14.06.2019 by the Housing and Urban Development Department

GO, all industrial buildings are treated as high-risk buildings under the category “other developments”. For site inspections, every industrial building is treated as high-risk. No exemption/relaxation is given based on the probability of the risk event and magnitude of the risk that the event poses.

We recommend a modified process of site inspections that account for the building type and the compliance history of the certifier.

- **Element 1: Modify classification of buildings into a high-medium-low risk framework:**
  - Height of the building: Size/ built-up area of the building: The larger the size of the building, the higher the adverse impact of an accident that takes place.
  - Type of activity/ process
- **Element 2: Using the compliance track record of registered professionals:**
  - For construction, a plot owner has to hire a Registered Architect (RA) or a Registered Engineer (RE)<sup>44</sup>. The RA/RE is responsible for preparing building plans, ensuring that the work is executed as per the approved building plans, submitting progress certificates, completion reports and other details required for occupancy certificates and any other report as required. The RA/RE also has to notify the competent authorities in case of any deviations from the approved plans.
  - We propose that the government maintain a digital record of the compliance history of RAs and REs<sup>45</sup>. This compliance history should work as the basis for a **reward-punishment mechanism**—a high compliance record should be rewarded, and a low compliance record should be penalised.
  - On the basis of this record, the professional should get a score. These scores should be updated every year. Based on these scores, the compliance record of the professional should be categorised as low compliance, medium compliance or high compliance.
- **Element 3: Implement a revised model for conducting randomised inspections based on the risk classification of the building and compliance history of the registered architects/ engineers:**

<sup>44</sup> Annexure XIII of Tamil Nadu Combined Development & Building Rules, 2019

<sup>45</sup> Refer to the reform regarding common empanelment process for CMDA and DTCP and maintenance of digital lists of empanelled professionals.

Table 16: Illustrative risk-based assessment

Building Risk ↓ / Compliance record →	Low compliance	Medium compliance	High Compliance
Low risk	B	C	C
Medium risk	A	B	B
High risk	A	A	B

- This yields an auto-assignment for randomised risk-based inspection where:
  - 100-75% of the building applications marked red are to be inspected;
  - 75-50% of the building applications marked yellow are to be inspected;
  - 50-25% of the building applications marked green are to be inspected.
- The Housing and Urban Development department should modify the 2019 GO<sup>46</sup> to incorporate risk-based classification for industrial buildings.
- Part V of the Tamil Nadu Combined Development & Building Rules, 2019 should be amended to incorporate the system of recording compliance track records of the professionals (RAs and REs).

## 10. Revamping the Tamil Nadu e-Gazette

In 2015, Government of India issued a circular<sup>47</sup> that it would henceforth publish a comprehensive e-gazette as the single source of regulatory updates. Like other states, Tamil Nadu too has an e-gazette portal, maintained by the Stationery & Printing (S&P) department, which has annual archives going back to 2008.

Tamil Nadu's e-Gazette is unusable for a modern enterprise; while archives are available going back to 2008, entrepreneurs can only locate appropriate updates or notifications by 'date' and not by more intuitive and useful filters such as department or type of order. Other state e-gazettes such as that of Haryana, Andhra Pradesh, and Himachal Pradesh allow for filters by department, year, notification number, and notification type.

There are 100+ government websites that become the source of regulatory updates for entrepreneurs, with wide variability in user experience. Currently, entrepreneurs need to periodically visit these websites and manually look for any updates that affect their compliance obligations. The chances of missing updates and working with incomplete information are high.

<sup>46</sup> G.O.(Ms) No. 86 dated 14.06.2019 by the Housing and Urban Development Department

<sup>47</sup> Office Memorandum No O-17022/1/2015-PSP-I dated 30.09.2015, sent by Ministry of Urban Development (DeitY), Government of India.

*Recommendation***Transform the Tamil Nadu e-Gazette into a user-friendly source of regulatory updates**

- **Invest resources to improve e-Gazette in-line with the Centre & state portals:** in line with the best practice e-Gazette such as that of the Government of Haryana, the Government of Tamil Nadu must improve usability through intuitive filters (e.g. department name, notification type, notification date, subject, and title)
- **Ensure push notifications of relevant updates:** provide a mechanism for entrepreneurs to receive regulatory updates on their email or phone number to stay abreast with the latest Acts, Rules, notifications, guidelines, exemptions, and schemes.

**11. Auto-renewals for Licences under Tamil Nadu Labour Rules**

An entrepreneur wanting to set up a factory employing nine or more workers in Tamil Nadu requires a factory licence under the Factories Act, 1948. Rule 4 of the Tamil Nadu Factories Rules, 1950, lists down the procedure for granting factory licences and required registration fees. Any establishment where twenty or more workers are employed or were employed on any day of the preceding twelve months as contract labour has to acquire a contract labour licence under the Contract Labour (Regulation and Abolition) Act, 1970. Rule 21 of the Tamil Nadu Contract Labour (Regulation and Abolition) Rules, 1975 lays down the application procedure for a contract labour licence.

**The Rules do not specify turnaround periods, deemed approvals and auto-renewals for licences.**

*Recommendation*

**We recommend codifying the turnaround periods, provisions regarding deemed approvals and auto-renewals in the Rules.**

- All registrations and licences be granted/ renewed within a stipulated time period of receiving the application. We recommend adopting the timelines that have been codified in the Tamil Nadu Business Facilitation Rules, 2017: 14 days for factory licence and 7 days for a contract labour licence.
- Where the Department exceeds the stipulated time period, the licence be deemed approved.
- After the approval/ deemed approval is granted, the certificate of registration/ licence be made available on the Department's website for the applicant/ employer to download.
- The existing registrations and licences should be auto-renewed, if the establishments self-certify that they are compliant with all the conditions of the previous registration/licence.

- The Department should require applications only when a new establishment applies for licences or an existing establishment wants to amend any particulars on its previous licence.

#### *Action required*

- Government of Tamil Nadu should amend Tamil Nadu Factories Rules, 1950:
  - Add sub-rules under Rule 4 to incorporate the turnaround period for the approval of a factory and deemed approvals in cases where the department does not respond in the specified turnaround period;
  - Add sub-rules under Rule 7 to incorporate turnaround period for the renewal of a factory licence, deemed renewals in cases where the department does not respond in the specified turnaround period, and auto-renewal of factory licence if the establishments self-certify that they are compliant with all the conditions of the previous registration/licence.
- Amend Tamil Nadu Contract Labour (Regulation and Abolition) Rules, 1975:
  - Add sub-rules under Rule 21 to incorporate the turnaround period for the approval of a contract licence and deemed approvals in cases where the department does not respond in the specified turnaround period;
  - Add sub-rules under Rule 29 to incorporate turnaround period for the renewal of a contract licence, deemed renewals in cases where the department does not respond in the specified turnaround period and auto-renewal of contract licence if the establishments self-certify that they are compliant with all the conditions of the previous registration/licence.
- When the rules for the new labour codes are framed, we recommend that Government of Tamil Nadu, while drafting the Tamil Nadu Occupational Safety, Health and Working Conditions rules, incorporate specifics relating to turnaround periods, auto-renewals and deemed approvals.

## **12. Empanelment of Architects/ Engineers with DTCP & CMDA**

To construct a building, the plot owner has to hire accredited professionals empanelled with the government. Rule 6(6) of the Tamil Nadu Combined Development and Building Rules, 2019 mandates that the building plans have to be prepared by a qualified architect or engineer. Registered architects draw the building plans; registered structural engineers prepare the structural design and structural drawings of the building; registered construction engineers supervise the construction of the building and check the quality of the construction material; registered geotechnical engineers carry out soil investigation for all high rise buildings.

Rule 8(5) lists out the different professionals that need to be hired based on the specifications of a building. Part 5 of the Rules deals with the registration process of these professionals, and Annexure XIII states the qualifications and experience required by the professionals to get empanelled.

Professionals do not have access to a one-step online registration process for getting empanelled with CMDA and DTCP. CMDA and DTCP have separate registration processes for empanelment. The list of empanelled professionals with DTCP is not available online.

### *Recommendation*

We recommend a modified registration process for professionals and building a dashboard to track the compliance record of the empanelled professionals. The registration process for professionals should be completely digitised. **DTCP and CMDA should have an integrated online registration process that allows professionals to choose zones of operation and departments to maintain revenue neutrality. The list of empanelled professionals should be uploaded online on the respective websites.**

### *Action required (Language change/ legislation change/ GO)*

- Amending Rule 23(1)(a) of the Tamil Nadu Combined Development and Building Rules, 2019, to mandate an online SWP registration process for the professionals.
- Updating the Guidance Single Window Portal to allow new and already empanelled professionals to register for CMDA or DTCP or both.
- Updating the website of DTCP to display the updated lists of empanelled professionals.
- Building a dashboard to track the compliance record of the empanelled professionals. DTCP and CMDA need to narrow down on the parameters for the compliance record and upload the dashboard on their respective websites.

## **13. Increasing transparency of the inspection process across departments: Maximising compliance and minimising business costs and executive discretion**

Inspections are the primary enforcement mechanism for ensuring compliance. Inspections involve the direct interface of the department personnel and the entrepreneur. Powers to inspect license/registration/permit/consent holders stem from the respective Acts/ Rules relevant to the department.

**Absence of clear procedures for inspections can increase executive discretion and add to business costs.**

- **Admin data:** Out of 13 departments selected by the Committee for MSME G2B services related reforms, only 2 have uploaded an inspection checklist on their respective portals.

### *Recommendation*

**The inspection process adopted by several departments should be simplified and digitised to reduce the time and material costs on businesses.**

- **Making inspection checklists available in advance:** A comprehensive list of the aspects that will be inspected should be uploaded by the departments on their

respective websites. The entrepreneur should be provided with easy access to these checklists.

- Making the inspection process transparent:
  - The inspector should share a list of preliminary observations made during the inspection with the entrepreneur immediately after the site inspection. The entrepreneur should attest that 1) the inspection was carried out, and 2) that preliminary observations were shared.
  - Departments should ensure that the final inspection reports are uploaded on the portal within a stipulated time. We recommend a time limit of 48 hours of conducting the inspection.
  - The departments should mention a specific time period for the entrepreneur to rectify any issues raised in the inspection report and conduct a re-inspection, if required.
- Every 2 years, departments should commission a third-party audit of the inspections reports and process hygiene.

#### *Action required*

- Each department should compile comprehensive inspection checklists for all the inspections they carry out. These lists should undergo rigorous scrutiny by the leadership of the department, and should be uploaded on the department websites for the public to access.
- The departments should pass a G.O. intimating the public about changes in the inspection process including procedure for sharing preliminary observations, turnaround period for uploading final inspection reports and third-party audits of process hygiene.

#### **14. Cataloguing and rationalisation of NOCs: Improving transparency on NOC requirements to start a business**

Currently, enterprises require 'No Objection Certificates' (NOCs) from multiple departments to start a business. However, a definitive list of such NOCs is not available. Lack of clarity on NOC requirements means that entrepreneurs have to find out about documentary requirements from issuing authorities who may use their discretionary power to ask for additional documents

#### *Recommendation*

**Cataloguing and freezing a list of NOCs linked to the appropriate service, clearly identifying the issuing department and the statutory locus**

- **Catalogue an exhaustive list of NOCs required for an entrepreneur to start a business:** linked to the appropriate G2B service, the list should include issuing department, statutory locus, and timelines

- **Notify the list as the ‘definitive list of NOCs’ and publish on the Single Window Portal**
- **Create a higher bar for seeking a new NOC:** set up a procedure such that all new NOCs must require cabinet approval
- Notify the NOC list and publish on the single window portal

#### **15. Institutionalising a “Only Once” Principle: One time submission/ uploading of documentary proof by an applicant, for all government applications**

The “Only Once” Principle is the principle that a Government authority should not ask an entrepreneur for a document that was previously issued by or submitted to the same or another public authority<sup>48</sup>.

Currently, an applicant is required to re-submit/ re-upload multiple documentary proof across different clearances, within the same department or different departments.

- Under the “Only Once” Principle, design and implement an online, digital locker/ repository/ platform that can store and retrieve all documents provided by the applicant. This should also be linked to the Single Window Portal and to the online databases of all the Government departments (including PAN and Aadhar databases). Applicant’s PAN/ Aadhar should serve as the unique identifier for the data. The Tamil Nadu Guidance Bureau (Guidance) needs to do this, since it was Guidance which had designed and implemented the Single Window Portal for the state.
- Any certificate/approval issued by a Department should also be linked to the above repository. If the same serves as a mandatory document for another application, it should be retrieved automatically.
- Currently, Tamil Nadu Guidance Bureau has designed the Single Window Portal to auto-fill fields entered in the Common Application Form (CAF). A similar process, using the existing digilocker (or) a new online repository, needs to be implemented for the uploading the documents (and not just filling of fields).

#### *Action required*

- Amend the Tamil Nadu Business Facilitation Act, 2018 and the Tamil Nadu Business Facilitation Rules, 2017 to include a clause instituting the “Only Once” Policy – i.e. that all documents uploaded by the applicant, shall not be asked from the applicant again, including certificates/ approvals issued.

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<sup>48</sup> Inspired by the European Union’s ‘Only Once Principle’ which allows government departments to share and reuse information of citizens and businesses such that citizens and businesses only have to enter their information once; Once Only Principle, European Union.

#### 16. Data-driven self-assessment and enforcement of service delivery timelines: Reducing delays in starting, operating, and scaling a business through on-time approvals

- Guidance, Tamil Nadu's nodal investment promotion agency, hosts a single window platform to deliver government-to-business (G2B) services to investors in a timely and transparent manner.
- Currently, 31 services delivered by 15 departments across the pre-establishment, pre-operations and renewal stages are provided through the platform, supported legislatively under the BFA and Tamil Nadu Business Facilitation Rules, 2017. Sections 11, 12 and 29 of the Act mandate the prescription of the procedure and time limit for processing and disposal of applications by the Competent Authority, the option of prescribing deemed clearances for certain applications, and impose a fine on the Designated Official identified for failure to meet committed service levels without reasonable cause.
- Several departments also have their individual online portals for delivering G2B services to investors.
- Currently, there is a lack of visibility on delays in delivery of services provided to businesses in Tamil Nadu. The Single Window Portal (SWP), where such cross-government capability exists, only provides visibility to a minority of all applications for G2B services as individual departments run their own G2B service delivery portals.
- There is no mechanism to collate, track and analyse the root causes of the delays in services delivered through the single window portal and individual department portals. Moreover, there is a lack of visibility on how much time it takes to process an application for services that are still delivered offline.
- This could lead to risk of litigation for not meeting stipulated timelines, reduced accountability on the part of concerned government officials and dissatisfied MSMEs.

#### *Recommendation*

**Conduct a data-oriented review of G2B services listed in BFA, or where timelines are stipulated in the parent Act, to assess departmental adherence to timeline commitments and improvements in service delivery.**

- Monthly service delivery 'health check' under the Chief Secretary to assess G2B services that are getting delayed on a regular basis or address any high pendencies.

#### *Action required*

- Departments, facilitated by Guidance, should conduct regular monthly data-oriented reviews to assess departmental performance on key parameters for those services that are provided through the single window portal and other department-specific portals, for which administrative data is available online. The analysis of remaining services may be undertaken as and when they get digitised and data is made available online.

### 3.3 Access to Formal Finance

#### 3.3.1 Context

Access to timely and affordable finance is essential for the functioning and growth of MSMEs. Different kinds of financial services are required at various stages of the MSME's life cycle. In the initial stages, the uncertainty faced by the MSME is high and the firm typically tends to be financed by the owner's own capital – sourced via savings, pledging of personal assets like residence/land/gold or by taking a personal loan. At this stage, the entrepreneur's finances and the firm's finances are often co-mingled. Newer forms of risk capital such as venture capital and angel investments are typically relevant for firms that start small but have the potential for exponential growth and outsized returns on capital – these tend to be a minority of MSMEs. Once there is some vintage and track record of revenues, the firm looks for financing from formal sources. The first formal loan is challenging to access given the procedures of formal financial institutions and the need for collateral. **This is the transition from the entrepreneur borrowing on personal account to the firm borrowing on its account. Many MSMEs don't make this transition.** Those that do, start to build credit histories with a Non-bank Finance Company (NBFC) or a Commercial Bank (Public Sector Banks, Private Sector Banks including Small Finance Banks, Foreign Banks, Co-operative Banks and Regional Rural Banks). Subject to performance, the size of the credit limits grows over time. Most firms need a mix of term loans and working capital to effectively manage the needs of the business. Export oriented firms will need other forms of support such as Letters of Credit and guarantees. Expanding the range of financial instruments and institutions relevant to MSME finance must be a cornerstone of financial sector policy given the links to job growth and economic development.

Tamil Nadu has the third highest number of MSMEs in the country<sup>49</sup>. Given the developed nature of the banking system in the state, access to credit for MSMEs is relatively better compared to other states. One metric to understand this is the credit to MSME sector as a percentage of the Gross Value Added (GVA) of MSMEs in the state. The number for Tamil Nadu is 170% compared to the all-India average of ~ 150%<sup>50</sup>. However, **the challenge is to increase the coverage of formal financing to include many more enterprises that are still dependent on own funds or informal sources.** Credit availability also tends to be skewed to favour a few districts where banking infrastructure is well-developed. 12 of the 32 districts (37.5%) of Tamil Nadu account for less than 1% of the state's total bank outstanding<sup>51</sup>.

<sup>49</sup> MSME Policy 2021 Report – Government of Tamil Nadu.

<sup>50</sup> The Credit/GVA includes only PSL Credit and MSME GVA, which was computed from the NSSO 73<sup>rd</sup> Round, Key Indicators of Unincorporated and Non-Agricultural Enterprises in India. For Tamil Nadu, MSME GVA is Rs. 1.06 Lakh Cr while the MSME PSL credit outstanding as of March 2020 is Rs. 1.8 Lakh Cr. For all of India, the corresponding figures are Rs. 11.5 Lakh Cr and Rs. 16.9 Lakh Cr.

<sup>51</sup> Exploratory Analysis of Credit and GDP Growth Rates for Tamil Nadu, Irene Baby & Nishanth Kumar – Dvara Research, 2016.

The chart below also indicates that the growth rate of MSME credit (eligible for Priority Sector Lending by banks) in the state has been flat compared to corresponding all India figures.

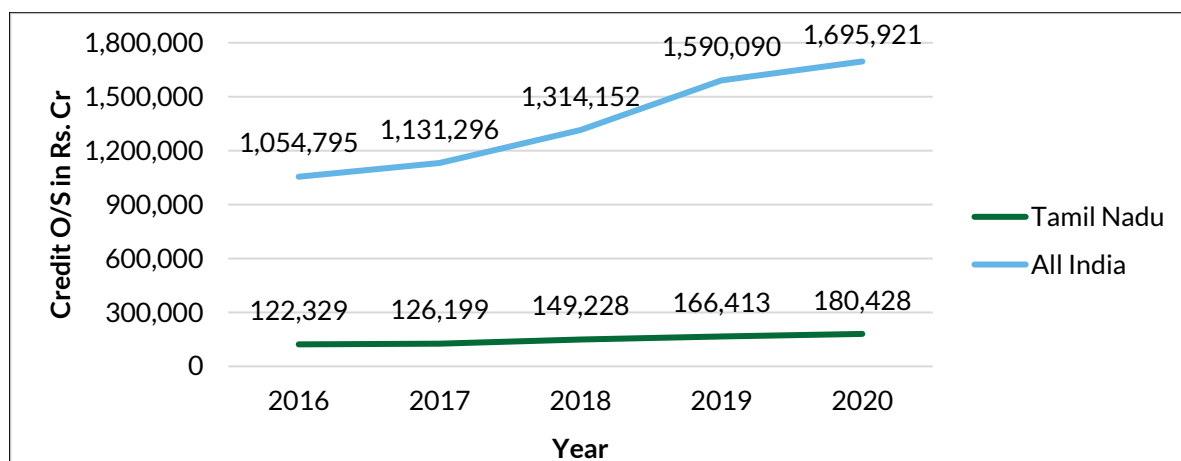


Figure 5 Total MSME Priority Sector Lending credit outstanding

Source: Statistical Tables Relating to Banks in India, Table no. 03 – State wise Distribution of Select Items of Scheduled Commercial Banks.

### 3.3.2 Estimating the Size of the Financing Gap for Tamil Nadu

At a national level, it is estimated that the total demand for credit by MSMEs is INR 45 Lakh Cr. Formal credit to MSMEs is slightly more than half this demand, totalling INR 25 Lakh Cr. (55%). Part of the formal credit is channelled to MSMEs via borrowings in entity name while the rest is through borrowings by proprietor. The remaining INR 20 Lakh Cr. (45%) represents the unmet demand for credit<sup>52</sup>. Banks and NBFCs are the major suppliers of formal credit to MSMEs. The total credit outstanding to MSMEs is close to INR 18 Lakh Cr<sup>53</sup>. Of this, the contribution of banks is 87.5% with the remaining coming from NBFCs<sup>54</sup>.

<sup>52</sup> TransUnion CIBIL Data and Analysis, MSME Annual Reports, MOSPI survey of MSMEs (2016), Ministry of MSME Census (2007) and BCG analysis.

<sup>53</sup> MSME Pulse, April 2020 - TransUnion CIBIL & SIDBI.

<sup>54</sup> Ibid.

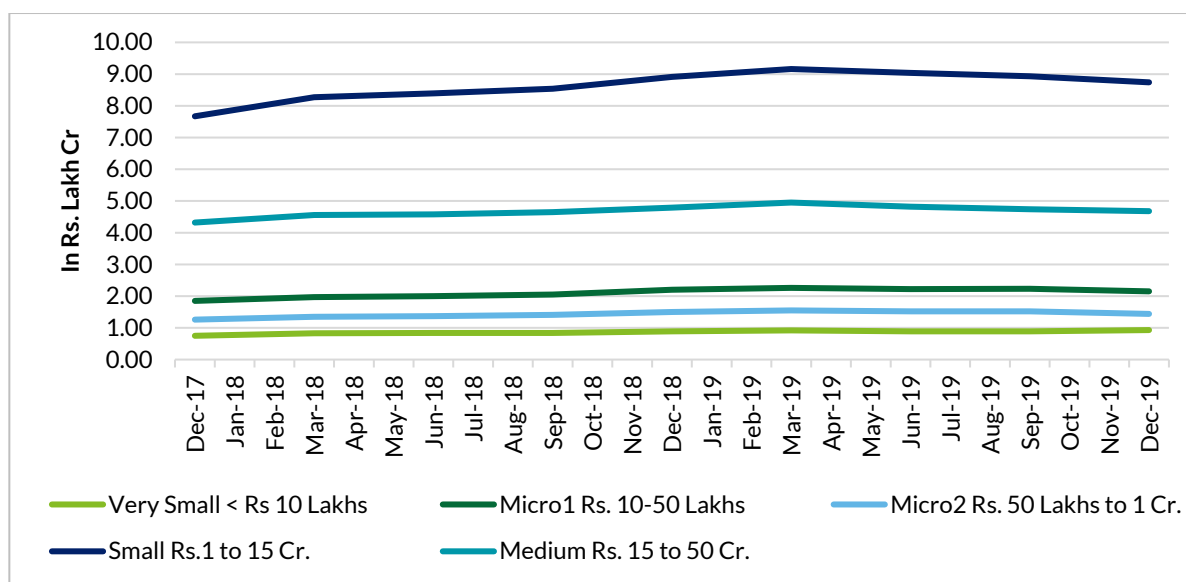


Figure 6 On-balance sheet commercial credit exposure (in lakh cr.)

Source: MSME Pulse, April 2020 - TransUnion CIBIL & SIDBI.

In the context of Tamil Nadu, the total PSL credit from SCBs to MSMEs is approximately INR 1.8 Lakh Cr<sup>55</sup>. Assuming the same proportion of unmet demand as all-India numbers cited previously, **Tamil Nadu has a potential MSME credit gap of ~ INR 2 Lakh Cr.** This represents a vast, unmet need for formal credit. **The goal of policy must be to enable sustainable expansion of the formal financial sector to bridge this ostensible demand-supply gap for MSME credit.**

### 3.3.3 Barriers to Lending

#### *Inherent risk of the sector*

Small firms, by definition, have less resilience given their weak balance sheets and revenue uncertainties. This is particularly true in sectors where differentiation is low and there is no intellectual property or brand salience. The risk in lending to MSMEs is high as borne out by the persistently high levels of NPA, shown in the following chart (Figure 8).

This inherent risk arises, in large part, due to factors such as delayed buyer payments, including by Government entities and other players in the supply chain. For instance, as of Dec 2021, the value of delayed payments to MSMEs in Tamil Nadu, by the state Government departments and state PSUs, is INR 52,46,01,685<sup>56</sup>.

Additionally, other business risks, like changes in consumer demand or sudden policy changes by Government can create a slow-down in the market. Exacerbating these risk

<sup>55</sup> Statistical Tables Relating to Banks in India, Table no. 03 – State wise Distribution of Select Items of Scheduled Commercial Banks.

<sup>56</sup> From the State MSEFC's login of the MSME Samadhaan portal.

factors is the absence of equity buffers among MSMEs and an inability to access suitable risk mitigation products. The latest MSME policy of the state Government recognises this and has the setting up of a dedicated insurance scheme to cover MSMEs from natural disasters and disruptions as one of the policy targets<sup>57</sup>.

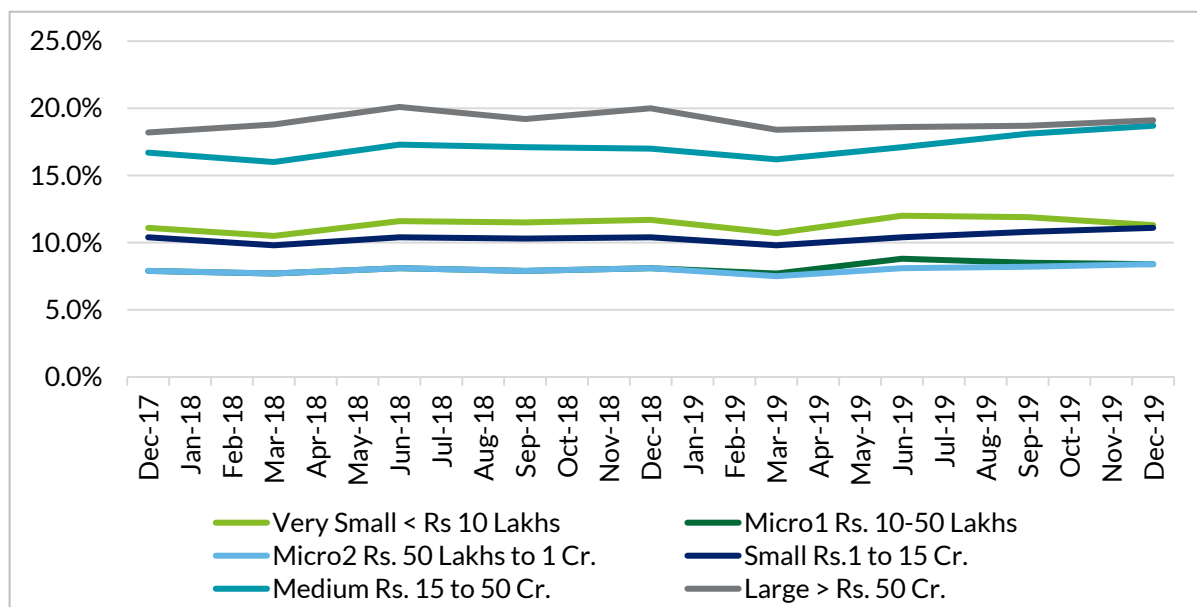


Figure 7 Segment wise NPA ratio (All India)

Source: MSME Pulse, April 2020 - TransUnion CIBIL & SIDBI.

### High cost to serve

The largely informal nature of the sector renders it difficult for formal sector lenders to effectively assess credit worthiness of these firms due to the high information asymmetry. Additionally, since MSME typically do not have collateral, under-writing them often requires a “high-touch” approach which, in turn, translates into higher operating cost for lenders. However, with advent and increasing adoption of electronic Know Your Client/Customer (e-KYC), digital transaction and Account Aggregators, formal lenders can underwrite MSMEs without incurring high transaction costs. We are also witnessing the rise of specialised MSME-focused lenders who use innovative underwriting techniques, like cash-flow based underwriting, to provide credit to these firms.

### 3.3.4 Overview of Formal Lenders and Approaches

To better understand the supply-side constraints to MSME lending, it is important to analyse how the characteristics of the major lenders to MSMEs affect their ability to provide credit to the sector. As seen previously, Scheduled Commercial Banks (SCBs, including Small Finance Banks) and NBFCs are the suppliers of formal credit to MSMEs. However, within NBFCs, we have two distinct types of lenders – NBFC-MFIs and

<sup>57</sup> MSME Policy 2021 Report – Government of Tamil Nadu.

FinTechs, who have emerged as important players in the market. In addition to these lenders, there are other entities and digital infrastructure networks that facilitate lending to MSMEs by providing a supporting ecosystem to the existing lenders. Some of them are the NBFC - Account Aggregator (AA), Neo-Banks and the Open Credit Enablement Network (OCEN).

### *Scheduled Commercial Banks*

Most banks in India still rely on their branches for loan origination, complemented by other channels like Debt Syndication Agents (DSAs). Such a brick-and-mortar approach to credit origination results in high operating costs for banks in rural areas<sup>58</sup>. On the product side, banks offer only standardised products like Overdrafts (OD), Cash Credit (CC) and Term Loans (TL). These products have rigid repayment schedules, often at variance with the volatile cash-flows of MSMEs, especially micro enterprises. However, unlike NBFCs and FinTechs, SCBs can offer demand deposit services to help MSMEs with their payment and remittances. The credit underwriting process of banks is almost entirely based on hard information, like CIBIL scores and audited balance sheets, and hard collateral. This is a significant impediment for micro enterprises as they are unlikely to possess such formal financial documents due to the largely informal nature of their businesses. These firms, or even the proprietor owning these firms, lack quality collateral that they can offer as security.

Despite these impediments, SCBs are the largest suppliers of credit to MSMEs in Tamil Nadu contributing a significant portion of the total formal credit to MSMEs in Tamil Nadu. They also have a large branch network, with over 11,500 branches across the state<sup>59</sup>.

We have very few Banks with a focussed business model of serving MSMEs. This is often one of many lines of business for the Bank. This prevents them from specialising and building expertise in this sector. **There is considerable room for MSME-focussed banks to emerge, particularly within the Small Finance Bank category. Policy must encourage such specialisation.**

<sup>58</sup> Cost of Delivering Rural Credit in India. Anand Sahasranaman and Deepti George. Dvara Research, Notes on the Indian Financial System No. 1, 2013.

<sup>59</sup> Bank Branch Statistics, Database of Indian Economy, RBI.

### MSE Focused Bank – Atlantic Capital Bank<sup>60</sup>

The Atlantic Capital Bank (ACB) is a publicly traded, mid-market and emerging business focused bank in the USA that was started in May 2007. Their business strategy involves providing complete and customised banking solutions to their clients. Their services include:

1. Business Banking
2. FinTech Banking
3. Treasury Services
4. Commercial Real Estate Finance
5. Private Banking
6. Cash Management Services
7. Not-for-profit Banking Services
8. Small Business Administration (SBA) Lending

As of December 2020, the bank reported a net income of over INR 150 crore on revenues of over INR 700 Crore. It's total risk-based capital ratio was 16.1 % with an NPA ratio of 0.13% on a loan portfolio of INR 15,400 crore. It is expected to merge with South State Bank in Q1 of 2022.

### Non Bank Finance Companies (NBFCs)

NBFCs tend to have lower cost of operations than Banks and have comfort with risk involved in unsecured lending to this segment. As noted previously, the share of NBFC lending to MSMEs has been growing steadily. Many specialised MSME lenders have also emerged in this sector. Capital Float, NeoGrowth, Lendingkart, Five Star Finance, Vistara, Kinara Capital are all examples. The loan sizes vary from 1 lakh – 50 lakh. The principal challenge faced by these entities is availability of wholesale finance. They are principally dependent on bank borrowings and cost of funds varies between 12 – 14% depending on credit rating of the NBFC.

### Fin-Techs

These are another class of NBFC lenders who extensively leverage digital infrastructure for credit origination and appraisal. Their credit origination is almost exclusively through digital channels. On the product side, they offer a wider range when compared to banks and NBFC-MFIs. In addition to the standard products offered by banks, FinTechs also offer unsecured TLs, Merchant Cash Advance (MCA) and provide receivables funding. Their credit underwriting is entirely based on analysing transactions data, credit records where available and alternative data for customers with a thin or no credit history.

<sup>60</sup> <https://atlanticcapitalbank.com>; retrieved on 21-10-2021.

The state Government has taken cognizance of the increasing importance of these entities and has announced policy measures to accelerate their development in the state. One of the policy measures, announced in the last state budget, is the formation of 'FinTech Cell' to promote investments in the sector. Additionally, under the Scheme for FinTech institutions, the state will aid FinTech companies that use technology to provide credit to the entrepreneurs in the state<sup>61</sup>.

### *NBFC – Account Aggregators (AA)*

The AAs are the latest category of NBFCs created by RBI. These entities help individuals and small businesses to share their financial information securely and digitally between regulated financial institutions. NBFC-AAs are only data pass-throughs and cannot read or retain the information that is transferred by them. As of Sep 2021, 8 banks were part of the AA network. The primary advantage for MSMEs, if their bank is part of the AA network, is the improved access to loans and money management<sup>62</sup>.

### *Neo-Banks*

Neo-Banks are technology companies that partner with traditional banks to provide customers more efficient, personalised, and holistic banking services. These entities do not have physical branches but provide 24/7 customer service, supported by chatbots, on mobile platforms. In addition to traditional banking services like deposit services and small value loans, these entities also provide services like near-real-time accounting and reconciliation services, invoicing and tax reconciliation services for MSMEs at affordable costs<sup>63</sup>.

#### **Neo – Bank – OPEN<sup>64</sup>**

OPEN is a Neo-Bank formed in May 2017 and has been in operation for close to half a decade now. They are an MSME focused Neo-Bank having partnerships with traditional banks like ICICI Bank, Yes Bank and Kotak Mahindra Bank. They have more than 10 lakh MSME customers and process INR 1,68,000 crore in transactions annually<sup>65</sup>. Their product suite includes:

1. Current Account – Low average monthly balance and waiver on transactions charges.

<sup>61</sup> <https://www.thehindubusinessline.com/news/tamil-nadu-to-set-up-fintech-city/article36521636.ece>; retrieved on 21-10-2021.

<sup>62</sup> <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1753713> – retrieved on 21-10-2021.

<sup>63</sup> Neo-banks and the next banking revolution, PwC - <https://www.pwc.in/consulting/financial-services/fintech/fintech-insights/neobanks-and-the-next-banking-revolution.html> -retrieved on 21-10-2021.

<sup>64</sup> <https://open.money/> - retrieved on 21-10-2021.

<sup>65</sup> <https://economictimes.indiatimes.com/tech/technology/neobank-open-acquires-optobizz-in-5-million-stock-plus-cash-deal/articleshow/81088389.cms?from=mdr> – retrieved on 21-10-2021

2. Payment Gateway – Allows MSMEs to accept payments via debit/credit cards, IMPS, NEFT, RTGS, UPI and mobile wallets. Also provides analytics services on their transactions.
3. Payroll management system – With capabilities to make salary payouts, leave management and regulatory compliance.
4. Accounting system – Features include sales and tax invoicing, P/L and cashflow statements, generate E-way bills and payment reconciliation.

### *Open Credit Enablement Network (OCEN)*

The OCEN is a credit protocol infrastructure based on open APIs that facilitates interaction between lenders, loan service providers and NBFC-AAs<sup>66</sup>. It was launched in July 2020 and the first app, named SAHAY, based on OCEN was launched in September 2020<sup>67</sup>. The app enables MSMEs to get financing basis their invoices in the Government-e-Marketplace (GeM) platform<sup>68</sup>. This form of financing is uncollateralised, and the disbursement is almost instantaneous.

### 3.3.5 Recommendations

The following measures for medium and long-term growth of financing to MSMEs are recommended:

1. **Equitable and Institutionally Agnostic Financing:** The state Government must aim to channel financing to MSMEs more equitably and must do so in an institution-agnostic manner, and not just focussed on Public Sector Banks. They should thus **encourage multiple lending approaches across lending institutions like Banks, NBFCs and Fintechs**. The Government may consider incentives to encourage banks, NBFCs and fintechs to expand coverage to significant clusters and districts with low credit-GDP.
2. **Role of SFIs:** State Government or state Government sponsored Financial Institutions (SFI), given their scarce budgetary resources, must move away from lending directly to MSMEs in the long run, but try to leverage their capital to help leverage funds from Banks and other Financial Institutions. **We recommend SFIs build capabilities to participate in securitisation transactions** to achieve this.

Traditionally, a lender advances a loan to a borrower and receives principal repayment and interest payment over a period of time. In a securitisation transaction, the lender sells to a third party his right to receive future payments

<sup>66</sup> <https://gomedici.com/indias-open-credit-enablement-network-ocen> - retrieved on 21-10-2021

<sup>67</sup> <https://www.livemint.com/news/india/open-credit-enablement-network-to-launch-through-sahay-app-by-september-11595601086947.html> - retrieved on 21-10-2021.

<sup>68</sup> <https://gem.gov.in/sahay> - retrieved on 21-10-2021.

from the borrowers and receives a consideration for it much before the actual maturity of the original loan.

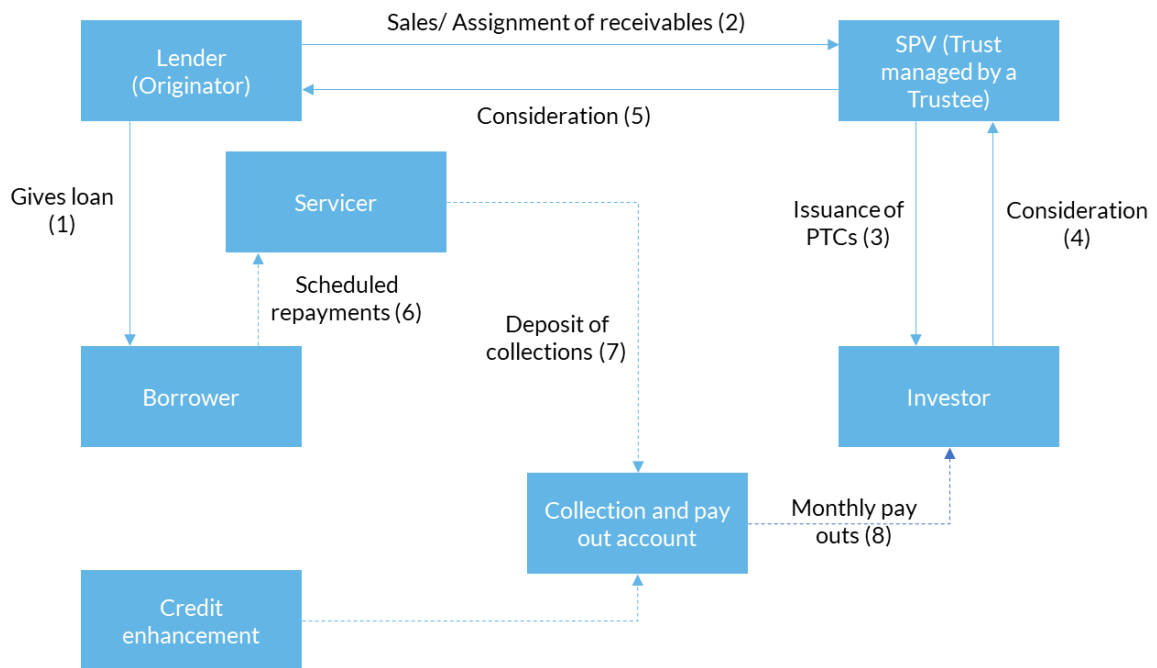


Figure 8 Process of lending/ borrowing

We provide an illustration below of how an SFI can achieve additional leverage through guarantees rather than direct loans.

#### Scenario 1: Direct lending by SFI without bank leverage



Figure 9 Direct lending by SFI without bank leverage

### Scenario 2: Direct lending by SFI with bank leverage



Figure 10 Direct lending by SFI with bank leverage

### Scenario 3: Participation as a Guarantor in Securitisation Transaction

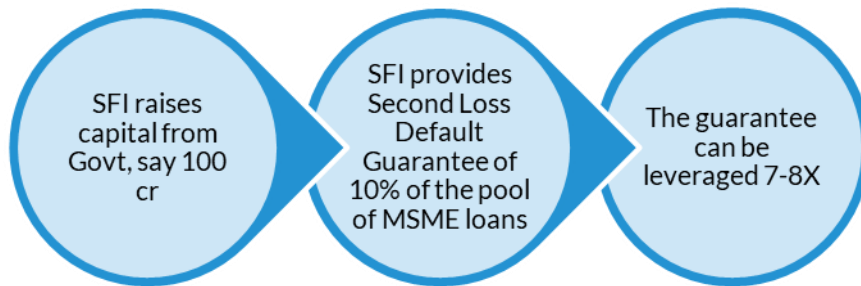


Figure 11 Participation as a guarantor in securitisation transaction

**We recommend that SFIs gradually diversify direct lending and participate as second-loss guarantors in rated MSME securitisations by high-quality issuers (banks, NBFCs):**

- Providing credit enhancements in the form of partial or full second loss guarantees in securitisation transactions involving MSME loans.
- Credit enhancements in the form of co-guarantees on second loss in securitisation transactions involving MSME loans, along with other guarantors such as banks and NBFCs.
- Investment in Pass-Through Certificates representing junior tranches in securitisation transactions involving MSME loans.

Given that some of these institutions already have directly originated assets on their books, there is a need to formulate and implement a roadmap for a phased exit from direct lending for these institutions.

Institutions such as TIIC and TAICO are required to re-orient their outlook towards lending by being more pro-active and in tune with the current demands of customers and borrowers. They should embrace and use technology in the best possible manner both for credit appraisal and at the back-end for compliance and related functions. There is a need to better professionalise the management by recruiting more youngsters at various levels to make the organisation nimble-footed and current. There

must be a robust and effective appraisal system for key managerial personnel which alone will ensure that any further capital infusion will result in tangible outcomes. The need to strengthen the Board with Independent Directors with right skill sets is also of importance.

3. Credit Guarantee programmes can help facilitate credit to MSMEs lacking adequate quality collateral. In this context, we propose some measures that the state Government can take to strengthen existing and proposed guarantee schemes<sup>69</sup>:
  - a. **Strengthening the existing SIDBI's CGTMSE programme:** Only 201 units in Tamil Nadu have availed of this scheme amounting to approximately INR 50 crore of guarantees. **There is a need to accelerate adoption of this scheme by lenders in the state.** One of the main impediments preventing banks and other lenders from adopting this scheme is the lack of clarity on claims approval and the significant time delays in claim settlement. The state Government should make a representation to CGTMSE on the specific pain points of lenders in accessing the scheme.
  - b. **New Guarantee programme proposed by the state:**
    - i. The state Government has announced a credit guarantee scheme (CGS) with an initial capital of INR 100 Cr. With the scheme still in its early stages, the following principles need to be kept in mind while designing the scheme:
    - ii. The Member Lending Institution (MLI) needs to have adequate "skin in the game" to avoid moral hazard. To ensure this, the first loss should be taken by the MLI and the quantum of first loss should be benchmarked to the historically observed credit costs for that particular MLI.
    - iii. Financial sustainability is integral to the effective functioning of the CGS. This implies that the guarantees need to be priced according to the risk of the exposure. For loan level guarantees, the assessment of risk should consider borrower level factors like financial capacity of the borrower, project feasibility and management ability of the borrower. For portfolio level guarantees, the assessment of risk should be based on the portfolio being guaranteed and the risk profile of the originating MLI.
    - iv. The claim management process should be clearly documented, transparent and efficient while ensuring that MLIs have adequate incentive to pursue loan recovery post default. As noted earlier, uncertainty and time delays in the claim settlement process can reduce the uptake of the scheme and thus render it ineffective.

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<sup>69</sup> The Government of Tamil Nadu is taking significant steps to develop a TN Credit Guarantee Programme. Therefore, the Committee is providing guiding principles that the GoTN can consider while designing the programme. Details of the same are provided in Annexure 9.

- v. The performance of the CGS, in terms of its financial additionality and sustainability, should be evaluated periodically and systematically, and the results of the evaluation should be disclosed publicly.
4. **Secondary Market for Movable Assets:** Developing a secondary market for movable assets, like machinery, would allow MSMEs to access credit at reasonable rates by pledging these assets as collateral for loans. Second-hand marketplaces already exist for automobiles. **The state Government could take the lead in developing a second-hand marketplace for movable assets of MSMEs** in partnership with Development Financial Institutions that have experience of doing this in other countries.
5. **Leveraging on SIDBI Schemes:** Schemes from SIDBI such as SIDBI Cluster Development Fund (SCDF), schemes specific to startups and several others should be adequately utilised for MSMEs, to develop clusters, and also enable MSMEs to cover project cost.
6. **Quasi Equity Instruments:** The Committee deliberated at length the issue of risk capital for MSMEs noting that debt-serviceability is a challenge for many early-stage firms. While the equity ecosystem for start-ups with deep technology and other forms of Intellectual Property is growing in India, the vast majority of MSMEs will not be able to access this ecosystem. Traditional equity is not well-suited for small firms with low-medium growth rates, even if they are otherwise viable entities. **The Committee recommends that more work be done in partnership with SIDBI and/or TIIC to develop quasi-equity instruments such as long-term debt with coupon and revenue-share components or convertible debt instruments** that will provide growth capital for firms that are past the proof-of-concept stage. A qualified fund manager can be tasked with implementing this quasi-equity Fund. This funding should be accompanied with support and conditionalities around formalisation and adoption of relevant technology.
7. **Timely Payments to MSMEs:** The state Government should implement a strict policy to ensure that Government departments and state Public Sector Units (PSUs) make their payments to MSME vendors on time. Defaulting PSUs and Departments should be penalised at a significant penal interest for every day of default beyond the limit of 45 days set out by the Act and the proceeds should be transferred to the affected MSME, along with the amount in default. Such a covenant should be mandatorily included in all government contracts with MSMEs.

The state is a leader in hearing matters posted through the Micro and Small Enterprises Facilitation Council (MSEFCs), setup under the MSMED Act, 2006. However, the state has faced setbacks when orders issued by the MSEFCs have been challenged in courts. There are also challenges around the recovery of dues from respondents even after orders have been passed by the Council. The state should undertake a detailed study of these matters, obtain a legal opinion and

represent their case to the MSME Department, Government of India for resolution of the same.

8. **COVID Measures and Relief:** In the aftermath of Covid, there is likely to be continued stress for the MSME sector. According to CRISIL, asset quality in unsecured loans to MSME segment among others, continue to be impacted the most, with delinquencies rising almost 300 bps in June 2021 over March 2021 even amid higher restructuring and write-offs last fiscal compared with other asset classes. The government in September had extended its credit guarantee scheme for MSMEs, ECLGS to March 31, 2022. As of September 2021, loans sanctioned had crossed Rs 2.86 lakh crore under the ECLGS scheme, and out of total guarantees issued, about 95 per cent were for loans sanctioned to MSMEs, the Finance Ministry had said in its statement. The last date of disbursement under the scheme was also extended to June 30, 2022. Moreover, to provide relief from Covid stress, the RBI in June this year had expanded the scope of restructuring facility for existing MSME loans from Rs 25 crore earlier to Rs 50 crore without a downgrade in the asset classification till September 30, 2021. This Committee does not recommend any additional measures at this point. Once the Central Government schemes are phased out, a fresh look maybe needed.
9. **Health Insurance Scheme for Micro Units:** Along with capital, labour also forms an integral component to the functioning of MSMEs. **With more than 95% of the MSMEs in the state being run as proprietorships, the death or illness of the proprietor could result in the closure of the unit and consequently lead to loss of employment and income for many families<sup>70</sup>. The state Government can help mitigate this risk by providing access to the state health insurance scheme for all micro-units registered with Udyam.** This will also serve as an incentive to increase the registrations under Udyam which currently are lagging behind. It is recommended that a budget of INR 200 crore be provided for co-contribution to the premium for such enterprises<sup>71</sup>. However, it should be ensured that there is no overlap with existing government health insurance schemes. Further, the government can consider **extending the programme to labourers** in MSMEs as well. For this, the government should take a policy decision on extending the programme to migrant labourers since they are a key requirement for manufacturing enterprises in the state.
10. **Insurance for Disaster Management:** Due to the concentrated nature of their operations, MSMEs are highly susceptible to, and more adversely affected by, natural calamities like earthquakes, cyclones, floods than large corporates. On the business side too, they face considerable risks like supply chain disruptions

<sup>70</sup> NSSO 73<sup>rd</sup> round.

<sup>71</sup> The annual premium per employee per annum for the new state health insurance scheme is ~ INR 3900 (with GST) - [http://cms.tn.gov.in/sites/default/files/go/fin\\_e\\_160\\_2021.pdf](http://cms.tn.gov.in/sites/default/files/go/fin_e_160_2021.pdf). The total number of micro units in Tamil Nadu registered with UDYAM is 7,36,321 (on Feb 20, 2022) [https://dashboard.msme.gov.in/Udyam\\_Statewise.aspx](https://dashboard.msme.gov.in/Udyam_Statewise.aspx). With 70% contribution from the Tamil Nadu Government, the annual cost to the exchequer comes to INR 201 Cr.

and sharp increases in input prices. Apart from appropriate planning of industrial estates and clusters, the State Government **may work with General Insurers to develop an under-writing and distribution approach for insuring MSMEs against natural disasters and supply chain shocks.** This insurance could be bundled along with credit (similar to credit life insurance bundled with micro-loans) but the premium costs may need to be supported by the Government until such time as sufficient claims data exists for under-writing.

11. **Notifying Chapter 3 of IBC:** Notification of the Insolvency and Bankruptcy Code (IBC) rules on proprietary firms and individuals can increase the confidence of lenders as they will have more clarity and predictability with regard to recovery of defaulted loans. Also, a bankruptcy and insolvency system for MSMEs aids in the swift reallocation of productive assets to healthier MSMEs and firms. The state Government should request the IBBI and the Central Government to notify Chapter 3 of the IBC.

#### **Insolvency and Bankruptcy Code (IBC)**

IBC deals with insolvency and Bankruptcy for companies, partnerships and individuals. Part 3 of the IBC specifically deals with the process to be followed by individuals and partnership firms to apply for insolvency under this act. This information could help revive sick MSME units.

As per the provisions of the rules, an MSME seller can apply for insolvency of the person he has sold to after following due process under this act. This would allow MSME sellers to nudge their buyers to pay dues, giving the benefit to file an insolvency petition, if the buyer does not oblige to pay concerned dues.

Additionally, if the buyer genuinely is unable to pay the concerned dues, the provisions of this chapter allow for their assets to be liquidated, proceeds from which could be used to repay MSME sellers.

Currently these provisions are applicable only for those individuals who have given personal guarantees for corporate loans and not for all individuals and firms. It therefore becomes essential to notify the chapter for the benefit of MSMEs in the larger context of timely payments being made to them.

### 3.4 Industrial Corridors, Clusters and Shared Services

#### 3.4.1 Context

##### i. Industrial Corridors

Tamil Nadu is already in the process of developing a number of industrial corridors<sup>72</sup>:

- Tamil Nadu Defence Industrial Corridor, with five nodes at Chennai, Tiruchirappalli, Coimbatore, Salem and Hosur.
- Chennai Bengaluru Industrial Corridor (CBIC).
- Kochi – Coimbatore – Bengaluru Industrial Corridor.
- Chennai – Kanniyakumari Industrial Corridor with six nodes viz., Madurai – Dindigul – Virudhunagar – Theni; Thoothukudi – Tirunelveli; Ramanathapuram; Cuddalore – Nagapattinam; Tiruchirappalli – Pudukottai – Sivagangai; and Ariyalur – Perambalur (Map given alongside).

Along with these projects, if the Government of Tamil Nadu could formulate a Coimbatore – Madurai – Rajapalayam – Thenkasi – Tirunelveli Industrial Corridor, virtually every district in the state will fall in the vicinity of one Industrial Corridor or other.

##### ii. Clusters and Shared Services

Clusters, defined by UNIDO as “geographical concentrations of inter-connected enterprises and associated institutions that face common challenges and opportunities,”<sup>73</sup> are regarded by many



Figure 12 Existing and Proposed Industrial Corridors in Tamil Nadu

<sup>72</sup>There is no standard definition for an industrial corridor. The Andhra Pradesh Industrial Corridor Act, 2017 states that an area notified by the Govt. of Andhra Pradesh, with an “intent to stimulate industrial development”, shall be defined as an Industrial Corridor. Broadly, an Industrial Corridor may be thought of as a package of infrastructure spending allocated to a specific geographical area, with the intent to stimulate industrial development. It also aims to populate the identified area with clusters (manufacturing or another industry). Such corridors are often created in areas that have pre-existing infrastructure, such as ports, highways and railroads. These modalities are arranged such that an “arterial” modality, such as a highway or railroad, receives “feeder” roads or railways.

<sup>73</sup>The Ministry of MSME, Government of India, defines a Cluster as “a group of enterprises located within an identifiable and as far as practicable, contiguous area or a value chain that goes beyond a geographical area and

countries, including India, as potential drivers of enterprise development and innovation particularly of the MSMEs. Clusters allow for a concentration of resources and funding in targeted areas with a high growth and development potential that can have spill-over and multiplier effects. Experience worldwide has shown that clusters can provide conducive environments for enterprises to develop a competitive and global edge, generating wealth and local economic development<sup>74</sup>.

Porter also has provided a model for clusters in 1990, consisting of primary activities (activities performed to satisfy external demand), and secondary activities (activities performed to satisfy internal requirements).

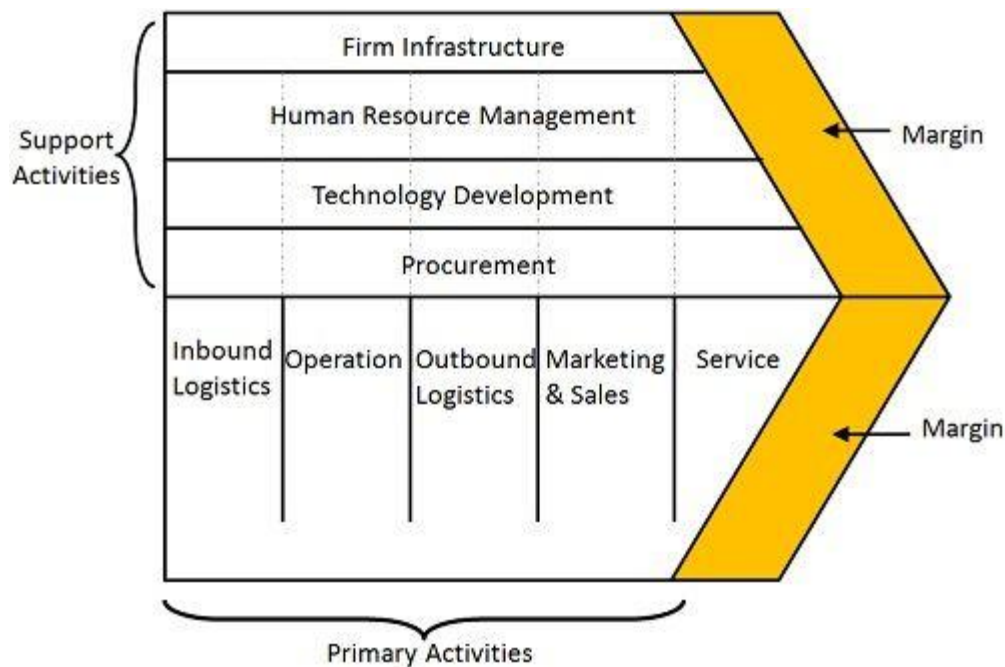


Figure 14 Porter's framework for a cluster

Source: <https://hbr.org/1998/11/clusters-and-the-new-economics-of-competition>

**What is an ideal, well-performing Cluster?** According to UNIDO, an ideal, well-performing Cluster shall have clear backward and forward linkages across the value chain, and also defined between the firm/ MSME and all support institutions (both public and private), within the Cluster. A snapshot illustrating the same has been given below:

producing same/ similar products/ complementary products/ services, which can be linked together by common physical infrastructure facilities that help address their common challenges. The Government of India also defines the essential characteristics of enterprises in a cluster, which are: Similarity or complementarity in the methods of production, quality control & testing, energy consumption, pollution control, etc., similar level of technology and marketing strategies/ practices, similar channels for communication among the members of the cluster, common market & skill needs, and common challenges and opportunities that the cluster faces.

<sup>74</sup> The UNIDO Approach to Cluster Development, Key Principles and Project Experiences for Inclusive Growth, United Nations Industrial Development Organisation (UNIDO) 2013.

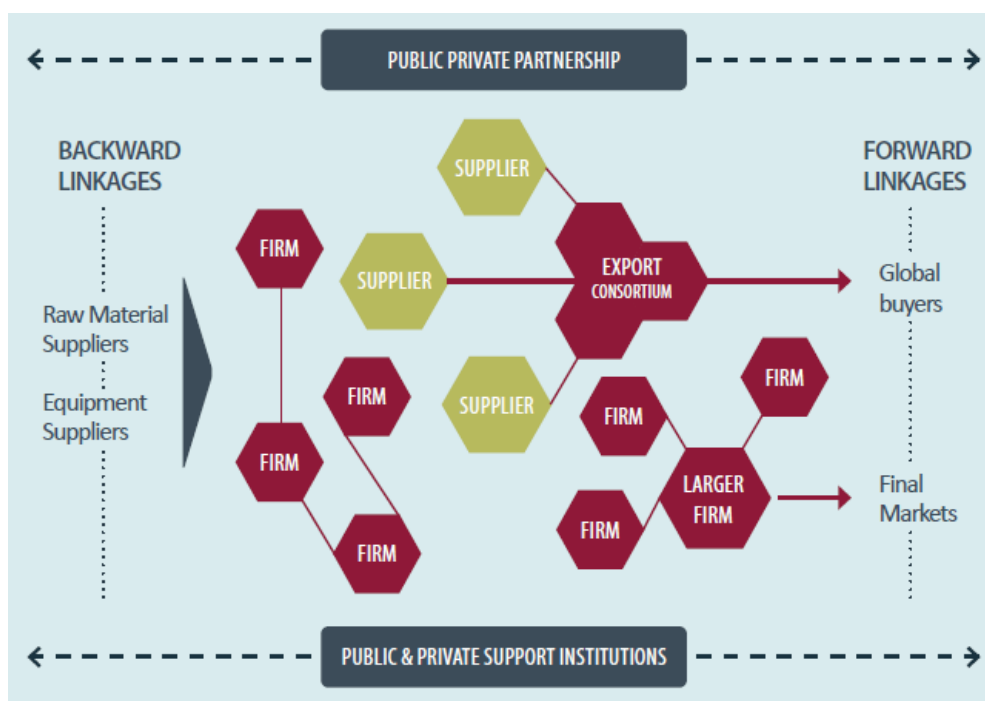


Figure 13 Well-performing cluster framework as defined by UNIDO

Source: Pg. 23, the UNIDO Approach to Cluster Development: Key Principles and Project Experiences, 2020.

It can be clearly seen that for the success of a cluster, there is a need for defined linkages between the supplier (MSME) and the other firms/ organisations, including the government as illustrated by the following case studies.

Most clusters tend to specialise in low value adding items or suffer because of technological shifts. 'Upgrading' into new products, processes or moving into functionally related segments are therefore essential to make them dynamic.

For diversification and upgrading, an integrated platform (like the UNIDO Industrial Analytics Platform) can provide diagnostic tools that can help firms identify opportunities in this regard and means to exploit them. According to the UNIDO, the tool can generate the following outputs:

- A detailed mapping of the actors in a specific value chain in a given country and the interactions amongst them.
- A description of the status of development in the value chain with regard to seven analytical dimensions, including the
  - sourcing of input and supplies,
  - production capacity and technology,
  - end-markets and trade,
  - governance,
  - value chain finance,
  - sustainable production and energy use, and
  - business environment and socio-political context.

- The identification of constraints to and opportunities for value chain development lead to strategies to implement and finance interventions among agents that support chain development.

Based on such a diagnosis, a template for value-addition and import substitution/localisation that is sector-specific can be developed. In addition, information on the nature of support available from both the Union and State governments can be developed. This template, which has to be dynamic, can be the basis for problem identification and solving within a cluster.

### iii. Clusters and MSMEs

MSMEs, due to their small size, are often unable to realize economies of scale individually; they also have limited bargaining power in inputs purchase; and they do not have the resources to buy specialised support services. These challenges can be effectively addressed in a cluster format.

Clusters facilitate joint actions by MSMEs, like bulk inputs purchase or shared use of equipment; provide the critical mass required for obtaining technical assistance from business associations or infrastructure investments by the Government. Value chain analysis within clusters can provide information on possible new opportunities for upgrading and hence can be the basis for formulating new guidelines for intervention.

However, willingness of entrepreneurs to engage in joint actions is a critical factor for the success of a cluster. Several factors may come in the way of entrepreneurs coming together and reaping the benefits of a cluster, like transaction costs, coordination costs, an adverse business culture, limited human and social capital.

Local Industry Associations, local governments, civil society organisations, Universities and Training Institutions have a role to play in the evolution of a successful cluster.

Therefore, the Government's role is important in facilitating the establishment of business networks, building public-private partnerships and promoting dialogue among service providers and policy makers.

**Worldwide, it has been noticed that a dedicated Authority (or an integrated planning model, with a nodal entity) is essential for the development and success of the cluster development model. This success is also dependent on a Cluster diagnostic study for identifying and supplying the missing links; building trust between the Cluster Development Authority and the cluster stakeholders; and periodic monitoring and evaluation of the functioning of the cluster.**

Numerous case studies suggest that clusters require a decade or more to develop depth and real competitive advantage.

There are a large number of clusters already functioning in Tamil Nadu, much before cluster development was consciously adopted as a strategy for the development of MSMEs in Tamil Nadu. Realising the efficiency of the clusters and spurred by international experience, as well as the success of homegrown clusters such as Tirupur's knitwear cluster or Chennai's auto component cluster, Tamil Nadu has also embraced the cluster development approach.

**The Committee endorses the Cluster Promotion approach adopted by the Government for MSME development in Tamil Nadu.** The Government of India also advocates the Cluster approach, "as a key strategy for enhancing the productivity and competitiveness of Micro and Small Enterprises (MSEs) as also for capacity building of MSME entrepreneurs in many countries including India."

**The Committee recommends that there should be not less than two clusters – both existing and new – in every district along the corridor. All the existing and new industrial estates of SIPCOT and SIDCO may also be deemed to be clusters for this purpose.**

### 3.4.2 MSME Clusters in Tamil Nadu

The Tamil Nadu Small Industries Development Corporation (TANSIDCO), under the MSME Dept., GoTN, is the nodal executing agency for the promotion of clusters in the state. TANSIDCO, in its role as the nodal agency, identifies and promotes clusters in the state. A look at the list of the existing and the proposed clusters in Tamil Nadu shows that they cover most of the districts and almost all sectors.

### 3.4.3 Case studies

#### Case study 1: Zhili children garments cluster, China

**Basic information on the cluster:** This cluster currently has 6,000 SMEs and 20,000 traders. The products manufactured by this cluster account for 66% of China's children clothing market, with ~ 150 crore pieces per year.

**Key success factors for the cluster across the value chain:** The Zhili Government has supported the cluster with multiple initiatives, such as: easing processes of registration, and licences; subsidised interest loans to SMEs for automation of the manufacturing processes; sensitisation of SMEs to global quality standards, increasing the percentage of trademarked SMEs to 45% from 10% and establishment of a "Common Business Centre" to aggregate sales at the cluster-level, under a common brand.

#### Case study 2: Sinos Valley footwear cluster, Brazil

**Basic information on the cluster:** The Sinos Valley footwear cluster in Brazil has an enterprise mix of 82.8% MSMEs and 17.2% large enterprises, specialising in the manufacturing, marketing and selling of footwear. 30% of the manufactured goods are

sold in the domestic market while the remaining 70% are exported to the United States of America (USA), United Kingdom (UK) and Argentina. The cluster generates a revenue of USD 30 crore while employing around 2 lakh people.

**Key success factors for the cluster across the value chain:** The Govt. of Brazil, along with industry/ business associations, brought in the required suppliers, and vendors (all MSMEs) into the cluster to ensure the efficiency of the cluster. In line with the same, clearly defined linkages exist between the MSMEs and the support institutions (such as technology research and development centres, vocation schools, business associations, trade fair organisations). Periodic meets and knowledge transfer sessions are conducted between the MSMEs and Business Development Service Providers (BDSPs) to assist MSMEs. These BDSPs include designers, and brand consultants. Information on the cluster is disseminated periodically through magazines, and newsletters.

### **Case study 3: Foshan ceramic tiles cluster, China**

**Basic information on the cluster:** The Foshan ceramic tiles cluster in China currently has 490 SMEs and 10 large enterprises, specialising in the manufacturing of ceramic tiles. 30% of the manufactured tiles are sold in the domestic market, while the remaining 70% are exported to Philippines, Thailand and Indonesia. The cluster generates USD 150 crore of revenue annually, while employing 10,000 people.

**Key success factors for the cluster across the value chain:** Periodic meets and sessions are conducted between the Original Equipment Manufacturers (OEMs) and SMEs to ensure constant linkages across the value chain of the product, and to ensure periodic industry updates. Products of the cluster are regularly promoted across magazines, journals and dailies. A Foshan Ceramic Research Institute has been established to develop low-cost machinery and assist in reducing the manufacturing costs. Import substitution of existing equipment is achieved through periodic training of the SME personnel, by trainers from Italy.

- **Case study 4: The Tirupur Cotton Knitwear Cluster**

**Basic information on the cluster:** Starting out as a cotton market town in early 20<sup>th</sup> century, Tirupur, over the years, has moved from cotton processing to producing knitwear for the domestic market and on to becoming the largest node for garment exports in India. Two features stand out. One, the cluster consists primarily of MSMEs inter-linked with each other in terms of input and output market linkages. Second, the cluster caters to leading global brands and a few firms have also managed to move into more value adding premium segments.

**Key success factors for the cluster across the value chain:** Setting up of industrial estates by SIDCO, testing and training facilities by government and industry associations such as South Indian Textile Research Association (SITRA), Apparel Export Promotion Council (AEPC) and Tirupur Exporters Association (TEA) have all contributed to the process. Leading buyers also played a role in sensitising exporters to new global standards as well as in meeting the requirements of such standards.

### 3.4.4 Recommendations

Based on the above observations, the Committee recommends the following medium-term and long-term recommendations for clusters in Tamil Nadu:

1. **Cluster Development Authority at State Level:** There should be a dedicated Cluster Development Authority (or an integrated planning model, with a nodal entity) at the state level to oversee the development of the existing and new clusters in the state.
2. **Trust- Building Meetings of the Authority:** There should be periodical trust-building meetings by the Cluster Development Authority (or of the constituent members) with the stakeholders of each cluster.
3. **Support and Shared Services and Facilities for Clusters:** All clusters in the state should be assisted by a shared services organisation and Common Facility Centres (CFCs) at the cluster-level to assist all MSMEs in the cluster in the following activities: Human Resource (HR) management, Information Technology (IT) services, food & accommodation, housekeeping, training, and branding. This shall free up the MSMEs in the cluster to focus on improving their products/ services. The Government may consider investing in these CFCs in a big way.
4. **Plug and play facilities:** SIDCO is currently involved in building plug and play facilities for MSMEs. These facilities provide MSMEs with the requisite infrastructure for starting up and running their businesses. The Committee endorses that these initiatives be continued by SIDCO. Focus may be provided to newer, green sectors such as electric vehicles and digital technology.
5. **Common Branding and Identity:** At the cluster level, a common brand shall be developed and the same shall be used to expand both domestic and export market shares. Individual MSMEs may sell products/ services under their own brand names, but the common brand of the cluster should be present on all labels/ packaging. This enables a clear branding for the cluster, and provides a unified image for the cluster at a global stage.
6. **Handholding Support on the Single Window Portal:** The Government may assist MSMEs in the clusters with dedicated handholding on the SWP.
7. **Diagnostic Studies across Value Chain:** For every cluster, both old and new, a diagnostic study should be conducted to identify gaps in the value chain which should be followed by remedial action.
8. **Periodic Third-Party Reviews:** The MSMEs in the clusters, along with the other organisations present (including the shared services organisation), should be subjected to a periodical review, preferably by an impartial third party. This is to identify key areas of focus and other areas of assistance that the cluster may require from the various stake-holders.

9. **Customised Financial Assistance:** Customised financial assistance (loans, subsidies, and funding schemes) may be provided to the cluster, as decided by the Government.

## 3.5 Infrastructure

### 3.5.1 Context

Being an industrial state for the past many decades, Tamil Nadu has remained a top performer in providing the necessary infrastructure for industrial units operating in the state. Despite the attention given to infrastructure requirements of MSMEs, new demands have to be addressed urgently.

Secondary research indicates that a large number of MSMEs in Tamil Nadu are from the manufacturing sector and thus access to quality infrastructure will play a critical role in the success of these MSMEs. Issue of access to quality infrastructure is faced largely by Micro and Small enterprises. Following are the major components of infrastructure that the Committee finds to be of crucial importance for MSMEs:

- Land, water and electricity.
- Warehouses, roads, ports and other logistical infrastructure.
- Raw material banks.
- Common Facility Centres (CFCs).
- Social Infrastructure for Labour.
- Exhibition centres and other marketing infrastructure.

The status of each of these components as well as the recommendations of the committee are given in the following sections.

### 3.5.2 Recommendations

#### 1. Land

Land and its availability are crucial factors for any industry and the MSME sector is no exception. The following are the issues that the committee has noticed pertaining to land and access to it:

- **Cost of land:** Given the rapid urbanisation, the last few years have seen an exorbitant increase in the cost of ownership and/or rent for land resources in Tamil Nadu. This is a challenge for MSMEs who do not own land, as such costs reduce their margins. Public-funded industrial estates exist for MSMEs through TANSIDCO but they are inadequate.
- **Lack of data on land utilisation:** There is a need for recording the expanse and use of different land allotments in the state of Tamil Nadu. This gap is hindering the optimum use of available land for expansion of MSMEs. Moreover, it also

prevents various Government agencies from successfully planning and implementing policies related to land and its accessibility. This planning will play a crucial role in addressing the regional disparity in growth of MSMEs in Tamil Nadu.

- MSMEs also lack resources to build modern building infrastructure such as plug and play facilities.

The following are the suggestions that the committee places for the consideration of the Government of Tamil Nadu:

- Land Pooling:** Implementation of land pooling schemes in line with those implemented in states like Gujarat and Haryana can facilitate ease of land acquisition by the Government in the future. The Tamil Nadu Land Pooling Area Development Scheme Rules, 2020 can be utilised for this purpose. This will help in reducing the complications that may develop in future with respect to land acquisition for parks or clusters.
- Monitoring Land Utilisation:** A system to monitor land utilisation in estates/ Special Economic Zones/ cooperative and public sector units should be implemented to better utilise land held by shut or sick units.
- Surplus land available with PSUs should be developed into parks and allotted to micro enterprises with adequate availability of built in facilities.
- Collaborative role of Urban Local Bodies (ULBs):** ULBs can also use the Transferable Development Rights (TDR) route to build social housing in dynamic clusters such as Tirupur or Sivakasi. ULBs can also explore leasing in land to build flatted factories on a PPP basis.

## 2. Water

All over the world, water has turned out to be a hard-to-access commodity and the stress for usable water has shown up in the MSME sector also. The committee has identified the following issues in water and allied needs in the MSME ecosystem of Tamil Nadu:

- **Decreasing availability of water:** With the water tables receding, MSME units report frequent disruption of water supply in summers which result in reduced operating hours thereby affecting the unit profitability.
- **Ineffective implementation of existing schemes:** Even though the Government of Tamil Nadu has mandated the industrial units of the state to implement sustainable water management techniques such as rain water harvesting and waste water recycling, the units have not been implementing such measures effectively.
- **Inadequate use and availability of effluent treatment infrastructure:** Despite setting up of CETPs, in some clusters they are not adequately utilizing the capacity while in others, the capacity is low in comparison to the discharge.

The following are the suggestions that the committee places for the consideration of the Government of Tamil Nadu:

- a. **Incentivising Sustainable Water Management Practices:** Presently, there are no incentives for the industrial units that adopt practices such as rain water harvesting or waste water recycling. The units which are pursuing such practices are presumably doing so because they are mandated to. The committee suggests that, for large-scale adoption of such practices, **the Government should incentivise such units.**

### 3. Electricity

Secondary research and the committee's interactions with MSME associations of Tamil Nadu reveals that while the large industrial units have reasonably good access to electricity of good quality, the MSMEs face the following problems:

- **Frequent Disruptions:** Many Micro and Small entrepreneurs are facing grid failures and other such incidents which are reducing the operating time of units thereby reducing their efficiency. This is particularly prevalent in underdeveloped regions of the state as well as among units operating outside designated industrial estates.
- **Delay in Application Processes:** TANGEDCO has been found to delay the processing of applications for new connections, extension of existing electricity infrastructure and/or repair of faulty lines. This leads to increase in the transaction costs incurred by MSMEs.

The following are the suggestions that the committee places for the consideration of the Government of Tamil Nadu:

- a. **Electricity Monitoring Systems:** Establish electricity monitoring systems that can detect and report disruptions in distribution lines, priority being given to HT and industrial lines. This will help in reducing the down-time of MSMEs.
- b. **Transparent and Timely Processing of Applications:** TNEB and TANGEDCO should ensure that the processing of applications is transparent and timely. The timelines which are already issued should be strictly followed by the officials.
- c. **Tapping on Renewable Energy:** To ensure grid-connectivity and sustainability, TANGEDCO may consider establishing dedicated electricity generating systems based on renewable and non-conventional sources such as solar and wind for industrial parks, estates and clusters.

### 4. Warehouses, Roads, Ports and Other Logistical Infrastructure

Though Tamil Nadu possesses a robust logistic network, MSMEs report the following issues in access to such infrastructure:

- **Uneven distribution of warehouses:** The spatial spread of warehouses in Tamil Nadu is not uniform and is heavily tilted towards the industrially forward regions.
- **Road network:** Tamil Nadu has a fairly developed road network in terms of National and State Highways. Though the state has one of the best systems of 'minor' roads, access roads to dense industrial agglomerations need to be improved.
- **Inland container depots:** MSMEs lack adequate access to containers used for shipping. The large industries of the state overcome this issue by relying on inland container depots which are present in hubs such as Chennai, Coimbatore, Madurai, Tirupur and Tuticorin.

The following are the suggestions that the committee places for the consideration of the Government of Tamil Nadu:

- Establishment of Warehouses:** With the help of the Tamil Nadu Warehousing Corporation and similar entities, the Government may establish more warehouses in the industrially backward regions of the state. This will help in reducing the transit time for the products of MSMEs and thereby reducing their payment cycles.
- Maintenance, Connectivity and Raw Material Access:** The Highways Department may build and maintain all-weather roads connecting important industrial clusters to the nearest cities and towns.
- Access to Inland Container Depots:** The MSMEs of Tamil Nadu should be given access to inland container depots similar to those available to the larger industries. The possibility of dedicated inland container depots for MSMEs may be explored by the MSME department.

## 5. Raw Material Banks

Given the higher market power wielded by raw material suppliers *vis-a-vis* MSMEs, there is a long term issue of MSMEs being forced to be price-takers. When a rise in price cannot be passed on to their buyers, the margins of MSMEs are squeezed. MSMEs also experience considerable fluctuations in raw material prices which once again affects their margins. Post-pandemic, there has been a global re-look at the sourcing patterns with emphasis on reducing the length of supply chains. Raw material security is therefore likely to play an important part in sustaining the competitiveness of the MSME sector. Apart from the possibility of creating raw material banks, the following can be considered:

- Online Tech Integrated Platform:** The MSME department should actively bring on-board raw material aggregators and link them to MSMEs to help bring down input costs. Several such players now exist in the private sector, and they are organised sector wise.

- b. **Price Stabilisation Fund:** Price stabilisation fund can be a mechanism to address fluctuations in prices in sectors such as cotton.
- c. **Handling Price Variations/ Long term contracts:** In the case of goods contracts, over the long term, there is likelihood of price variation. While price variation clauses exist in government contracts they are to universally adopted. The Finance department should therefore issue a standard set of clauses on price variation that can be included in contracts beyond say one year in duration. The clauses should be such that they allow for price variation based on market realities.

Similarly, in the case of **services procurement** by government, there is now a visible trend towards long term contracts with service providers. It is not always possible to factor in cost escalations at the time of bidding, over a five-year period. Model terms and conditions should therefore be created that allow for a defined percentage of cost escalations each year – such that the percentage of increase can be mutually decided between the Tender Inviting/ Accepting Authority and the Bidder.

## 6. Common Facility Centres

Common facility centres (CFCs) are understood to be of great benefit to the entrepreneurs in MSME ecosystem, especially to those enterprises belonging to the Micro and Small category. The Government of India through its Micro and Small Enterprises Cluster Development Programme (MSE – CDP) has established 26 CFCs in the state of Tamil Nadu, of which, 18 CFCs are nearing completion. However, a majority of the MSMEs in Tamil Nadu have limited access to the same and the Committee has taken note of the demand for more such CFCs. The Government of Tamil Nadu may establish more such facilities with the help of sector-specific MSME Associations.

The committee suggests that in line with the Government's role as an aggregator, it focus on setting up CFCs, and that these CFCs offer services that cannot be procured by individual MSMEs or tend to be costly for an individual MSME to access.

## 7. Social Infrastructure for Labour

The committee has noticed that many of the MSMEs of Tamil Nadu are dependent on out-state and in-state migrant labourers for their operation. However, in most instances, labourers are not able to access good quality infrastructure for their accommodation, healthcare, education and similar needs. The committee recommends the following measures for the consideration of the Government.

- The Government should consider establishing hostel facilities in industrial parks which shall be managed by industry associations and labour representatives. However, maintenance of these facilities should be monitored through technology. In organically evolving clusters, in addition to such hostel

infrastructure, decentralised housing/rental models can be designed through proper urban planning.

- To provide labourers with healthcare, the Committee recommends three initiatives. Given the strong public healthcare network in the state, the Government may set up or strengthen Urban Primary Healthcare Centres (UPHCs) in clusters employing a large number of workers. Second, the Government may modify the existing provisions of the ESIC scheme in order to enact a more accessible health insurance model for the migrant labourers in the MSME sector (also discussed in the chapter on Finances). Finally, the Government may enforce monitoring mechanisms on the operation and maintenance of the same.
- **Well Equipped ESIs:** A mismatch exists between the extent of contribution that workers make to ESI and availability of healthcare facilities through ESI. The state government can insist on more and well-equipped ESI hospitals to be set up in employment-intensive clusters.
- **Tamil Language Training to Migrant Workforce:** The Government may consider providing Tamil language training for the migrant labourers through the State Literacy Mission or adult learning programmes. The state of Kerala has successfully implemented a similar programme which has given positive results in building social harmony and wellbeing of the migrant labourers.

## 3.6 Markets, Imports and Export

### 3.6.1 Context

While considerable emphasis has been placed thus far on clusters and corridors, financing and infrastructure, MSMEs also face barriers to expand their markets or diversify into new markets, both domestic and global. India has a large and segmented domestic market that offers opportunities for the state's MSMEs. On the export front also, India's MSMEs contribute to 48%<sup>75</sup> of India's overall exports. This also implies that if enterprises are to remain competitive, they have to figure out ways to overcome scale and size barriers.

<sup>75</sup> <https://economictimes.indiatimes.com/small-biz/trade/exports/insights/etrise-top-msmes-21-making-india-competitive-globally-through-exports/articleshow/86253693.cms>

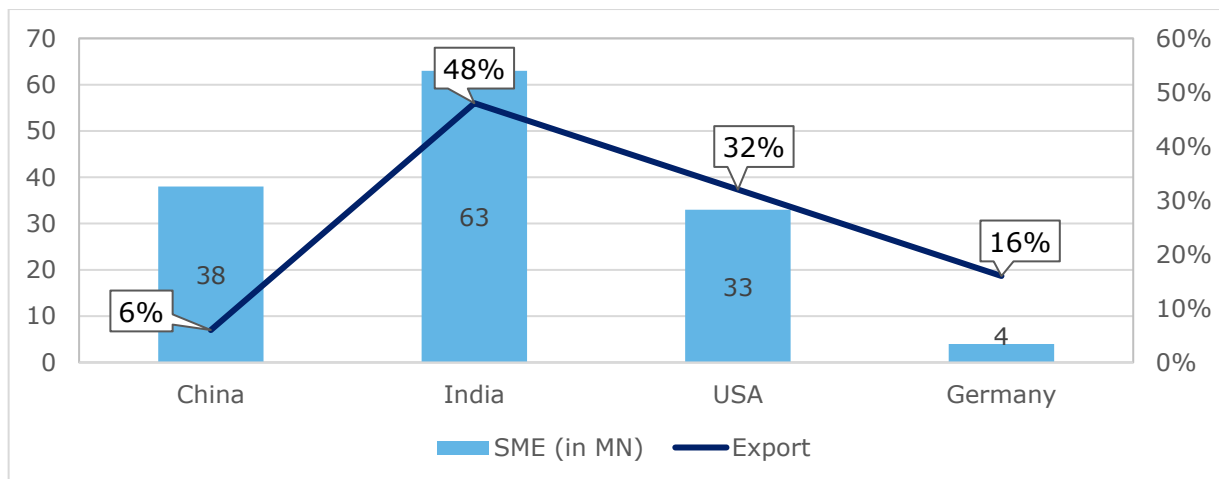


Figure 14 Country wise export contribution of MSMEs

Source: OECD Database

Our Global Value Chain (GVC) participation rate<sup>76</sup> is 41%, lower than other dynamic Asian economies. **GVCs tend to be dispersed based on the resource and factor cost advantage of locations across countries. It is also the case that some locations, despite their resource advantages, fail to plug themselves into GVCs because of absence of infrastructure and processes that can ensure fast turnaround times for supply of goods and services. These will need to be enabled in Tamil Nadu for MSMEs to integrate more into global production networks for both of goods and services.**

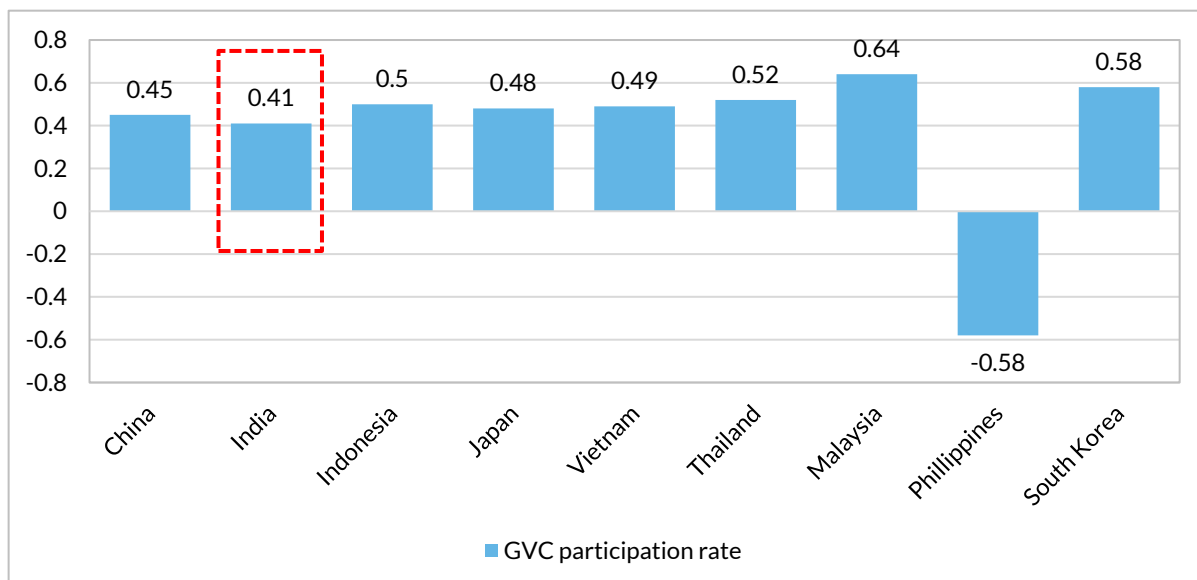


Figure 15 Country wise GVC participation rate

Source: <https://worldmrio.com/unctadgvc>

<sup>76</sup> The GVC participation index provides an estimation of how much an economy is connected to global value chains for its foreign trade (WTO).

A comparison with countries catering to similar GVCs as India denote an opportunity for India to explore with similar operating models. The graph below denotes the differences in exports (2019) between India and China. While China exports 180 Bn USD of goods, India exports 17 Bn USD of these items. The items listed below are those that Tamil Nadu is strong in. The difference denotes a 160 Bn USD gap for India to tap into; and this is just in the case of a comparison with China.

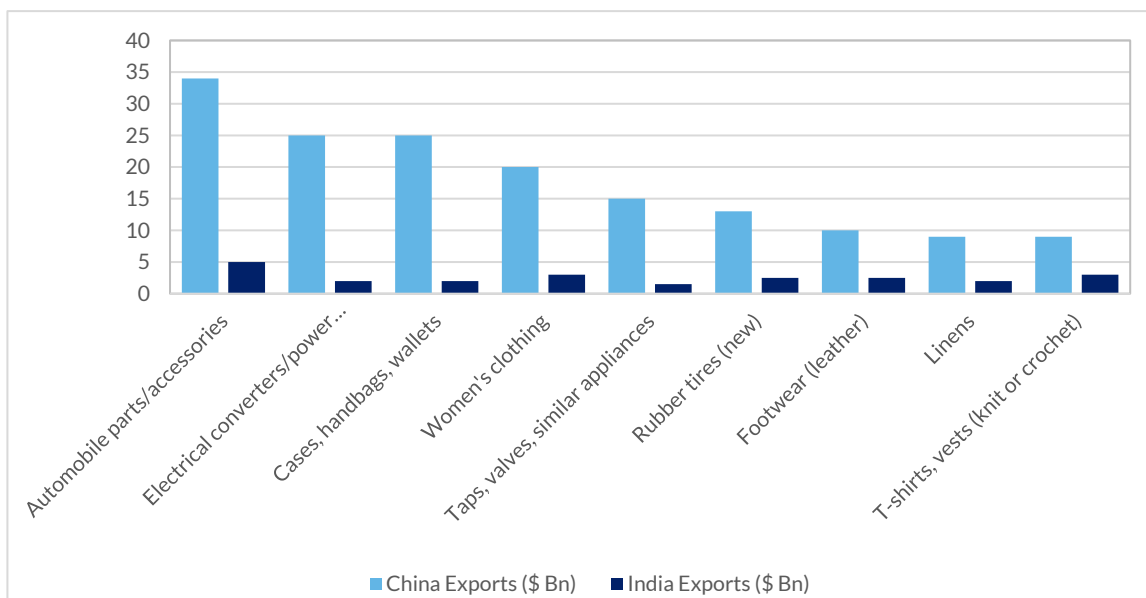


Figure 16 Differences in exports between India and China

Source: <https://worldmrio.com/unctadgvc>

The opportunity therefore lies in aligning our sectors to the opportunity – automobiles, textiles and industrial products.

**Services as a sector**, while it contributes to over 51% of India's GDP, does not often get the attention it deserves. This is also an area that is worth looking into for possible opportunities. After all, India as the back office of the world is already well known. It only needs to augment that service offering with further service offerings, including in consulting, legal, and financial services.

### Inputs Received from Exporters

The Committee met with several exporters through FIEO to hear from them first-hand the export related challenges. While every sector had its own share of inputs, the most common cross-cutting themes are listed below:

1. **Absence of Export Guidance:** There is no hub-centre where entrepreneurs can be handheld to export. Also, data on exports are not available on Government of India portals in a user-friendly manner.
2. **Cost of logistics:** The cost of logistics for MSMEs to export has increased substantially in the recent few months primarily due to an increase in the cost of hiring containers.

3. **Delay in disbursements of Government of India incentives:** There is an unreasonable delay in disbursement of benefits due to MSMEs through the Government of India schemes such as the Merchandise Export from India Scheme (MEIS) and Rebate of State and Central Taxes and Levies (RoSCTL) Scheme.
4. **Infrastructure related aspects:**
  - a. **Competition from Sri Lankan Ports:** Major shipping companies park their mother vessels in Sri Lanka. These companies operate on a hub-and-spoke model, requiring the exporters of Tamil Nadu to send their products in smaller ships to Colombo and consequently get them rearranged into the mother vessels. This results in delays and also losses in the case of perishables.
  - b. **Access to container terminals:** Container terminals are dedicated facilities which cater to needs such as packing and sealing of containers. While the large industries of Tamil Nadu are able to utilise the presence of such container terminals in the state, the MSMEs find it difficult to utilise the same due to high cost.
  - c. **Development of airports:** The ability of airports such as Coimbatore, Trichy, Madurai, Tuticorin and Hosur to handle movement of large container freight is limited. This creates a dependency on Chennai airport for freight operations, which results in delays.
5. **Dependence on Imports:** In spite of adequate manufacturing capacity being available in India, there is a large proportion of items being imported since the MSMEs are not able to manufacture at scale. Since Chinese manufacturers make for the world, they are able to offer their products at prices our MSMEs cannot. This results in a perverse situation where multiple retailers independently import despite their being adequate technical capacity in India to manufacture.
6. **Indiscriminate use of banned chemicals impacts exports:** Chemicals such as Glyphosates are being used indiscriminately in Tamil Nadu in the food processing sector resulting in the reduction of market value or in many instances, the complete inability to export products to countries which have banned these chemicals.

### 3.6.2 Recommendations

After its deliberations and discussions of the above problems with the relevant stakeholders, government officials, MSMEs of Tamil Nadu and internal discussions, the following recommendations are made for the consideration of the Government of Tamil Nadu:

1. **MSME database:** An MSME database needs to urgently be put in place which allows the creation of a profile, a catalogue of MSMEs, their products, their assets (Generator, Lift), their certifications - so that they can be linked with large buyers.

- DICs should be encouraged to link these MSMEs with local large buyers - like a match-making mela. For this, data should be pulled in through APIs from MCA, Income Tax, Commercial Tax and Electricity Departments among others. This database should set the base for all other initiatives of the department and should be taken up promptly by MTIPB.
2. **Connect with Large Buyers:** Each established MSME in Tamil Nadu will have specific vendor requirements. Attempts should be made to connect these MSMEs, who are today not customers of the large enterprises/ PSUs. For this, the following steps may be considered:
    - a. Institutionalise buyer-seller meets as a business in which formal one-on-one curated connections are made between buyers and sellers.
    - b. The Government can consider the concept of buying houses (popular in the Leather and Textiles sectors) and look at ways to extend their working in other sectors. Initial facilitation grants may be given to a clutch of businesses operating in this space.
    - c. Create institutional mechanisms, to coach MSMEs (particularly the smaller enterprises) on presenting themselves to large buyers.
    - d. Put in place a mechanism, through private sector involvement, so that smaller enterprises can be coached on quality and the consistency of output.
  3. **Platform for Expertise:** MSMEs sometimes may require expertise that the company doesn't have. An expert from outside might be necessary to extend help. It is recommended that the Government setup a platform (through a private entity) on which experts and services are provided for MSMEs. These services may be chargeable.
  4. **Taking MSMEs Online:** There is a need to bring more MSMEs online. For this, the department can tie up with e-market places so that MSMEs get a green channel pathway for quick onboarding. Existing e-commerce platforms expect that MSMEs have trademarks, brand names, high quality photographs of their products for successful online uploading and profile creation. The department should centrally negotiate with these service providers to make it easier, faster and cheaper for MSMEs to come online.
  5. **Canton like Fair:** Tamil Nadu may consider hosting series of fairs of different scales on a public private partnership mode. The fair (B2B only) can be conducted across cities based on the natural concentration of SMEs. A calendar of events can be fixed for a year and fairs organised. These fairs can be complemented by a permanent online fair as well.

The Committee also suggests setting up of mini trade centres for MSME clusters near the major airports, operated by industry associations but with investment support from the government. Multipurpose Trade Centres (MTC) can be opened for MSMEs in districts with significant clusters and an international

airport (Eg: Chennai, Coimbatore, Madurai, Trichy and Hosur). This can be operated by the trade/industry associations in conjunction with the DICs.

### CANTON Fair

The **Canton Fair** or **China Import and Export Fair**, is a trade fair held in the spring and autumn seasons each year since the spring of 1957 in Canton (Guangzhou), Guangdong, China. It is the oldest, largest, and the most representative trade fair in China. It is co-hosted by the Ministry of Commerce of China and the provincial government of Guangdong Province and organised by China Foreign Trade Centre.

The fair leans towards export trade, though imports are also focused on. The National Pavilion (export section) of Canton Fair is sorted into 16 categories of products, which tend to be exhibited in 51 sections. Over 24,000 of China's best enterprises take part in the fair. These include private enterprises, factories, scientific research institutions, wholly foreign-owned enterprises, and foreign trade companies.

The exhibition area totals 10 lakh sq. metres and the number of exhibitors from home and abroad stands at nearly 26,000. In each session, about 2 lakh buyers attend the Fair from more than 210 countries and regions all over the world.

Source: <https://www.cantonfair.org.cn/en/about/overview>

6. **Bringing in skilled experts/ skilling:** New markets also at times imply adoption of new processes and standards which in turn may require skills and expertise. The Government should empanel experts (sector and service wise) and make them available for consulting projects for MSMEs. In addition, for providing skills to MSMEs, skill councils have adequate funds that need to be systematically tapped into. A voucher-based system can be considered for this wherein MSMEs are given vouchers for skill training redemption.

7. **Government e-Marketplace (GeM):** Departments should be aggressively pushed to on-board and purchase from GeM. Similarly, MSMEs should be aggressively onboarded onto GeM.

8. **Public Procurement:**

The exemption of Earnest Money Deposit (EMD) should be given only to MSMEs with production facilities in the state and to Services MSMEs. These initiatives are important because most MSMEs cater to in-state markets and so will help them scale up.

**TT Act:** Today there is no mechanism to track the proportion of government purchases from MSMEs. The TT Act should be amended to give it a more direct impact on MSMEs. Policy similar to the Public Procurement Policy of Government of India which mandates that at least 25%<sup>77</sup> of purchase by

<sup>77</sup> <https://dpe.gov.in/amendment-public-procurement-policy-micro-small-enterprisesmses-order-2012dpeom-no-pp-742007-fin>

- government departments/ CPSEs is from MSEs, could be adopted in Tamil Nadu. Further, a certain percentage of purchases from MSMEs in Tamil Nadu should also be notified.
9. **Common Brand for Artisanal MSMEs:** A common brand for artisanal products needs to be designed and promoted – including where possible, by leveraging on GI tags. This should be accompanied by shared services that artisans can use for testing and quality certification.
  10. **Tourism linked marketing:** Tamil Nadu is a major tourist destination and has been consistently ranked at the top in tourist arrivals in recent years. This tourist inflow can be tapped to expand markets for products produced in artisanal clusters such as handlooms and handicrafts. Tourist circuits can be reworked in collaboration with tour operators to cover important handicraft and handloom clusters in the state. This can be tied to eco-labelling and source tracing of inputs to encourage ethical buying initiatives.
  11. **Development of an Export Policy:** The Government of Tamil Nadu has recently released an Export Policy. This policy needs to be developed further to respond to sector-specific strategies beyond incentives for encouraging exports.
  12. **A satellite Centre of IIFT in Tamil Nadu:** The Government may take up with the Ministry of Commerce, Government of India to set up a satellite Centre of the Indian Institute of Foreign Trade (IIFT) in Tamil Nadu (such centres already exist in Telangana and Karnataka). The physical infrastructure required may be provided by the state Government.
  13. **Export Incubation Support:** There are entrepreneurs who want to become exporters and have the potential to export their products. Conversion of these MSMEs into exporters is needed for boosting exports in the state. Export promotion councils may be approached to design and implement an export incubation programme. FIEO has a working programme in Chennai and Coimbatore that should be leveraged.
  14. **Infrastructure support**
    - a. **Access to Containers:** The Government of Tamil Nadu with the support of the Government of India should ensure that containers are accessible at reasonable costs. The possibility of a company in the form the Container Corporation of India (CONCOR) may be explored.
    - b. **Expansion of Transport Infrastructure and Connectivity:** The expansion of infrastructure facilities in airports of Tamil Nadu has to be done on an immediate basis. This will cater to the need of MSMEs across all the regions of Tamil Nadu.
    - c. **Improving Quality of Digital Infrastructure:** Given the importance of information and communication for both service and manufacturing MSMEs,

ensuring quality of digital connectivity is of utmost importance, especially for attracting investments in new areas.

### **15. Micro Export Park for MSMEs with Plug and Play and Logistic Infrastructure:**

- a. Industrial Parks are generally planned as larger Mega Clusters but the MSMEs find it difficult to join the same. The committee recommends setting up exclusive Micro parks for the MSME export sector. These Micro parks may be considered in existing brown field clusters. Smaller land parcels of up to 10 acres especially in defunct government enterprises may be considered.
- b. Plug and Play sheds of 2,000 to 10,000 sq. ft. may be considered. By leasing the sheds, the MSMEs with limited resources can start quickly.

## **3.7 Technology**

### **3.7.1 Context**

Technological innovation is key to long term sustainability and dynamism of MSMEs, particularly with the rising importance of e-commerce, data analytics and AI based technologies. However, rather than innovating novel products or processes, it is the ability to adopt and adapt new innovation that is critical to long term growth for a majority of MSMEs. For example, while ERP solutions in the SME space are available, an inability to adopt such solutions is a source of concern. In this context, the Committee, after deliberations with relevant stakeholders makes the following observations and suggestions.

### **3.7.2 Recommendations**

#### **1. Cloud based ERP Solutions:**

One of the key parameters of managing a successful and sustainable business is efficient resource planning and many Enterprise Resource Planning (ERP) solutions are available for the same including cloud-based ERP solutions. The Committee recommends that the Government design a scheme where MSMEs of TN can pay per license, for a product which the GoTN centrally contracts for. This will bring down the per-unit cost for MSMEs.

#### **2. Industry – Academia Collaboration for Adoption of Technologies:**

**An important missing link in the innovation ecosystem is the inadequacy of industry-university collaborations at the cluster/ district level for innovations** despite the state being home to one of the largest number of technical institutions in the country. Even in clusters like the Greater Chennai region and Coimbatore where there are several technical institutions and MSMEs, collaborative relationships that can contribute to the dynamism of MSMEs are inadequate. MTIPB should play a facilitative role in organising pre-determined, sector specific interactions.

### 3. Technology for Industry 4.0:

#### a. A Centre of Excellence (CoE) for Industry 4.0

Industry 4.0 or the fourth industrial revolution as it is called, is emerging globally as a powerful force and is being touted as the next industrial revolution. It is characterised by the increasing digitisation and interconnection of products, value chains and business models. In this scenario, the concept of Center of Excellence (CoE) can be very effective in collection of information, development and dissemination of knowledge, facilitation in capacity building of industries in co-ordination with various stakeholders.

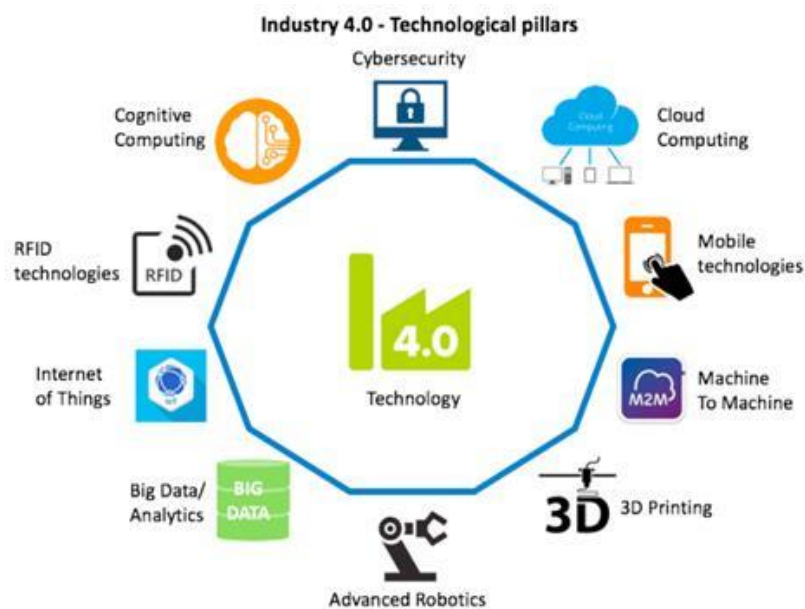


Figure 17 Technology Pillars for Industry 4.0

Source: Physical Internet – a Novel Application Area for Industry 4.0<sup>78</sup>

The Committee understands that the National Productivity Council (DPIIT, Ministry of Commerce & Industry, Govt of India) and All India Council for Robotics & Automation (AICRA) have established an “Industry 4.0 Centre of Excellence”. **The Committee recommends that a similar Centre of Excellence be established in Tamil Nadu. This role can also be played by MTIPB (with a partner institution).**

#### Scope of Industry 4.0 CoE

- CoE will function as a knowledge centre for entrepreneurs, start-ups regarding concepts of information technology and its application in Industry 4.0.
- CoE will also disseminate this knowledge (e.g., practical applicability of industry 4.0 in other countries) through workshops, lectures and training programmes.
- CoE will also facilitate display of latest technology/ demonstration projects for helping the new start-ups.

<sup>78</sup> [https://www.researchgate.net/figure/Technological-pillars-of-Industry-40-9\\_fig1\\_331875672](https://www.researchgate.net/figure/Technological-pillars-of-Industry-40-9_fig1_331875672).

- b. The Committee recommends that the MSME department should take immediate steps to familiarise the MSMEs with Industry 4.0 methodologies and help them adopt these principles in their operation. For this, exposure visits and online webinars should be organised.

#### 4. Incentives for Technology Upgradation:

The Committee understands the importance of supporting the MSMEs of Tamil Nadu in upgrading their technology. It is also recognised that the majority of the Micro and Small enterprises might not have the requisite capital to upgrade their technology. In light of these observations, the Committee recommends the following:

**The Capital Subsidy scheme for expansion of MSMEs may be expanded to cover the cost incurred in technology upgradation. For this, beyond turnover increase, it is proposed to include parameters such as output and productivity increase also as base criteria for award of the scheme.** The existing cap of 15% of cost of plant and machinery may be revised accordingly by the Government.

In addition to the same, the Government may consider revising the clause that prevents already established MSMEs (more than 1 year of operation) from utilising the Capital Subsidy scheme. The scheme may be modelled in line with the Credit Linked Capital Subsidy for Technology Upgradation (CLCSS) scheme implemented by the Ministry of MSME, Government of India under the National Manufacturing Competitiveness Programme (NMCP).

## 3.8 People and Skilling

### 3.8.1 Context

Human capital is arguably the most important source of sustainability and dynamism of MSMEs in the long term. Its significance has particularly increased with the diffusion of information processing technologies. Simultaneously, the policy challenge is also one of creating 'good jobs', a challenge that MSMEs can go a long way in addressing.

As per the CMIE monthly data series, the labour participation rate in Tamil Nadu in January 2016 was 55.23% as against all India rate of 47.7%. In September 2016, it increased to 61.13% as against all India rate of 47.94%. After that it has been steadily declining and reached 57.57% in January 2017, 49.78% in January 2018 and 44.08% in January 2019<sup>79</sup>.

Recent trends in the state also reveal that with rising education, young adults are seeking quality non-farm employment, which is not being created at the same pace. The gender disparity in employment also requires to be addressed in the state especially with a significant decline in women's work participation rate in urban Tamil Nadu.

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<sup>79</sup> HLC Report, GoTN 2020.

Informalisation of the workforce is also at an increase since the 1980s resulting in rising share of unorganised sector in total manufacturing employment and informalisation of the organised manufacturing sector itself with greater use of subcontracting and increasing employment of contract and temporary workers.

A need arises therefore to adequately skill and train the growing workforce, harness the collective pool of knowledge and skill in industry and to find ways and avenues of rightfully deploying the potential workforce in years to come.

According to the TNSDC Skills Gap Report (2019), the aspirational income expectations at the entry level for female and male workers in the state are Rs. 15,000 per month and Rs. 20,000 per month respectively. This is higher than the wages prevailing in most MSME-dominant manufacturing sectors in the state. The report also notes that firms recruit 88% of their employees through employee referrals and only 5% through direct recruitment from technical schools. A mismatch between training in vocational institutions and industry requirements is the primary factor for this status. This is due to the absence of systematic frameworks for internships and apprenticeships in several sectors. Finally, the report talks of the need for training of trainers and the absence of quality trainers in less developed districts.

To address some of the challenges discussed above, the Committee makes the following recommendations.

### 3.8.2 Recommendations

1. **Improving Institutional Coordination:** Skill development in Tamil Nadu is a subject that is handled by several departments. Some departments include Labour (TNSDC), MSME, and Education. While ITIs are under the control of the Department of Employment and Training, the beneficiaries of these institutes are the MSMEs. **There is therefore a need for a common Board (constituted as a coordination committee) that meets and works towards a common agenda** including – locations, and courses. These need to be signed off by the Industries and MSME departments to ensure alignment to the state's industrial growth plans. This is common practice in countries such as Sweden and Finland. *In the absence of the above coordination mechanisms, the state will continue to work towards 'balanced regional development' but will not meet with success since departments are not working cohesively.*
2. **Labour Market Information System (LMIS):** A prerequisite to implementing recommendations below is the creation of a robust database, the Labour Market Information System (LMIS). **The Committee recommends a two-tier system. At the cluster level, the diagnostic tool identified in the 'Technology' section can be used to do a mapping of current and future labour requirements across key clusters in line with shifts in technologies in that particular sector. A cluster specific skills gap analysis can be undertaken accordingly.** This exercise can be undertaken by DICs in partnership with industry/cluster associations. **At the**

**state level, institutionalising a LMIS system would help in data backed policy making.** This database should be mapped to the Census, MSME data from other sources such as Udyam and NSS.

3. **Revamping Technical Training Institutes (Polytechnics/ ITIs):** The following interventions are proposed for the technical training institutes.
  - a. As an extension of the earlier recommendation on improving institutional coordination, industry associations should have a role in designing curriculum and pedagogy in technical training institutes. The Directorate of Technical Education (DOTE) and the Directorate of Employment and Training can facilitate this and can partner with Sector Skills Councils<sup>80</sup> for this purpose.
  - b. These institutes should also impart problem solving skills along with exposure to frontier technologies. They should re-orient their focus on frontier technologies such as Data Sciences, and AI.
  - c. Based on their location, the institutes can choose to provide training in streams that are in demand in adjoining clusters.
  - d. A new stream of accreditation and skilling that is part digital can be encouraged.
  - e. Ranking of Technical Training institutes should be introduced.
  - f. The Government should consider allowing these institutes to work in three shifts, where at least 1 – 2 shifts are for manufacturing/ production enterprises using the facilities in the institute. The institutes should also look at models which are capex-light – i.e. the equipment should be obtained on lease from the partner institutes as this will allow the equipment to be current, and the facility can serve as a showcase unit for manufacturers of equipment. The committee feels that restricting these units to merely training centres has resulted in their underutilisation.
4. **Practical orientation of Trainers:** A metric for teachers to have dual qualifications (theory and practical) has to be evolved and the share of trainers having such dual qualifications should be increased in a time-bound manner. The process can also be aided by drawing on adjunct faculty from industry/ recognised institutions and from practitioners in the industry. Given the massive expansion in online education and possibility of acquiring globally recognised credentials through online courses, the role of blended learning should be enhanced.
5. **Coding – Vocational Training Combination:** The share of software content in manufacturing and in services is increasing and is likely to be key to sustaining competitiveness. Coding skills should therefore be combined with traditional

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<sup>80</sup> Of the National Skill Development Council (NSDC)

vocational courses. For this, the SkillsFuture Singapore model (the programme aims to expand job, traineeship, and skills training opportunities to support individuals affected by the economic impact of COVID-19) can be explored where the Government allows Singapore citizens to upskill themselves across accredited training partners and redeem government vouchers for discounts.

### Skills Future – Singapore Model

SkillsFuture Singapore (SSG) is a statutory board under the Ministry of Education (MOE). It drives and coordinates the implementation of the national SkillsFuture movement, promotes a culture and holistic system of lifelong learning.

SSG works across all existing training services providers of the Government to enhance the capabilities and professionalism of adult educators. It also ensures quality of the service being provided. SSG ensures that students and working adults have access to high quality, industry-relevant training throughout life. SSG also brings together synergies in continuing education and training (CET) and pre-employment training (PET), so skills requirements will continue to meet the demands of different sectors of the economy.

6. **Industry – Academia Partnerships:** Greater collaboration between publicly supported research institutions like SITRA, IIFPT and CLRI, and industry actors must be encouraged, supported by the integrated digital platform proposed for MSMEs; and facilitate by MTIPB. Industry and trade associations should proactively be engaged in providing handholding support to the MSME sector in the area of skill development and training.
7. In addition, new R&D centres in a PPP mode that are sector-specific can be set up close to clusters. Recycling such as Battery Recycling, Reusing Plastics, recycling and upcycling<sup>81</sup> of industry wastage and by-products should be promoted through innovative pilot projects.
8. **Training Entrepreneurs:** A typical entrepreneur, particularly in the micro category is best equipped to operate the business. However, ‘business’ is a sum of many parts. The MSME department should look at targeted, sectoral interventions in which specific sectoral plans are made to train entrepreneurs based on their needs. Examples of such interventions include, trade visits, links with design schools, links to e-markets, training in digital and social media marketing. Existing programmes like Growtherator<sup>82</sup>, organised by Global

<sup>81</sup> Upcycling, also known as creative reuse, is the process of transforming by-products, waste materials, useless, or unwanted products into new materials or products perceived to be of greater quality, such as artistic value or environmental value (Wikipedia).

<sup>82</sup> *Growtherator* is a 6-month Business accelerator program conducted by Global Alliance for Mass Entrepreneurship (GAME). It helps growth-oriented firms learn industry best practices on talent management, cash flow management and business development. It provides an avenue for connecting with sector experts, business leaders, investors, bank and finance experts, successful entrepreneurs. It also provides leadership training encouraging entrepreneurs to be role models. The programme is designed to help businesses show growth and plan for scale.

Alliance for Mass Entrepreneurship (GAME) can be leveraged, along with partnerships with Tamil Nadu Women's Development Corporation.

9. **Internships and Apprenticeships:** MSMEs find it difficult to compete with large firms in attracting trainees and retaining them. The government should therefore provide additional incentives for students to intern/ apprentice with the MSME sector. Paid internships (may be for one full year) for students in polytechnics and in colleges should be made mandatory for this purpose. For this, the MSME department will need to work with the Education and Labour departments.

#### **Singapore model of internships**

Students enrolled in any course are encouraged to undertake internships in their summer break right from year 1. Every university has an internship portal that provides students access to information on available internships catering to their subject of interest. Such internships are mandatory for them to graduate. Students benefit from internships because of early exposure to functioning of industries/companies. The state government can mandate internship for students from year 2. A taskforce can be formed on a priority basis to ensure that firms enlist themselves to take in interns. This can ensure graduating students from any course or any institute are more industry-ready.

Once the MSME database is made, the department should link into it the database of ITI and college students and link them with all MSMEs in the state directly.

## 3.9 Tamil Nadu as a Thriving State for Start-ups

### 3.9.1 Context

Start-ups, defined as entities established within an existing ecosystem but focussed on innovating, play a dominant role in economic growth. They generate jobs and are a means by which new entrepreneurs with novel ideas experiment and innovate. Most of the technology giants normally outsource their tasks to start-ups<sup>83</sup> or take an equity in start-ups. If start-ups progress adequately and consistently, they can develop into 'Unicorns'<sup>84</sup>, benefiting not only the owners of the start-ups, but also the employees and shareholders. Both Government of India and Government of Tamil Nadu have been encouraging start-ups. There is also a need to develop a plan to spot Unicorns and Soonicorns<sup>85</sup> to be promoted, showcased and celebrated.

The Tamil Nadu Startup and Innovation Policy 2018-2023 envisions the state to become a global innovation hub, a knowledge capital and the most preferred destination for start-ups and aims to create at least 5000 start-ups including 10 global high growth start-ups by 2023. Institutionally, start-ups in Tamil Nadu are supported by the state through three primary entities:

1. **Tamil Nadu Startup and Innovation Mission (TANSIM)**
2. **Entrepreneurship Development and Innovation Institute (EDII)** and
3. **Tamil Nadu Startup & Innovation Council (TANSIL)** headed by the Chief Secretary to review and advise TANSIM (this is yet to be constituted).

As per data from Tamil Nadu Startup and Innovation Mission (TANSIM), the number of Start-ups in the state registered with the Department for Promotion of Industry and Internal Trade (DPIIT) is 3,069 (as on 01 November 2021); 88 Incubators (as per Startup India) and 3 Accelerators (as per Startup India). Most of these start-ups are concentrated in the districts of Chennai, Coimbatore and Kancheepuram. There is a need for the startup ecosystem to expand and diversify beyond these districts.

**To ensure effective facilitation and enhanced outcomes in the startup ecosystem of the state, the Committee observes that the administrative machinery of the Government needs to be organised under a single agency – TANSIM.**

### 3.9.2 Recommendations

1. **Infrastructure – Fab Labs / Makers Lab / Tinkering Labs**

<sup>83</sup> <https://sentientso.com/the-role-of-startups-in-economic-prosperity-of-developing-countries/> accessed on 22-10-2021.

<sup>84</sup> "Unicorn" is a term used in the venture capital industry to describe a privately held startup company with a value of over \$1 billion (Investopedia).

<sup>85</sup> A "Soonicorn" is a "soon-to-be-unicorn": a recently launched business that has the potential to become a "unicorn" (valued at more than one billion dollars) (collinsdictionary.com).

Start-ups are spread across domains such as Health Care, Automation, Manufacturing, Textiles, and Agriculture. Innovations and start-ups have to be encouraged, particularly in the field of Electronics. These require specialised Start-up Centres equipped with infrastructure such as:

- Fab Lab/ Makers Lab/ Tinkering Labs
- Automated Electronic Product/ PCB Assembly Facilities
- Electronic Product Testing Facilities.

The Committee recommends that regional centres for the above be established across the state.

## **2. Infrastructure - Conversion of select Industrial Training Institutes (ITIs) into Innovation Centres**

Many Industrial Training Institutes (ITIs) in the districts have the facilities and equipment required for Start-ups. The Committee suggests that 20 well-equipped ITIs may be selected across the state and upgraded as Innovation Centres whose facilities may be allowed to be accessed at nominal costs by the innovators and start-ups for their product development.

## **3. Innovation Funding Scheme**

The Committee is of the view that funding schemes to encourage innovations and start-ups at various stages of development have to be implemented proactively. To ensure that innovations are broad-based and responding to locally identifiable problems, the Committee recommends that the Innovation Funding Schemes have to be decentralised. The selection of innovators/ start-ups/ MSMEs has to be done at the district level by a committee headed by the District Collector, similar to the process followed in the case of the Prime Minister's Employment Guarantee (PMEGP) scheme. The district level scouting and selection of innovations and start-ups will help in spreading the innovation culture across the state, bring in inclusiveness, and innovations addressing local needs. However, to avoid duplication of such innovative efforts, the selection can be vetted by an expert panel at the state level.

## **4. Innovation Voucher Programme:**

The Government of Tamil Nadu has initiated the Innovation Voucher Programme (IVP), a grant-in-aid scheme to encourage research and innovation among MSMEs and start-ups in the manufacturing sectors. This scheme envisages to leverage the strengths of academic and research institution as Knowledge Partners (KPs) to support MSMEs, in innovation. It allows the funds to be paid to the entrepreneur rather than through an academic institution.

## **5. Credit Support for Services Start-ups**

In the chapter on access to formal finance, it was mentioned that bank lending to MSMEs is inadequate, given their risk profile. The conventional banking sector is not able to provide debt / loans to the Services start-ups because of non-availability of

assets to provide as collateral or surety. As a result, they find it difficult to raise working capital through conventional instruments for scaling their operations. The Government should work with financial institutions to push products such as bill discounting, and value chain financing for startups.

#### **6. Equity for start-ups:**

This is to be explored in early stages of businesses when funding is hard to source. This may be done through a fund of funds scheme or equivalent, run professionally.

#### **7. Access to Market:**

The Government should create opportunities for start-ups to supply their goods and services to meet the Government's requirements by supporting them in terms of exemptions/ relaxation in criteria required for procurement through tenders. A state-level programme may be launched by the government with the criteria to identify start-ups which have **unique** products or services that are market-ready. These start-ups can be provided an opportunity to serve the government for a specific period of time. Maharashtra State Innovation Society organizes Maharashtra Grand Challenge to identify 100 start-ups across the state. These start-ups are encouraged to supply their products and services to the state government departments.

**The Committee recommends that the Startup policy be amended, ensuring that a portion of procurement of the Government be made from startups.**

**8. Licensed Software for Start-ups / MSMEs:** The start-ups/ MSMEs find it difficult to purchase the licensed software (Example: Tally, Solidworks, CATIA, ProE, AutoCAD and other software) to accelerate/ scale their business due to the cost of the software products. While the MSME policy states that the government will support the purchase of software products at cost-effective prices, there seems to be no mechanism or process has been put in place so far. **The Committee recommends that a scheme or process be put in place for the same.**

**9. Encouraging Grassroots Innovators:** In order to encourage grassroot innovators the Committee recommends:

- a. Each member of the Legislative Assembly (MLA) may be allowed to spend Rs. 5 lakhs per annum to encourage grassroots level innovation by awarding innovative ideas from young school children and college students in his/ her constituency. A local Committee may be formed to identify innovative ideas for these awards.
- b. While the above is recommended as a source of funds for grassroots innovation, there also exists a need for implementation support and handholding to encourage Grassroots Innovators. The Committee therefore recommends:
  - i. The state can attract talent from other states to setup their start-ups in Tamil Nadu, across districts. IIT-M research park has succeeded and can be a role model Incubator to further replicate this success across the state. The state can partner with leading academic institutions for

collaborations in the area of R&D, and innovation. More such research parks may be identified and started in the state.

- ii. To identify grassroot innovators, programs such as hackathons and bootcamps across all the districts in Tamil Nadu can be organised to encourage entrepreneurial talent.
- iii. Entrepreneurship ambassadors to the state could be identified from start-ups that have grown and emerged successful from Tamil Nadu.

**10.Startup funding for SC/ ST entrepreneurs:** The GoTN may consider implementing dedicated schemes/ funds to fund the startups of SC/ ST entrepreneurs in the state. This would assist in grassroots development of SC/ ST entrepreneurs, as well as assist in the scaling up of the startup sector in the state.

## 3.10 Sector Specific Recommendations

### 3.10.1 Context

The Committee had 16 meetings with various sectoral industries associations across the State. Many useful suggestions and insights emerged during these meetings. Suggestions impacting MSMEs in general have already been included in the earlier Chapters. Sector-specific suggestions given by the associations, which can be considered by the Government, have been listed in the following paragraphs.

### 3.10.2 Recommendations

#### 1. Engineering Sector

- a. There exist segments within this sector that require small sized plots (1000 sq. ft.) rather than flatted factories. Such needs need to be considered while re-developing existing parks/ creating new parks. (MSME Dept.)
- b. Testing centres available in and around Chennai do not have adequate infrastructure for testing of defence equipment. This leads to defence equipment being sent to Bangalore, Pune, and Ahmedabad for testing. (MSME Dept.)
- c. Three phase power supply is required in Villupuram, Tiruvannamalai, Cuddalore and other backward districts. Currently only 2 phase power supply is provided and 3 phase power supply is available only for 6 hours per day. (TANGEDCO)
- d. The feasibility of setting up of a Railway Coach Factory in Trichy may be explored. The MSMEs have the required infrastructure and skill to cater to their needs given their past exposure to BHEL. (Industries/ MSME Depts.)

#### 2. Auto Components Sector

- a. Transition to Electric Vehicles: Government policy should not be confined only to the EVs space alone but should also extend to casting and forging (including cold forging); motors; and batteries. (Industries/ MSME Depts.)

#### 3. Coir Sector

- a. More than 90% of the Coir Fibre is exported to China. China makes finished products and exports them to other countries. **A special mission, and also a specialised agency may be formed by the State for encouraging value addition in Coir, and for promotion of coir industries in Tamil Nadu.** (MSME Dept.)

#### 4. Leather Sector

- a. For CETP maintenance, charges are being shared by members. These charges attract a GST of 12%. It is suggested that this should be exempted or brought

- to 5% as the CETPs do not use input tax and hence this becomes an additional cost. (Finance/ MSME Depts.)
- b. A scheme may be devised to promote vegetable tanning. (Industries/ MSME Depts.)
  - c. CETPs at times function at sub-optimal capacities which makes them expensive to operate. It is suggested that when any tannery closes down, new units can be allowed to open. (TNPCB/ E&F/Industries/ MSME Depts.)
  - d. Pallavaram Leather Cluster may be provided with a Micro Park with Common Facility Centres for processing, designing, and shredding along with an incubation centre for supporting new entrepreneurs. (MSME Dept.)
  - e. Leather Clusters also need machineries like Finish Line Machines, CNC Cutting Machine, 18 Head colour embroidery machines for producing value added products. As all the units situated in Pallavaram leather cluster are Micro Units, it is requested to provide these machineries through a common facility centre. (MSME Dept.)
  - f. An Industrial Estate for leather sector to promote eco-friendly processing technologies may be created with plug and play facilities including green field common facilities. (MSME Dept.)
  - g. Leather Industries import a large number of components for their use due to non-availability domestically. It is requested to set up a Leather **Component manufacturing Park** for promoting domestic production, import substitution and employment linkages. (MSME Dept.)
  - h. Gummidipoondi Cluster requires a Testing lab (for leather products) to enhance their quality. (Industries/ MSME Depts.)

## 5. Textiles and Garments Sector

- a. Out of 2.4 crore spindles spinning capacity in the State, around 1.1 crore are over 15 years old. Support is requested for modernisation. (Textiles/ Industries/ MSME Depts.)
- b. TN produces only around 5 to 7 lakh bales annually but consumes around 110 to 115 lakh bales annually. TN has potential for cultivating high value-added specialty cotton such as ELS, organic and naturally coloured cotton; a dedicated mission mode approach is essential to achieve this. (Agriculture/ Industries/ MSME Depts.)
- c. Special focus may be given for promoting Technical Textiles. Presently expertise and R&D is not available in the state; hence MSMEs are not able to take advantage of these emerging opportunities. SITRA has been tasked with the above activity, adequate attention and funding could be diverted towards promotion of technical textiles. (Textiles/ Industries/ MSME Depts.)

- d. Cost of power tends to be relatively higher in the state. This needs to be addressed through incentives for green energy production and distribution among other things (TNEB/ Energy/ Industries/ MSME Depts.)
- e. Fashion garment industry needs facilities like design studios, proximity to international Airports as buyers regularly visit factories and oversee making samples. Hence woven garments park with all facilities may be created within 100 km radius of airports close to garment and textile clusters. (Textiles/ Industries/ MSME Depts.)
- f. Infrastructure requirements such as plug and play facilities for woven apparel park, design studios in textile clusters, man-made fibre-fabric conversion and R&D support for technical textiles need to be supported. (Industries/ MSME Depts.)
- g. “Texvalley<sup>86</sup>” in Erode district is useful as a model for marketing of garments and textiles for small producers. This can be used as a template for setting up similar B2C marketing facilities in other places (Industries/ MSME Depts.)
- h. The Defence Corridor includes Parachute manufacturing as a component, for which raw materials and technology are readily available with the textile manufacturers. These units can be utilised for the same. (Textiles/Industries/ MSME Depts.)
- i. Micro clusters for power looms in Erode and Salem may be created to help weavers working with obsolete power looms. Such clusters can be provided with support for supply of raw materials and components at reasonable cost, modern machinery and marketing. (Textiles/Industries/ MSME Depts.)
- j. A programme to push man-made fibre-based garmenting is required in the state. The park in the state should be encouraged to specialise in both fibre to fabric conversion and manufacture of man-made fibre-based garments since these have a very high demand. (Textiles/Industries/ MSME Depts.)
- k. Traditional powerloom machines are locally manufactured in Tamil Nadu. However, advanced looms are imported. The Government may encourage the setting up of advanced loom manufacturing facilities in Tamil Nadu (Textiles/Industries/ MSME Depts.)
- l. Laundry sheds and textile parks, similar to the ones existing in Rajasthan and Maharashtra, need to be established in Tamil Nadu. (Textiles/Industries/ MSME Depts.)

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<sup>86</sup> TexValley is a custom-built mall space for both manufacturers and sellers. It brings together all stakeholders and seeks to serve as a one-stop-shop for all players in the ecosystem. It operates through the SPV, Erode Textile Mall Ltd., promoted by two prominent business group, Lotus & URC Pvt. Ltd.

## 6. Cashew, Agro and Processed Food Sectors

- a. The extent to which existing agro-clusters can take advantage of the incentives provided through the One District One Product initiative by Invest India can be explored and support provided. (Agriculture / Industries/ MSME Departments)
- b. It is requested to institute a special initiative to develop assessment tools for quality assessments of all agricultural produce listed under e-NAM and beyond, to facilitate e-marketing for small and marginal farmers. (Agriculture / Industries/ MSME Departments)
- c. Soil testing facilities should also examine the micro-nutrient content of soils to ensure sustainable agriculture (Agriculture Department)
- d. Infrastructure facilities such as common waste disposal, biogas plants, provision of biofertilizers, testing laboratories, warehouses, cold storage facilities could be provided to key clusters. (Agriculture / Industries/ MSME Departments)
- e. Several by-products of agro processing are deemed as 'waste' such as cashew apples. But several have commercial and industrial uses. Tamil Nadu Cashew Processors and Exporters Association (TNCPEA) can seek technical support from Indian Institute of Food Processing Technology (IIFPT) to identify market potential for such 'wastes' and subsidies given for processing technologies. (Agriculture / Industries/ MSME Departments)
- f. At present, farmers are forced to sell their products at whatever price it fetches primarily due to lack of such storage space either owned by the farmers or the government. Support for setting up warehouses for raw cashew nut storage can help them realise better prices. (Agriculture / Industries/ MSME Departments)
- g. Cold storage (1-5 degree Celsius) to store finished kernels for an extended period of storage is required. Cashew kernel is sensitive to atmospheric moisture, prone to infestations and even odour. Creating a well- equipped storage infrastructure will benefit. (Agriculture / Industries/ MSME Departments)
- h. A common waste disposal facility may be provided in Krishnagiri for helping the mango pulp industry. (Agriculture / Industries/ MSME /Environment Departments/TNPCB)
- i. Pesticides like *Acephate*, *Triclopozoid*, *Imidacloprid*, and *Phosphonic Acid* which are banned internationally, are being promoted amongst the farmers in Tamil Nadu. Due to pesticide residues in the agri products, processing industries are not able to export in huge volumes to countries with massive potential. (Agriculture / Industries/ MSME Departments)

- j. Sustained campaigns need to be undertaken to shift to use of pesticides that are accepted globally to ensure better export markets. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)
- k. A tea processing park may be created near Coimbatore for value addition in Tea. (Agriculture / Industries/ MSME Departments)
- l. The small tea growers may be encouraged to set up micro tea processing units to improve quality and price realisation; these units may be made eligible for all the existing schemes available for micro enterprises.
- m. The southern region can have at least two good accredited common testing laboratory and provide testing at a nominal cost to the exporters based on the products identified in each district. (Agriculture / Industries/ MSME Departments)
- n. Establishment of a Technology Business Incubator at Erode was requested to facilitate innovation in the operations of 500+ food processing MSMEs in the Erode region. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)
- o. Promote "MORINGA EXPORT ZONE" in select blocks to promote this high growth product and its value addition with all necessary infrastructure and support. (Agriculture / Industries/ MSME Departments)
- p. It was mentioned that at present, for the same product, the entrepreneurs have to apply for multiple licenses (FSSAI). It was also mentioned that there is lack of clarity on whether licenses applied for in the State are valid for the Centre or for exports. Overall, there is a need for clarity on the licenses and their remit. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)
- q. Quality of agricultural produce like paddy, corn, pulses, minor millets, oilseeds like groundnuts, and gingelly seeds deteriorate due to insufficient drying facilities, post-harvest. This handicap is magnified in case of harvests during the rainy season. As such, a mandate shall be placed on TNAU and Agri Engineering to come up with mobile dryers at sustainable capital and operating costs. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)
- r. Establishing more NABL Labs at emerging clusters of food production (like Tuticorin) to help MSMEs save time and costs. It was suggested that the same can be facilitated in a public private partnership mode, where the representatives of the association will also help maintain the lab. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)
- s. Sanitisation certificates were suggested to be avoided since those requirements are already checked under multiple other licences. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)

- t. Subsidies for expenditure incurred on acquiring ISO certificates were requested by the representatives. (Agriculture /Food & Consumer Protection/ Industries/ MSME Departments)

## 7. Marine Products Sector

- a. Conservation and stock enhancement measures such as imposing seasonal fishing ban, stock enhancement, sea ranching programme, habitat development like installation of artificial reefs, monitoring net size, and diversified fishing methods may be implemented effectively. (AH & Fisheries / Industries/ MSME Departments)
- b. The existent aquaculture policy (if any) of Tamil Nadu needs to be fine-tuned with recent trends, recognising the potential of the sector. (AH & Fisheries / Industries/ MSME Departments)
- c. State Government needs to support the development of domestic fish retail network with adequate policy framework to provide fresh and hygienic fish to the consumers. (AH & Fisheries / Industries/ MSME Departments)
- d. Pre-processing facilities with common ETP for small fishers of Chennai, Nagapattinam and Tuticorin to be developed. This will enable the MSMEs to pre-process their raw material at the catchment area itself which will help them realise better prices for their output (AH & Fisheries / Industries/ MSME Departments)
- e. Government may undertake measures to improve the infrastructure facilities, value chain and other important attributes of fish marketing to ensure that producers get better value for their catches and consumers get high quality fish (AH & Fisheries / Industries/ MSME Departments)

## 8. Pharmaceuticals Sector

- a. Consider amending the Drugs and Cosmetics Rules, 1945 to exempt the need of BA/ BE studies for drugs manufactured solely for exports as they are already abiding by the rules/ regulations of the importing country. (Government of India)
- b. Exempt the need for registration and permission seeking for imports of excipients and basic chemicals for non - medical use viz. HPMC, Povidone, Crospovidone, lactose monohydrate, methyl cellulose and basic chemicals like 2- Dimethylaminoethanol, Glycerine from the list of drugs meant for dual use issued by DCGI. (Government of India)
- c. Promote the setting up of/ expansion of Active Pharmaceutical Ingredients (API) manufacturing companies but ensure that environmental regulations are strictly adhered to. (TNPCB/ E&F/ Industries/ MSME Departments)

- d. It was suggested that Healthcare and Pharmaceuticals be considered as a sector distinct from chemicals industry to be given priority. (Industries/ MSME Departments)
- e. There is a need for industry - academia partnerships in areas of R&D and molecular development. It was also stressed that owing to compliance aspects, professional talent is diverted to handle administrative aspects such as approvals and paperwork for clearances, resulting in reduced time spent on R&D. (Industries/ MSME Departments)
- f. Inadequate measures/ reforms for the Pharma sector at present under the RoDTEP scheme. (Industries/ MSME Departments)
- g. There is a need to make the purchase of Methanol/ Ethanol, the most widely used solvent in this industry, easier without having to apply for quotas and licenses. The restrictions on the quantity and use of methanol are a hindrance to the MSMEs. (Home / Industries/ MSME Departments)
- h. Common high global standards testing labs/ facilities need to be set up to bring down individual testing costs borne by MSMEs. (Industries/ MSME Departments)

## 9. Services Sector

- a. Services companies e.g., tourism industry find it difficult to avail CGTMSE scheme as they have no tangible assets. The MSME department needs to factor in such departments to design policies accordingly. (MSME Department)

## 10. Other Sectors

- a. A sudden change in policy can have the effect of crippling many existing units, e.g., blanket ban on plastics; change in Coir classification from White to Orange. Whenever any change in policy is mooted which is likely to severely affect enterprises, adequate notice needs to be given to the stakeholders to enable them to scout for other avenues of business. In this regard, there is a need to identify alternatives for single use plastics that have been banned to ensure livelihood sustenance; similarly pith based units should be given an opportunity to diversify.
- b. There is scope to revive the American Diamond (AD) industry using Trichy as a pilot location. This should be explored. (MSME Department).
- c. There are delays and issues in the process of issuing hallmarks (Hallmark Unique Identification Number) to the gem and jewellery-based products. The process needs to be studied and streamlined. (Industries/ MSME Departments)

## 3.11 Development of Micro Enterprises in Tamil Nadu

### 3.11.1 Context

Adequate data on micro enterprises in Tamil Nadu are not readily available. However, GST data indicate that 93% of GST registered taxpayers are in the Micro category and they contribute only 13% of the GST revenues. Many micro units fall below the threshold (of a turnover of at least INR 20 lakhs) for GST registration. If such entities are also considered, the percentage of enterprises in the micro category is likely to be even higher.

Table 17: Percentage of Taxpayers and percentage of GST revenue by turnover

Turnover (INR / Annum)	% of Taxpayers	Revenues %
0 to 5 Cr	93%	13%
5 to 50 Cr	6%	16%
> 50 Cr	1%	71%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Source: Report on four years of GST, Government of India

Literature (MUDRA Loan MIS) also indicates that the average ticket size of loans to micro units is approximately INR 4-5 lakhs per quarter, indicating that their average annual turnover is only of the order of INR 20 – 30 lakhs, resulting in only about 2 – 3 lakhs annual profit (about INR 25,000 per month).

It becomes imperative to notice and take adequate measures to support the disproportionately large section of micro enterprises as they are important contributors to employment.

### 3.11.2 'Smallness' of Micro Enterprises

Micro enterprises (particularly those in the sub-INR 20 lakh annual turnover bracket), are in most cases, an outcome of the failure of households to get a foothold in the wage labour market. In the absence of decent jobs, they start small ventures such as street vending or retailing. Some of them may be home-based enterprises, carrying out work for larger firms. Or else, they may belong to artisanal families such as weavers and craft workers who continue to pursue their family occupation. They are low productivity firms, but sustain a large number of livelihoods.

In very small-sized firms the productivity is usually lower; consequently, the average wage levels are also lower. Since smaller units provide the maximum number of jobs, these low wages mean lower standard of living for a large section of the society. This may also have a bearing on the level of inequality. Because the small enterprises typically employ rudimentary and traditional technologies, the scope for on-the-job training and opportunities for the workers to acquire skills gets limited.

Micro enterprises share many of the problems faced by small and medium enterprises; but the impact of these on micro units is severe<sup>87</sup>. These include issues around credit, collateral, knowledge, lack of technology and know-how, low efficiencies in production, inability to attract labour and also the inability to liaison with Government.

### 3.11.3 Recommendations

A majority of enterprises (around 90%) in Tamil Nadu are one-person micro enterprises. A significant number of them do job works for the immediate surrounding industries, and are found in sectors such as small engineering, electronics and computer repairs, hospitality and other similar sectors. There is a lot of migrating in and out of these activities. As they are mostly outside the formal credit realm, their debt burden, while persistent, is of an oscillating nature. However, persistent debt, both formal as well informal in sourcing, makes for a continuous burden which drags them down. In most cases they take further debt only to clear existing debt and not to plough the money in business.

There is a need to formalise micro units, design strategies to increase awareness and access and encourage local enterprises that are designed to service very local needs. Micro enterprises are required to be supported by external mechanisms (infrastructure, technology, funding, policies) to aggregate and cater to dispersed demand. The need to increase awareness and access to formal finance is also required to ensure sustenance of these units.

The first responsibility of the state is to provide this class of own account, one man enterprises who are unable to make any progress and headway in their business an assurance of sustenance and livelihood. If they could be assured of their livelihoods, then their burden would be much relieved. They should be covered under existing programmes including provision of houses for the poor, assistance in education and provision of textbooks, apart from access to the PDS system. This is also the category which could benefit immediately from the CM's promised monthly income scheme.

The recommendation is that, for this category, a priority could be given for access to all the welfare and livelihood support schemes for which Tamil Nadu is already famous, and to add to it a monthly income that is part of the CM's promise. In addition, the state could take on the responsibility of providing an insurance cover for their families, which would enable access in the event of any catastrophe.

#### 1. Formalisation of Micro Units

- a. **Formalisation of MSMEs has often been cited as a necessary first step to provide access to MSMEs – access in terms of finance, markets and other infrastructural support.** The perception of many micro units that

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<sup>87</sup> Chamber of Indian Micro, Small and Medium Enterprises (CIMSME)

formalisation brings them under the scrutiny of the government is also one reason why they often skirt the Udyam registration process. Other reasons could include that the Udyam registration process treats the applicant as an entity, while the largest chunk of micro enterprises in India and Tamil Nadu are subsistence enterprises. It could be argued that not enough communication has been carried out to educate the micro entrepreneur about the benefits of formalisation which far outweigh the burden of complying with Governmental regulations. A lot more needs to be done on this front.

- b. Formalisation has its benefits. With the introduction of GST, TReDS, MSME Samadhaan, the Accounts Aggregators, the possibilities of supply chain financing by linking GST invoices and the TReDS platform, and enforcement of the MSME Form 1 details (reported to MCA) before invoices end up on Samadhaan, several opportunities have opened up for formalised MSMEs.
- c. For an MSME that intends to scale, and raise funds, either as debt or equity, formalisation is a must. It gives MSMEs banking system recognition; it allows it to draw on the GST benefits both as a provider and a procurer of services, and therefore enables faster growth.

## 2. Combating Adverse Effects of Natural Disasters and Health Risks

Due to the concentrated nature of their operations, MSMEs and more so the Micro units are highly susceptible to, and more adversely affected by, natural calamities. **The state Government should work with General Insurers to develop an under-writing and distribution approach for insuring MSMEs against natural disasters and supply chain shocks. This insurance could be bundled along with credit (similar to credit life insurance bundled with micro-loans) but the premium costs may need to be supported by the Government until such time as sufficient claims data exist for under-writing.** This has also been mentioned in the chapter on Finances.

## 3. Encouraging Alternative Formal Financing Methods

In the chapter on access to formal finance the difficulty in lending to the micro sector was discussed. **However, with adoption of electronic KYC (e-KYC), digital transaction and Account Aggregators, formal lenders can underwrite MSMEs, specifically micro units, without incurring high transaction costs.** There is also a growing trend of specialised MSME focused lenders who use innovative underwriting techniques, like cash-flow based underwriting, to provide credit to these firms. The Government should, after creation of the MSME database link these lenders to the micro enterprises for lending at improved terms.

#### 4. Addressing requirements of B2C and B2B Micro Units

There is a need to address requirements of these enterprises using a different approach.

- a. **Aggregation:** Units of such nature could be attempted to **be aggregated under a common brand**. Benefits that would accrue in the process would be the ability to cater to large demand, access to finance, ability to setup an ecosystem of buyers and sellers, availing shared services, increased awareness and formalisation. While attempts are being made by the GoTN to drive aggregation of MSMEs, the Committee strongly endorses this effort and urges that the state also promote aggregation.
- b. **Awareness of and Accessibility to Government Services:** While various recommendations have been made towards formalisation and aggregation of micro enterprises, majority of these units are unaware of the specifics of already existing interventions and schemes. For this, information asymmetry is the major reason<sup>88</sup>.
  - i. In order to ensure last mile delivery of welfare services, **there is a need to develop technology-enabled, user-friendly delivery systems which allow for increased awareness and access to welfare and financial services for micro enterprises**. Such systems can be developed in partnership with civil society actors. These would allow for digitalisation of services and development of an active repository of Government initiatives, and schemes data. This would help bridge the information gap that currently prevails in the system.
  - ii. These systems could be developed and driven through professionals who could also help train micro entrepreneurs and handhold them in using such tech-enabled systems. Institutionalising such a system would reduce information asymmetry and make Government information comprehensible.
5. **Institutional Ownership:** Given the variety and scale of micro units, there is a need for adequate and special attention to be provided to these units. Activities such as formalising micro units, increasing awareness, development of a database of micro and the other categories can be areas aligned to the functioning of MTIPB. In addition, since almost 90% of enterprises are micro enterprises the role of the MSME department itself should be oriented towards supporting them.
6. **Micro cluster scheme:** The GoTN, through SIDCO is currently implementing a scheme called “Common Production Infrastructure (CPI)”, which provides a maximum subsidy of INR 2.5 crores. A minimum of 20 MSMEs shall form an SPV and obtain this subsidy. The Committee endorses this scheme, and recommends

<sup>88</sup> [https://haqdarshak.com/about\\_hq/](https://haqdarshak.com/about_hq/)

that it be continued. The GoTN may also consider implementing a similar scheme, with reduced maximum subsidy values, with a focus on Micro enterprises.

7. **Funding for MSMEs from Emerging Sector Fund:** A dedicated fund may be setup for MSMEs, to fund traditional MSMEs that would not be able to raise capital otherwise. A part of the funds of Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC), under the Tamil Nadu Emerging Sector Seed Fund (TNESSF) may be earmarked for MSMEs, for this purpose.

## 3.12 COVID Relief and Measures for MSMEs

### 3.12.1 Context<sup>89</sup>

The economic impact of the COVID-19 crisis is profound. Nation-wide lockdowns and social distancing measures have had large consequences. The economic output declined drastically. Surveys among SMEs across the world show that 70% to 80% of SMEs have experienced a substantial decline in revenues since the start of the crisis. Within the diverse SME population, young firms and start-ups, the self-employed and women have been particularly affected. A significant number of SMEs have closed. MSMEs have often been more affected than large firms by the COVID-19 crisis, which has exposed their greater vulnerability.

The following reasons explain such disproportionate impact:

1. First, a higher proportion of businesses in the impacted sectors are MSMEs, in particular in wholesale and retail trade, accommodation and food services, real estate, and other personal services. In these sectors, the share of MSMEs in employment is very high compared to SME employment share for the economy as a whole.
2. Second, smaller firms are typically more financially fragile and have smaller cash buffers than their larger counterparts. This makes them less resilient to crises. In addition, smaller firms find it harder to tap into different sources of finance, including from the market. They are often very reliant on retained earnings and traditional bank debt.
3. Third, small companies have weaker supply chain capabilities than their larger counterparts. MSMEs integrated into GVCs, either directly or indirectly, were impacted faster and harder from supply chain disruptions than larger firms. MSMEs generally have smaller inventories and supplier networks making them more vulnerable to supply chain disruptions and price increases. Similarly, they have less bargaining power to enforce contracts in their favour.
4. Fourth, smaller companies lag behind in terms of the uptake of digital tools and technologies which can help to build resilience in the current pandemic crisis. Surveys show that the pandemic has increased the use of digital technologies by MSMEs, although substantial differences exist between countries. At the same time, the difference between MSMEs – and in particular small firms – and large firms continues to be significant, with the uptake of digital technologies by MSMEs being roughly half of that by larger firms.
5. Finally, established small firms often struggle to adapt their business operations to the current situation, compared to large firms (and start-ups) and face more operational skills constraints. For example, MSMEs are less likely to have

<sup>89</sup> Impact of the Pandemic on MSMEs: One Year of SME and Entrepreneurship Policy Responses to Covid-19: Lessons Learned to “Build Back Better” © OECD 2021.

managerial capability to comply with new regulatory frameworks to guarantee customers and employees safety. Similarly, MSMEs are less likely to innovate both in processes and in goods and services, compared to their larger counterparts and to start-ups.

MSMEs have borne the brunt of economic shocks. On the demand side, MSMEs were affected by (i) curtailed consumer demand, adversely affecting consumer goods industries (ii) curtailed industry/ derived demand from the industries and manufacturing sector, affecting ancillary units and (iii) disruptions in the global value chains affecting export demand of MSMEs. On the supply side, MSMEs faced (i) reduced/ stoppage of production and provision of services (ii) low/ no availability of input/ raw materials (iii) mass movement and displacement of labour (iv) inadequacy of finance. Simultaneous and repetitive occurrence of economic shocks from the demand and supply sides has impacted MSMEs. The extent of impact also varies across micro, small and medium enterprises<sup>90</sup>.

These vulnerabilities of smaller enterprises translated into a sharp drop in revenues from the outset of the crisis at a faster rate than they were able to cut operating costs, threatening a potential liquidity crisis among MSMEs on a massive scale.

### 3.12.2 Policy Response<sup>91</sup>

The SME policy response by Governments worldwide to overcome and provide resilience against these economic shocks can be categorised into: (i) those aimed at easing the liquidity concerns and (ii) those aimed at structural support.

**Liquidity support measures**, in turn, can be further classified into:

1. Job retention schemes including short-time work schemes and wage subsidy schemes.
2. Deferrals of payments including tax payments, social security and pension payments, debt payment moratoria and waivers of rent and utility payments as well as waivers or reductions of financing fees and interest.
3. Financial support like loan guarantees, direct lending through public institutions and support for non-banking finance, through grants and subsidies, or via equity or quasi-equity, including convertible loans.

**Structural support measures** aim to help SMEs adapt to the changed business environment and build resilience. They include the following categories:

1. Support for digitalisation, including for teleworking and e-sales.

<sup>90</sup> <https://www.financialexpress.com/industry/sme/cafe-sme/breaking-down-covids-impact-on-msmes-demand-supply-shocks-that-are-determining-issues-for-small-firms/2252832/>

<sup>91</sup> Bridging the Credit gap for MSMEs - Gaps in access and solutions to bridge the gap - 10<sup>th</sup> Dec, 2020 Micro Save Consulting.

2. Support for innovation and technology development. In some cases, these policies focus on innovations related to the pandemic, in other cases on supporting wider competitiveness;
3. Support for upskilling and reskilling.
4. Support for start-ups.
5. Support for finding new alternative markets.
6. Support for sustainability.

Both the Government of India and the Government of Tamil Nadu have undertaken a lot of relief measures to help the MSMEs during the pandemic period. They are summarised in Annexure 6.

### 3.12.3 Recommendations

This Committee does not recommend any additional measures at this point. Once the Central Government schemes are phased out, a fresh look may be needed.

## 3.13 Schemes and Subsidies

### 3.13.1 Context

MSMEs in Tamil Nadu have access to numerous and varied schemes, offered by both the Government of Tamil Nadu and the Government of India. The Industries Commissionerate and Directorate of Industries & Commerce (ICDIC) under the MSME Department, GoTN is the nodal department for all MSMEs in Tamil Nadu. The ICDIC offers targeted schemes for the setting up and growth of MSMEs. A brief snapshot of the schemes provided by the ICDIC is given below<sup>92</sup>. A further analysis of these schemes is provided in Annexure 8.

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<sup>92</sup> As per G.O.(Ms) 42: Micro, Small and Medium Enterprises [B] Department, dated 6 July 2021.







Type of scheme	Name of scheme	Origin of scheme
 <b>Self employment assistance schemes:</b> First-time entrepreneurs are provided with a financial subsidy for setting up and running an MSME.	<ul style="list-style-type: none"> <li>New Entrepreneur cum Enterprise Development Scheme (NEEDS)</li> <li>Unemployed Youth Employment Generation Programme (UYEGP)</li> <li>Prime Minister's Employment Generation Programme (PMEGP) (Scheme of the Govt. of India)</li> </ul>	<ul style="list-style-type: none"> <li><b>NEEDS</b> was started in <b>October 2012</b>, via G.O. (Ms) No. 49 dated 29 October 2012, of the MSME Dept., Govt. of Tamil Nadu.</li> <li><b>UYEGP</b> was started in <b>July 2010</b>, via G.O. (Ms) No. 80 dated 30 July 2010, of the MSME Dept., Govt. of Tamil Nadu.</li> <li><b>PMEGP</b> was started in <b>April 2008</b>, via circular no.: PMEGP/ Policy/ M-939/ 08-09 dated 10 April 2008, of the Khadi and Village Industries Commission, Govt. of India.</li> </ul>
 <b>Capital subsidy scheme:</b> Subsidy provided for plant and machinery acquired by manufacturing MSME entrepreneurs, when setting up/ diversifying their MSME.	<ul style="list-style-type: none"> <li>Capital subsidy for Micro enterprises</li> <li>Additional Capital subsidy for Micro enterprises</li> <li>Capital Subsidy for Small and Medium enterprises</li> <li>Additional Capital subsidy for Special category</li> <li>Additional Capital subsidy for promotion of cleaner and environment-friendly technologies</li> <li>Additional Capital subsidy for scaling up</li> <li>Special Capital subsidy for Thrust sector enterprises</li> </ul>	<ul style="list-style-type: none"> <li>The <b>Capital subsidy</b> scheme was started in <b>May 2008</b>, via G.O. Ms. No. 14 dated 9 May 2008, of the MSME Dept., Govt. of Tamil Nadu. The G.O. highlighted the need to revive an earlier Capital subsidy scheme for Small Scale Industries (SSI) enterprises.</li> <li>The <b>Additional Capital subsidy for scaling up</b> has been started in 2021, via the MSME Policy 2021 of the Government of Tamil Nadu, and the associated guidelines.</li> </ul>
 <b>Schemes for additional financing:</b> Subsidies provided to MSMEs to fund setting up costs, other than schemes mentioned above.	<ul style="list-style-type: none"> <li>Back-ended interest subsidy</li> <li>Scheme for fund raising through SME exchange</li> </ul>	<ul style="list-style-type: none"> <li><b>Back ended interest subsidy</b> was started in <b>March 2011</b> via G.O.(D)No. 24 dated 1 March 2011, of the MSME Dept., Govt. of Tamil Nadu</li> <li>The <b>Scheme for fund raising through SME exchange</b> has been started in <b>2021</b>, via the MSME Policy 2021 of the Government of Tamil Nadu, and the associated guidelines.</li> </ul>
 <b>Operational improvement schemes:</b> Subsidies provided for MSMEs to reduce their operational costs (power costs/ employee costs/ etc.)	<ul style="list-style-type: none"> <li>Payroll Subsidy</li> <li>Low Tension Power Tariff (LTPT) subsidy</li> <li>Generator subsidy</li> <li>Promotion of Energy Audit &amp; Conservation of Energy (PEACE)</li> <li>Skill training and employment scheme</li> </ul>	<ul style="list-style-type: none"> <li><b>All these schemes</b> have been started in <b>2021</b> via the MSME Policy 2021 of the Government of Tamil Nadu, and the associated guidelines, except for LTPT subsidy.</li> <li><b>LTPT Subsidy</b> was started in <b>2008</b>, via the MSME Policy 2008 of the Government of Tamil Nadu, and the associated guidelines</li> </ul>
 <b>Schemes for easing statutory processes for MSMEs:</b> Exemption/ subsidies provided to assist MSMEs to reduce costs pertaining to statutory processes.	<ul style="list-style-type: none"> <li>Reimbursement of Stamp duty and Registration charges</li> <li>Stamp Duty Exemption for loans taken under Aatmanirbhar Bharat Abhiyan scheme</li> </ul>	<ul style="list-style-type: none"> <li><b>Reimbursement of Stamp duty and Registration charges</b> was started in <b>2008</b>, via the MSME Policy 2008 of the Government of Tamil Nadu, and the associated guidelines.</li> <li>Stamp duty exemption was granted to MSMEs from November 2020, till 31 March 2021, as a relief measure for COVID-19.</li> </ul>
 <b>Schemes for value addition:</b> Subsidies provided to MSMEs for obtaining patents/ certifications/ etc. and attending expos/ trade fairs.	<ul style="list-style-type: none"> <li>Scheme for acquiring Quality Certification (Q-Cert)</li> <li>Subsidy for asset creation for intellectual property</li> <li>Assistance for trade fairs</li> <li>Reimbursement of Hall Rent</li> </ul>	<ul style="list-style-type: none"> <li><b>All these schemes</b> have been started in <b>2021</b> via the MSME Policy 2021 of the Government of Tamil Nadu, and the associated guidelines.</li> </ul>

Figure 18 Schemes of the ICDIC

Source: ICDIC and secondary research

The self-employment assistance schemes (NEEDS, UYEGP and PMEGP), and the Capital subsidy scheme, account for a major share of the fund disbursement for ICDIC, as shown below:

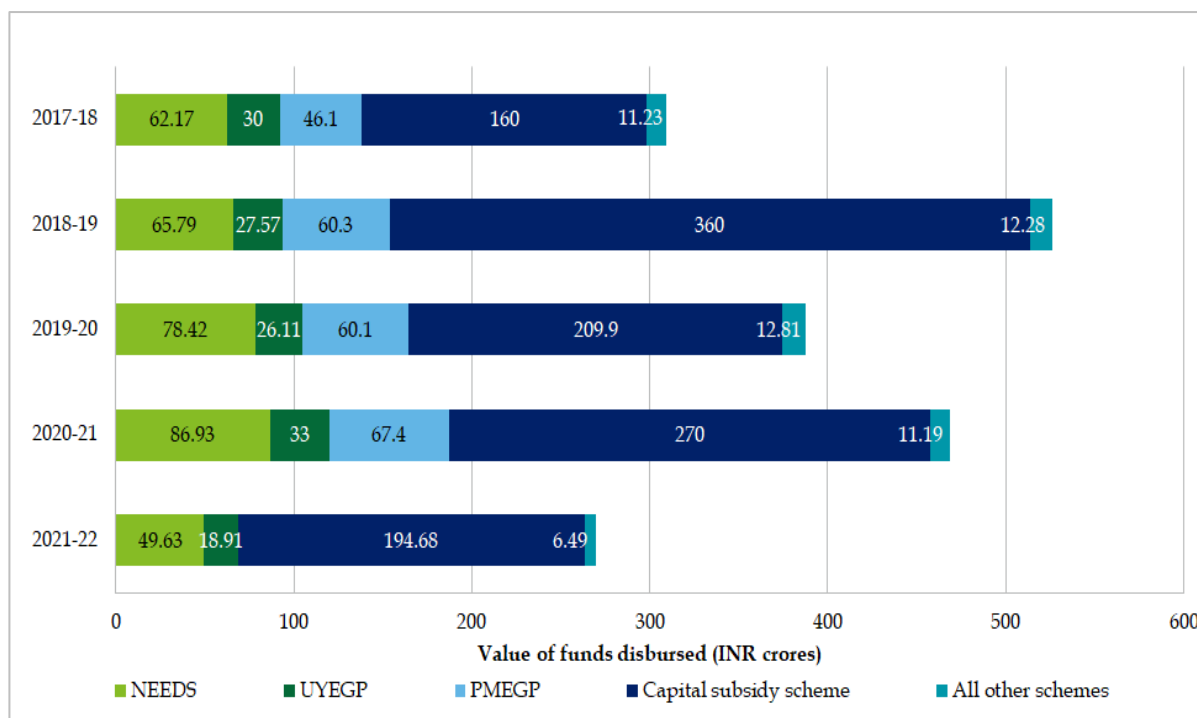


Figure 19 Scheme disbursement details of ICDIC

Source: ICDIC

Note: Data for 2021-22 is as on 7-Dec-2021; 2021-22 actual disbursement data for PMEGP is currently not available.

**Observations on the Capital subsidy scheme:** From the above graph, it can be seen that the **Capital subsidy scheme has the highest disbursement values** across all schemes, and is one of the major schemes for ICDIC. Comparatively, the total combined disbursement values of all the other schemes (other than NEEDS, UYEGP, PMEGP and Capital subsidy scheme), are really low. Also, every year, the funds allocated by the Government of Tamil Nadu for the Capital subsidy scheme, is completely disbursed to the beneficiaries (as shown in the graph below). This reflects the relevance of the scheme to the needs of the MSME, and the operational effort of ICDIC to ensure disbursement.

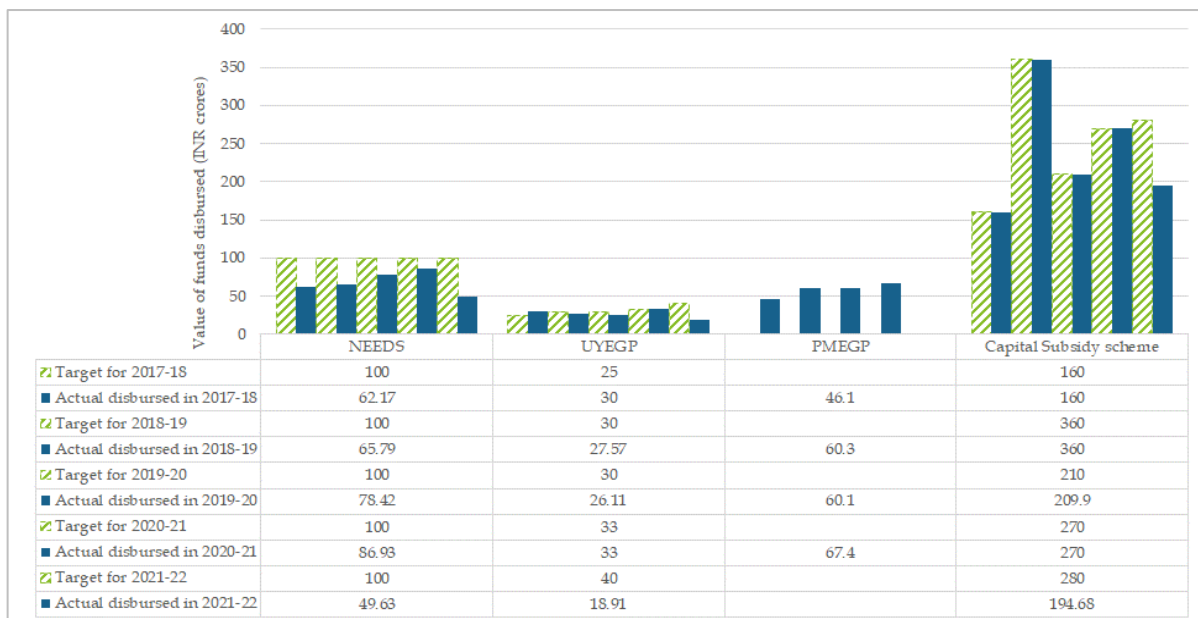


Figure 20 Disbursement performance of major schemes of ICDIC (Target Vs actual)

Source: ICDIC

Note: Data for 2021-22 is as on 7-Dec-2021; No specific fund disbursement target is set for PMEGP; 2021-22 actual disbursement data for PMEGP is currently not available.

The details of the beneficiaries across the major schemes of ICDIC are given in the following graph.

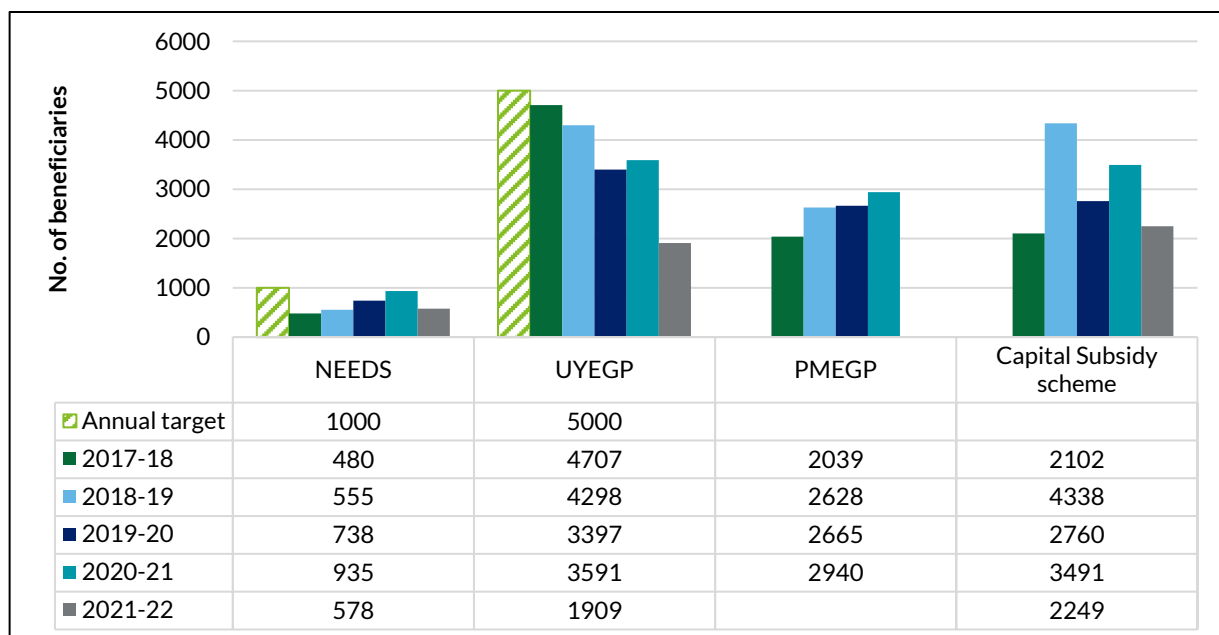


Figure 21 Beneficiary details of major schemes of ICDIC over the years

Source: ICDIC

Note: Data for 2021-22 is as on 7-Dec-2021; No specific beneficiary target is set for PMEGP and Capital subsidy scheme; 2021-22 actual beneficiary data for PMEGP is currently not available.

The applications for the schemes are served by ICDIC on a first-come-first-served basis, till the allocation/ targets are met. If the targets are exceeded, the remaining applications are processed in the next year.

### 3.13.2 Observations

- Awareness of schemes:** There is a general lack of awareness of the schemes among the public. This was evident to the Committee during the stakeholder discussions with the MSMEs and their associations. There is a need to widely publicise the schemes and their details such as eligibility criteria, timelines, method of application, and website for application.
- Periodic appraisal and evaluation of the existing schemes:** The current schemes of the ICDIC are according to the guidelines prescribed under the MSME Policy 2021 of the Government of Tamil Nadu. The previous guidelines (and the policy) were finalised in 2008 (13 years before the current policy). Hence, there is a need to periodically evaluate the existing schemes of the dept., on their relevance.
- Need for end-to-end IT enablement of the MSME dept., for schemes:** Currently, the application for all the schemes of the dept. are being made online (via [www.msmeonline.tn.gov.in/](http://www.msmeonline.tn.gov.in/) and [www.msmetamilnadu.tn.gov.in/](http://www.msmetamilnadu.tn.gov.in/)). However, the Committee understands that the processing of the schemes is not completely done online. Hence, there is a need to re-look at the online processes of the schemes to ensure end-to-end IT enablement of the dept. This would also enable effective tracking of the application, and ensure adherence to timelines.
- Schemes for MSMEs who have set up and established, and who do not plan to diversify:** Currently, the majority of the schemes are targeted towards new MSMEs (who are setting up) or towards MSMEs who are planning to diversify. A snapshot of the same has been given below<sup>93</sup>:

Table 18: No. of schemes based on stage of setting up of MSME

Total no. of schemes: 23	No. of schemes based on stage of setting up of MSME
New enterprises	20
Existing enterprises, and diversifying	17
Existing enterprises, but not diversifying	8

Source: MSME Policy 2021 and the associated guidelines for administration of schemes and incentives

<sup>93</sup> Each capital subsidy (capital subsidy for micro, addl. capital subsidy for micro, addl. capital subsidy for special category, etc.) has been counted as an individual scheme, for the purpose of the calculation.

### 3.13.3 Recommendations

Based on the above observations, the Committee recommends the following medium-term and long-term recommendations on schemes for MSMEs in Tamil Nadu:

1. **Mass Awareness Campaign: The Government of Tamil Nadu, through the ICDIC and MTIPB, shall undertake a vigorous, current and targeted awareness campaign to make the public/ MSMEs aware of the existing schemes.** The key objectives, benefits and processes of application for all schemes shall need to be made aware across the state. This may be done via both online (social media, and videos) and offline (newspapers, brochures, and booklets) channels. G.O.s/ guideline documents/ policy notes on the schemes may be directly e-mailed to MSME associations directly.
2. **Periodic Review and Redesign of Schemes:** Every three to five years, the Government of Tamil Nadu and the ICDIC shall re-look at the existing schemes of MSMEs and re-design them. This may be done through an independent, external agency. This agency shall financially appraise and evaluate details of the schemes such as: reach of schemes to the public, value disbursed against target, profile of beneficiaries, relevance of the scheme to the current MSME needs, and requirement of new schemes to meet the needs of MSMEs. Eligibility, and maximum subsidy values of the existing schemes may be modified in line with the insights obtained.
3. **End-to-end online system for Schemes: The ICDIC shall become an end-to-end IT enabled department, for all scheme applications, processing and disbursement.** The existing online processes for the schemes (including application, processing, and disbursement) shall be re-looked at, to ensure the same. Also, PAN and Udyam registration of the applicant shall be captured as a mandatory field, in all online scheme applications. The same shall need to be linked with the databases of the Income Tax Dept. and the Ministry of MSME for immediate validation. Website(s) of the dept.: The current website(s) of the ICDIC display data on the existing schemes (no. of applications, and value disbursed). The same shall need to be aesthetically re-designed to display scheme data.
4. **The Committee recommends that the Capital Subsidy should continue,** but the focus should be more on new enterprises, particularly those adopting new technology. The Committee recommends that not less than 50% of the allocation for capital subsidy should be earmarked for new and innovative enterprises.
5. **Include Computer Hardware and Software under the Capital Subsidy Scheme:** Computer hardware (such as printers and laptops) and software (such as HRIS and ERP) are also key costs for the setting up and operation of an MSME. Inclusion of the same under the Capital subsidy scheme would assist MSMEs. However, the Government of Tamil Nadu and ICDIC shall ensure proper scrutiny

of the scheme application before approval, and monitoring, to ensure genuine and output oriented MSMEs are benefitted.

6. **Enforcement of Purchase Preference: The Purchase Preference of 25% for Micro and Small enterprises, under the Tamil Nadu Transparency in Tenders Rules 2000, shall need to be enforced clearly across all Govt. depts./ organisations in Tamil Nadu<sup>94</sup>.** The Government of Tamil Nadu, through the ICDIC and MTIPB, shall track and ensure effective implementation of the same across all government departments. **In addition, it is recommended that specific purchase preference benefit be given to entrepreneurs from the SC/ ST communities.**
7. **Extension to Services Sector:** The Committee recommends that the Services sector get as much focus and as many benefits as the manufacturing sector receives and for that the Services sector be looked at on an equal footing while redesigning schemes.
8. **New Schemes for MSMEs: The Committee recommends the following new schemes for MSMEs (tabulated after this paragraph).** The benefits of these schemes (percentage of subsidy provided and maximum value of subsidy provided) shall be different between Micro, Small and Medium enterprises. Micro enterprises shall receive the maximum permissible benefits under the schemes, followed by Small enterprises and Medium enterprises.

Table 19: Recommended new schemes for MSMEs

Sl.	Name of potential scheme and objective	Potential key benefits
1	<b>Insurance scheme</b>	An owner and employee health insurance scheme (including for migrant workers) that can be on a co-pay basis. Similarly, a disaster insurance scheme for MSMEs can also be introduced. Details are provided in the chapter on Finances.
2	<b>Empanelment of service providers and reduced cost of services</b>	The Government of Tamil Nadu through the ICDIC/ MTIPB shall empanel service providers who can provide services to MSMEs. These service providers could be website developers, design and branding professionals, digital marketing firms.
3	<b>Reimbursement and buyback incentive for solar power: To incentivise MSMEs to install renewable energy equipment.</b>	Reimbursement of cost of procurement and installation of a solar panels/ solar collectors/ etc. for an MSME, up to 10% of cost incurred. Any excess power generated by the MSME can be bought-back by TANGEDCO at a fixed price per unit (Govt. of Gujarat has fixed this price at INR 2.25 per unit, for the first five years <sup>95</sup> ).

<sup>94</sup> Tamil Nadu Transparency in Tenders Rules 2000 (as amended up to 26 June 2020), allows for a Tamil Nadu Govt. dept./ Tamil Nadu Govt. organisation to allot 25% of the total requirement in the procurement to a Micro or a Small enterprise located in Tamil Nadu. Detailed under para 30-A: Purchase preference to domestic enterprises, under Chapter VI-A: Purchase Preference in the Tamil Nadu Transparency in Tenders Rules 2000.

<sup>95</sup> Gujarat Solar Power Policy, 2021.

Sl.	Name of potential scheme and objective	Potential key benefits
		<ul style="list-style-type: none"> <li>The buy-back price can be decided by the Government of Tamil Nadu and TANGEDCO.</li> <li>All manufacturing and service MSMEs in the state will be eligible.</li> <li>For existing MSMEs that already have solar panels installed, the installation cost reimbursement will not be applicable. The buy-back option will still be applicable.</li> </ul>
4	<b>Schemes to encourage recycling, conservation and green energy</b>	Considering the global shift towards renewable energy and green initiatives, the Government of Tamil Nadu may consider formulating new schemes/ incentives for enterprises engaged in recycling, conservation and clean/ green energy activities

## 3.14 Uniform Development Across the State

### 3.14.1 Context

Spatial inequality is a concern with widening disparities between countries and within countries. In India, this has manifested in differences between states. Intra-state differences too have been recognised with a country-wide identification of 'backward' districts and blocks and targeted interventions to improve development in these districts and blocks. Such regional disparities exist in Tamil Nadu as well.

Industrialisation in Tamil Nadu is however relatively more widespread than other states with similar levels of industrialisation like Maharashtra or Gujarat. The state is home to several MSME clusters, modern and artisanal, spread across districts. Apart from historical factors, diffusion of physical infrastructure like electricity and transport connectivity along with broad-basing of human capital has made this process possible. However, issues remain.

Despite robust growth, industrial growth tends to be geographically more concentrated. One node is the Larger Chennai region comprising the districts of Chennai, Kancheepuram, Tiruvallur and Chengalpattu. The other significant region is western Tamil Nadu consisting of Coimbatore, Tiruppur, Erode, Salem, Krishnagiri (particularly Hosur division) and Karur districts. Efforts to attract investments to less-industrialised regions have not been too successful. The Special Economic Zone (SEZ) in Nanguneri or the SEZ initiated in Perambalur have not taken off as anticipated. Some efforts by private investors to move to such locations to take advantage of lower land and labour costs too have not always worked.

However, industrial estates in backward regions like Bargur and Cheyyar that were relatively dormant have picked up in recent years with significant industrial activity. There has also been outward spread of industrialisation towards rural areas bordering dynamic nodes. Efforts to move software development to tier 2 locations too have met with some success of late.

Access to ports in the case of exports, other physical infrastructure like plug-and-play infrastructure, skilled personnel, and an ecosystem that facilitates production such as ancillary component and raw material suppliers, machinery maintenance, market and logistics infrastructure, digital connectivity and social infrastructure are critical gaps.

In the past, regional development policy tended to try to achieve these objectives by means of large-scale infrastructure development and by attracting inward investment. However, past policies have failed to reduce regional disparities significantly and have not been able to help individual lagging regions to catch up, despite the allocation of significant public funding. The result is under-used economic potential and weakened social cohesion.

OECD work on regional development states that a new approach to regional development is emerging; one that promises more effective use of public resources and significantly better policy outcomes. This involves a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the competitiveness of all regions. Some key features of this new approach to regional development include:

- a development strategy that covers direct and indirect factors that affect the performance of local firms;
- a focus on region-specific assets, and less on top-down investments;
- an emphasis on opportunity;
- a collective governance approach involving national, regional and local governments plus other stakeholders.

Finland's model on inclusive regional development calls for close inter-departmental coordination to address industrial and demographic resilience through design of programmes that address multi-sectoral challenges. **For instance, decisions on establishment of an industrial cluster of SME units would involve not merely the department aligned to industries and commerce, but also departments related to urban and rural development, education, and health.**

Such an approach may be useful for Tamil Nadu as well.

### 3.14.2 Framework for Balanced Regional Development

The figure below indicates factors which require attention, in order to ensure balanced regional development in a sustainable manner, across all districts of Tamil Nadu.

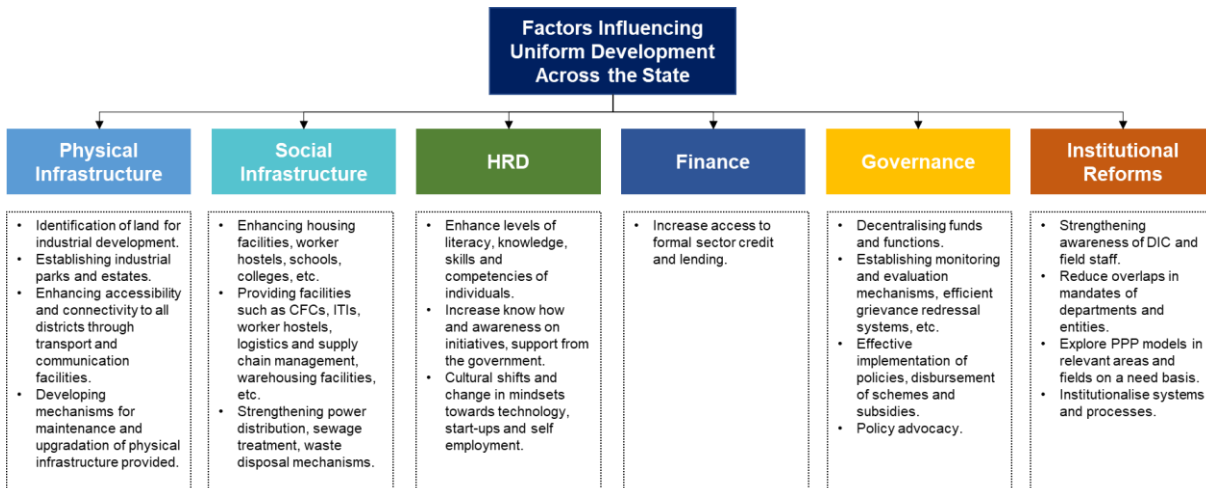


Figure 22 Factors influencing uniform development

It is recommended that policy interventions first focus on the districts lagging behind, establish feasible levels of desired development outcomes in the aforementioned factors, and direct priority attention as well as an adequate flow of public resources to those districts.

Such planning requires a medium- to long-term perspective, and seeks to promote local and regional interests (e.g. including through forecasts on education and training needs)<sup>96</sup>.

Studies on how tax incentives and subsidies have impacted backward districts show that there has indeed been a faster increase in industrial activity in these regions after the implementation of the programmes, particularly in relatively better off among the backward districts<sup>97</sup>. However, the study also notes the possibility of negative spill-overs, i.e., firms moving from nearby districts to these districts to take advantage of the schemes and hence depriving the host regions of employment and income. Further, the study demonstrates that this higher rate of growth was possible largely through movement of light manufacturing and not so much by heavy manufacturing. This indicates that identification of appropriate sectors becomes important. However, the study observes that new firm entry slows down soon after the withdrawal of the incentive. **Public investments in social and physical infrastructure may therefore be better at inducing development in such regions than mere tax incentives.** The nature

<sup>96</sup> [https://www.oecd.org/cfe/\\_Finland.pdf](https://www.oecd.org/cfe/_Finland.pdf)

<sup>97</sup> Hasan, R., Jiang, Y., & Rafols, R. M. (2021). Place-based preferential tax policy and industrial development: Evidence from India's program on industrially backward districts. *Journal of Development Economics*, 150, 102621. doi:10.1016/j.jdeveco.2020.10

of investments will however depend on 'local assets' that can be leveraged for development.

To improve the spatial spread of industries, MSMEs can play an important role given the low investment requirements. However, some sectors are more amenable to spread to less developed regions than others. For example, while textiles, garments and leather goods require relatively less skills and hence employ labour with lower educational qualifications, sectors like precision machining or auto component manufacturing may not be easy to relocate.

### 3.14.3 Recommendations

1. **Framework for Measuring Balanced Regional Development:** Develop a common framework for measuring "balanced regional development".
2. **Regional Asset-based Mapping:** Regional asset-based mapping should be initiated to identify potential sectors for promotion. Such mapping can be used to identify institutional and infrastructural gaps existing in the sectors identified.
3. **Focus on Factors of Physical Infrastructure, Social Infrastructure, and Governance:** While the need for physical infrastructure is well established, social infrastructure is particularly important as skilled labour is reluctant to move to less-developed regions on account of perceptions that the region lacks quality education and healthcare institutions.
4. **Link Sectors to relevant Sub Sectors:** Based on the asset profile of the districts, a set of sub-sectors can be identified that have the potential to develop in less industrialised regions. With regard to manufacturing, apart from garments, textiles and light engineering, agro and food processing offer opportunities for triggering industrial development in such districts. Delta districts in particular can benefit. There are also opportunities to develop existing activities that are not quite yet 'businesses'. For example, water hyacinth, which is today considered a weed can be nurtured into a business.
5. **Anchor Investors:** For other sub-sectors, anchor investors can be attracted with adequate incentives and infrastructure. Often such investors require ancillary suppliers apart from such infrastructure. Adequate incentives need to be provided to ensure that suppliers too either set up warehouses or production facilities. Shared services, such as testing infrastructure also may be needed in some cases.
6. **Subsidies:** For a fixed time period, a transport subsidy scheme can be implemented in backward districts that allows firms in these districts to claim a subsidy for transporting raw materials and finished goods. Similarly, incentives can be introduced for private firms to procure from Delta/ southern districts.
7. **Potential for Tourism:** In the domain of services, tourism offers considerable potential in backward districts like Ariyalur, Perambalur, Pudukottai and coastal districts given a strong presence of historical and geographical sites of importance. While the importance of infrastructure for tourism cannot be overstated,

regulations need to be developed to address issues of pollution and waste management.

8. **Software services and digital infrastructure:** The pandemic has also highlighted the potential for software services to be decentralised once digital infrastructures are in place. Identification of segments of software and IT-enabled services that can be undertaken in tier two locations and provision of digital infrastructure to aid the process of moving these sectors to such locations can be done.
9. **SC/ST Entrepreneurs:** The Government may reimagine the schemes of TAHDCO, or formulate new schemes for SC/ ST entrepreneurs. This is to better utilise the funds from the Special Component Plan/ Special Central Assistance to better target deserving start-ups from SC/ST entrepreneurs from Delta/Southern districts.

### 3.15 Sectors and Businesses with Potential

#### 3.15.1 Context

From a reading of the sectors being proposed across other states and countries, the following sectors seem to find consistent focus: Biomedical sciences, health and pharmaceuticals, automotive, electronics, ICT, and clean energy.

SME strategies of these countries are prioritising technologies that enable them to gain better understanding and insight across the enterprise and markets—business analytics, social media and cloud computing are some highly prioritised technologies. Usage of these new age technology tools allows for (i) better customer service (ii) enhancement of product/ service development (iii) supply chain optimisation and (iv) cost effectiveness. These also align with the requirements of Industry 4.0 and help in the growth of the sector.

In order to identify focus sectors and promote businesses with potential, preliminary steps have already been taken by the state.

The state government plans to establish 15 mega clusters and 100 common facility centres; make the state a vibrant Startup-friendly state in the country and achieve balanced regional industrial development. Additionally, the Tamil Nadu Small Industries Development Corporation Ltd has proposed to establish common facility centres for 5 mega clusters in sunrise sectors — pharmaceuticals, petrochemicals, precision manufacturing, defence and aerospace and smart mobility — at a project cost of ₹100 crore each<sup>98</sup>.

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<sup>98</sup> <https://www.thehindubusinessline.com/news/tamil-nadu-msme-department-policy-note-envisages-10-year-vision-to-attract-5-lakh-crore-investment/article36249710.ece>

### 3.15.2 Recommendations

Tamil Nadu should focus on its strong points and encourage sectors like smart textiles, engineering auxiliaries, and embedded electronics. It is recommended that focus be enhanced on sectors such as agro and food processing and textiles, similar to the initiatives being taken by the state to promote the furniture and jewellery parks being established. It is recommended that the state also consider extending focus to areas of engineering (specifically small machines), IT and web-based services, alternatives to plastics for local employment generation.

Aligned to recent trends globally, the **Committee recommends that interventions be strengthened in the following sectors:**

<b>1. New Age</b> <ul style="list-style-type: none"> <li>• Fintech</li> <li>• Smart Materials</li> <li>• Med-tech</li> <li>• Ed-tech</li> </ul>	<b>2. Manufacturing</b> <ul style="list-style-type: none"> <li>• Auto, auto-components, Electric Vehicles (EVs)</li> <li>• Man-made fibre-based garmenting, medical textiles, technical textiles</li> <li>• Agro and Food Processing</li> <li>• Leather</li> <li>• Embedded electronics</li> <li>• Gems and Jewels</li> <li>• Pharma</li> </ul>
<b>3. Services</b> <ul style="list-style-type: none"> <li>• IT/ITeS</li> <li>• Medical services</li> <li>• Hospitality and entertainment</li> <li>• Design</li> <li>• Facilities management</li> <li>• Advisory services</li> <li>• Logistics</li> </ul>	<b>4. Media and Entertainment</b> <ul style="list-style-type: none"> <li>• Television</li> <li>• Films</li> <li>• Out-of-Home (OOH)</li> <li>• Radio</li> <li>• Animation and Visual Effects (VFX)</li> <li>• Gaming</li> <li>• Music</li> <li>• Digital Advertising and Print</li> </ul>
<b>Cross cutting themes:</b> Internet of Things (IoT), Industry 4.0, Blockchain, Artificial Intelligence (AI), Machine Learning (ML), Augmented Reality (AR), Virtual Reality (VR), Mixed Reality (MR)	

The rationale for recommendation on choice of these sectors and businesses with potential has been detailed below. Sectors have been grouped together based on the MSME and Industries Policies of Tamil Nadu. Grouping has been attempted keeping in mind the maximum backward and forward linkages of these sectors.

## 1. Pharma, Med-tech, Biotech and Allied Medical Services

The choice of this sector aligns with the state's industrial and MSME policies and to address the need for industrial infrastructure development in the specified sector:

- a. State policies identify Pharmaceuticals, Nutraceuticals and Bulk Drugs as a sunrise sector.
- b. Tamil Nadu is the 5th largest pharmaceutical manufacturer in the country with 400+ pharmaceutical companies specializing in bulk drugs, API, Formulations and medical devices in Tamil Nadu.
- c. The state exports in the sector for 2018-19 stood at INR 3300 crore, equivalent to 2.5% of total national exports.
- d. The major products that are exported from the sector in Tamil Nadu are surgicals, medical devices, Ayush & herbal products, bulk drugs and bulk drug intermediaries.
- e. The Biotechnology Policy also proposes to promote infrastructure for the sector by creation of a Biotechnology Zone, therefore allowing for opportunities for MSMEs to grow in the sector.
- f. Chennai, the capital of Tamil Nadu is also a leading destination for medical tourism at the global level.

There is a need to enhance focus on development of state-of-the-art infrastructure dedicated to Active Pharmaceutical Ingredients (APIs) and medical devices to ensure backward integration in pharma manufacturing and export promotion.

In the Post-Covid scenario, there is a need to strengthen the domestic manufacturing base for APIs, formulations and medical devices through development of adequate and modern infrastructure facilities.

The state through the MSME and Industries departments will play a critical role in defining industry – academia – government partnerships for R&D in the areas of Pharma, Med-tech and Biotech in developing high quality infrastructure.

## 2. IT and ITES (including FinTech, Ed-Tech, IoT, Blockchain, AR, VR, MR, AI)

- a. The IT sector in Tamil Nadu provides direct employment to nearly 6,61,000 people. Given its importance to TN and the potential for TN to contribute globally, the state has launched the Blockchain Policy 2020, the Artificial Intelligence Policy 2020, and also a Fin Tech Policy. The state can additionally capitalise on promoting NBFCs and non-banking players, thereby revamping financial planning and advisory services.
- b. The state should also provide emphasis on promoting TN as a location for housing data centres and promote cloud computing.
- c. The state through the MSME department can play a significant role in growth and development of Start-ups in e-commerce, mobile-based technology, and

education. The ed-tech sector is growing rapidly with digitisation of learning taking place across the spectrum. This digitisation requires the support of a whole host of support services like video creation, development of interactive content, and content translation services that the state can leverage on.

- d. Sector specific studies can be carried out to identify high-potential domains for Start-ups to be promoted, in addition to IT/Healthcare/EV/emerging areas on IoT, AI, Cloud Computing /SDGs.

### **3. Electrical and Electronic Hardware, Automotive, Auto components, Vehicles and Fuel Technologies**

- a. With extensive focus on state-of-the-art port infrastructure, in tandem with the Chennai-Kanyakumari Industrial corridor, the state is poised to galvanize the Renewable Equipment manufacturing ecosystem in the state. The state can promote development of alternate technologies in the state.
- b. Entities in the MSME and Industries departments can play a major role in infrastructure development to foster a conducive environment for Electronics and Systems Design Manufacturing (ESDM) Start-ups.
- c. Promote innovation in EV for automotive and shared mobility by providing the ecosystem and infrastructure to make Tamil Nadu, the EV Hub of India.

### **4. Agro and Food Processing, Leather, Gems and Jewels, Fabrics and Textiles**

- a. The Government of Tamil Nadu is establishing 8 agro processing clusters and 6 mega food parks. It also has a strong network of agricultural colleges and research centres under TNAU.
- b. The state can bridge infrastructure gaps in the sector through focus on technology upgradation, R&D and innovations especially in food packaging, testing and quality (aligned with the Food Processing Policy 2018).
- c. Impetus can also be provided to the Agro Industrial Corridor proposed to be developed in Tamil Nadu.
- d. The state through EDII could focus on development of niche services in the jewellery sector.
- e. The state could also promote new R&D centres in a PPP mode that are sector specific can be set up close to clusters. Recycling technologies ought to be emphasised. Battery recycling, reusing plastics, recycling and upcycling of industry wastage and by-products should be promoted through innovative pilot projects. Projects enabling biodegradable solutions to single use plastics should also be promoted.
- f. It is recommended that focus on leather be enhanced in the southern districts for the development of ancillary units for stitching of bags, shoe uppers and soles, which in turn would allow for increase in employment and aggregation of micro units in the region.

## 5. Media and Entertainment, and Tourism

- a. India's Media and Entertainment (M&E) industry was estimated to grow at a CAGR of 3.24% between 2019-20 and 2021-22 to reach INR 1,80,000 crore by 2021-22 due to acceleration of digital adoption. Of this, the CAGR for OTT video is estimated to be at 29%, internet advertising at 22%, video games at 19%, and music/ radio/ podcasts at 14%<sup>99</sup>.

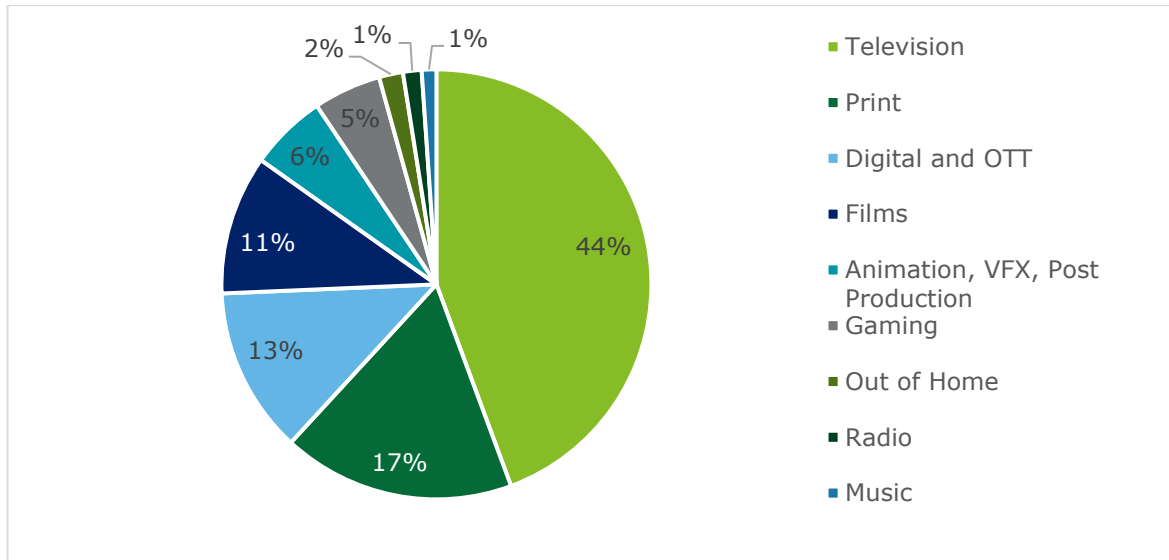


Figure 23 Market Share of various components of M&E Industry

Source: PWC Media and Entertainment Outlook 2020

- b. The Government of India announced on September 2, 2020 of its plans to develop an Animation, Visual Effects, Gaming and Comic (AVGC) Centre for Excellence in Mumbai in collaboration with IIT Bombay.
- c. Currently, to control the costs involved in production, the M&E industry worldwide has started outsourcing its processes that involve high cost and requires specialised skills sets to various countries like India besides China, Philippines, Malaysia, Korea, and Taiwan.
- d. The Tamil Nadu Government should set up a Task Force to assess business opportunities available in US, UK and France and map the skills and resources required.
- e. **A separate policy for Media & Entertainment** may be formulated by the Government to provide necessary support to the start-ups and the industry.
- f. Tamil Nadu should grab the first mover advantage by setting up a Centre of Excellence on Media and Entertainment with necessary infrastructure (hardware and software), funding schemes, and skill enhancement opportunities.

<sup>99</sup> PwC Global Entertainment & Media Outlook 2020-2024.

- g. Tamil Nadu has for long been known for its technical expertise in the audio-visual entertainment sector. Combined with its strengths in the IT sector, the state is rightly poised to exploit the emerging opportunities in this space.
- h. Tamil Nadu is well renowned for its temple towns and heritage sites and other scenic tourist destinations. The integrated roll out of the tourism policy with the MSME policy will allow the state to take common initiatives to allow clusters, especially artisanal and natural resource-based clusters to flourish given their inter-linkages with tourism.

### 3.16 Summary of Recommendations: Short, Medium and Long Term

The recommendations of the Committee across the various sections in this report, have been classified as short, medium and long term. This has been defined based on the proposed/ expected timelines for implementation. The significance and impact of the recommendation have also been taken into account. The classification has been shown below:

Table 20: Key for classification of recommendations based on timeline

Classification	Proposed/ expected timelines for implementation
Short	< 3 years
Medium	3 – 5 years
Long	> 5 years

The classification of recommendations, based on the above table, has been given below:

Table 21: Classification of recommendations based on timeline

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<b>MSME Strategy for Tamil Nadu</b>	
1	A “Corridors and Clusters” approach: The GoTN should endeavour to bring as many enterprises as possible under the umbrella of one cluster or other, identify gaps in the value chain of those clusters and concentrate on plugging the gaps.	Long
2	Within clusters, the following are recommended: <ul style="list-style-type: none"> <li>• Offering shared services.</li> <li>• Technology upgradation fund.</li> <li>• Facilitating exports through analysis of product specific value chains, existing sources and destinations of raw materials.</li> </ul>	Long
3	Existing MSMEs operating in the informal sector should be incentivised to get formalised.	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
4	The Government, through a digital platform, should make data available to businesses so that they are able to make better decisions – on buyer identification, market opportunities, raw material procurement and business process standards.	Medium
5	Improved access to finance through new-age financing tools, co-lending and fin-techs; creation of fund of funds to provide credit to MSMEs and the institution of Credit Guarantee Schemes.	Medium
6	Support for R&D and innovations through speedy and discounted registration of IP Trademarks and patents in India and Overseas.	Long
7	Setting up of Centres of Excellence (CoEs) along with facilitating industry-academia-private research interactions exclusively for the sunrise sectors and Industry 4.0.	Medium
8	A vibrant start-up ecosystem (including incubators, accelerators and venture capital) should be developed in the clusters through appropriate partnerships with incubators, accelerators, venture capitalists, providing access to labs in neighbouring academic institutions.	Long
	<b>Making TN 'Truly' Business Friendly</b>	
	<b>Overarching Recommendations</b>	
1	<b>Single Window Clearance:</b> <ul style="list-style-type: none"> <li>Guidance Bureau and MSME Department (through MTIPB) work to create a simplified application form for MSMEs. If required, separate application forms can be designed for first time applicants and repeat applicants.</li> <li>All clearances for MSMEs be brought onto the SWP, and that each time a clearance is brought on the SWP, the line department should not permit independent registration on their own portal/ offline.</li> <li>Alternatively, two-way APIs should be adopted by Guidance; i.e. even if an application is filed on the department's portal, it will automatically reflect on SWP and will be considered under the contours of the Business Facilitation Act.</li> </ul>	Short
2	<b>Making compliance by MSMEs easy:</b> Each department should proactively take steps to create help guides, tutorials, videos on how to fill forms, that are common in the private sector, or for that matter in the Passport Department. The role of the departments should be to also make it easier for the MSMEs to meet their compliance requirements.	Short
3	<b>Moving department processes online:</b> Departments have not moved their entire process flows online, implying that parallel	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<p>offline channels of paperwork continue (supposedly for audit purposes).</p> <ul style="list-style-type: none"> <li>• Institutionalise a mechanism where the MSME can submit an application/ grievance online, without interaction with the officer concerned. This submission and the life cycle of this application should be trackable by the MSME and the HoD (Secretary/ Commissioner/ Director) at any point in time.</li> <li>• In parallel, the departments should move their processes online and eliminate offline files completely.</li> </ul>	
4	<p><b>Harmonisation across departments (“Once Only” Principle):</b></p> <ul style="list-style-type: none"> <li>• MSME department should take the lead in building on the existing Udyam Database. On this database can be built a profile of each MSME, which draws on data, through APIs from various Government departments.</li> <li>• Renewal of licenses for each business should be harmonised across departments; i.e. all renewals should take place at defined intervals and these intervals should be the same fixed dates in each quarter/ half-year/ year across all departments. The payments for these renewals also should be received in one-go and distributed internally across departments.</li> <li>• Departments such as MSME, Industries, RD&amp;PR, Labour, Agriculture, Animal Husbandry are servicing overlapping sets of customers. Therefore, their planning, surveys, infrastructure creation (e.g. for uniform development across TN) should be harmonised.</li> </ul>	Short
5	<p><b>Use of technology to provide approvals:</b> The line departments should move to a system where human discretion in providing approvals is eliminated. For this, the departments should adopt two strategies. First, use technology to accord approvals, such that the online application form itself is able to assist the MSME in the application process. The online form should have field level validation and should be able to provide prompts to the MSME to avoid submission of wrong details. Second, in cases like building plan approvals, organisations such as CMDA, DTCP, DTP, and RD should adopt Auto CDR software.</p>	Short
6	<p><b>Moving to self-certification:</b> World over, there has been a move towards self-certification by businesses, followed by randomised risk-based inspections. To enable ease of doing business, the MSME department should work with the line departments (over the next 2 – 3 years) to enable this transition to self-certification.</p>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
7	<b>Empanelment of private enterprises:</b> The MSME department should work with the line departments and create an empanelled pool of experts who are certified. These third-party experts should be authorised to conduct inspections and certifications of the factories, pollution, land and charge on a per-case basis. The system followed by VFS for Visa Processing is the model that the Committee recommends.	Short
8	<b>Initial approval free period:</b> States such as Kerala and Haryana have brought in legislation that allows MSMEs to setup and commence business operations and apply for approvals and clearances within the first three years of their operations – subject to certain conditions. The committee recommends that a similar legislation is issued in Tamil Nadu also.	Medium
9	<b>Rewarding compliant MSMEs:</b> The Committee recommends that the MSME department include compliance as one more criterion in the awards that are given to the best performing MSMEs. In addition to the above, appreciation letters/ recognition letters should be issued to MSMEs who have had a history of on-time compliance.	Short
9	<b>Institutionalising MSME feedback:</b> For any system to function effectively, it is important to seek user feedback. In the case of the existing systems of approvals/ clearances, the MSME department should collect adequate feedback with a pre-determined frequency.	Short
10	<b>Data backed policy making:</b> In this day and age, it is time that the MSME department integrate into its online MSME database the provision of collection of statistics. By allowing MSMEs to fill compliance forms online on this page, it also allows the department (and therefore the government) to collect data on MSMEs. This data will be useful for policy making.	Short
11	<p><b>Relooking at the institutional setup within the MSME department:</b> The Committee recommends that this be carried out at two levels: (i) Redesigning of DICs and (ii) Relooking at roles of entities within the MSME department.</p> <ul style="list-style-type: none"> <li>The following functions should be offered by the redesigned DICs: (a) Front desk, as in the case of the Passport Office to assist MSMEs in filling of application forms, (b) Schemes related support, (c) Export desk, (d) Enabling finance, (e) Market linkages, and (f) Grievance redressal.</li> <li>Each DIC should therefore carry out a detailed study of at least 3 major sectors in their district and map out the</li> </ul>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<p>complete business value chain – with details about sourcing, production, sales and financials.</p> <ul style="list-style-type: none"> <li>• As a facilitative function, the DICs should be responsible not just for ‘guiding’ or ‘connecting’ MSMEs but should be accountable for defined outcomes. For example, it is not adequate for an MSME to be connected with a local bank for a loan, but the DIC should hand-hold the MSME in preparing a business plan, calling for a joint meeting with the local bankers and hold accountability until sanction of the loan.</li> <li>• There is a need for introduction of a performance culture in the DICs. For this, simple performance metrics can be introduced at the DIC level.</li> <li>• The DICs should outsource the process of filling the application form to a private firm which will staff personnel in each DIC office in a separate section called “Business Facilitation”.</li> <li>• The ambience in the DICs requires upgradation, and standardisation.</li> <li>• An institutional re-organisation study to be carried out for the Commissionerate to re-align itself as an enabler of MSMEs.</li> <li>• The following areas that SIDCO should improve upon: a) Optimising the land acquisition time and cost – since these inefficiencies of SIDCO are passed onto the buyers; b) Building parks in phases as they get occupied – as this will optimize cash flows; c) Strengthening of project management capacity and park housekeeping; d) GPS and Geo-tagging of parks such that the entire journey from searching for land, application, payments, land allotment, legal documentation is carried out seamlessly online; and e) Instituting an online grievance redressal mechanism for park occupants such that the speed and effectiveness of redressal is a performance metric for the MD.</li> <li>• EDII and TANSIM be integrated into a single entity – Startup TN.</li> <li>• TANSI re-orient itself as a buying house, purchase from MSMEs and sell to Government. In this avatar of an asset light-online first model, it’s land banks can be monetised through a partnership with SIDCO.</li> <li>• Government move TIIC back under the administrative control of the MSME department given its customer profile.</li> </ul>	
12	<b>Proactive Communication by MSME Department to MSMEs:</b>	<b>Short</b>

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<ul style="list-style-type: none"> <li>• Upload data on Schemes/ G.Os on the MSME portal: The MSME department maintain a single portal wherein all relevant scheme information and G.Os are put up. These should be schemes offered by other line departments since the businesses supported by these line departments also are very much MSMEs.</li> <li>• MSME department should first build a cadence of communication with Associations, which should then percolate down to the MSMEs. The state can first begin by creating a list of registered associations, and then initiating a process of communication.</li> <li>• MSME department should introduce a reward scheme for recognising and celebrating associations that contribute meaningfully, and in a committed manner to policy making, and in engaging their members.</li> <li>• Industry – MSME Connect: The large/ medium firms in each district should be connected with the smaller firms in their vicinity by the DICs. The nature of engagement should be that of mentoring and advisory support, training, best practices, quality control, exposure visits to large enterprises, vendor development etc. The active contributors to the programme should be recognised periodically by the Government at public forums. The GMs should take this up as one of their on-going tasks, with support from Programme Managers.</li> <li>• Communication through Messenger platforms: The MSME department should communicate with the Associations/ MSMEs (e.g. through a WhatsApp/ Telegram/ Signal group).</li> <li>• Awareness sessions through MSME scheme beneficiaries: The department should facilitate knowledge sharing sessions after each such exhibition/ fair; and organise sessions in which the beneficiaries of the schemes talk about the challenges they faced in putting together their applications as this will also serve as a feedback loop to the department for further improvement.</li> </ul>	
13	<p><b>Enactment of Right to Services Act in TN:</b> The Act makes delivery of service within the stipulated time legally binding, failing which officials can be penalised. The Government of Tamil Nadu, in the Governor's address on June 21, 2021 stated that Tamil Nadu will also roll out the Right to Services Act.</p> <p>While the line departments will be responsible for providing their services as per the timelines mentioned in the Act, there</p>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<p>should also be nodal departments that take care of the interest of their 'customers'.</p> <p>Specifically in the context of MSMEs, the Act should provide adequate provisions for ensuring that the data pertaining to the services provided by the line departments are made available to the 'nodal department', in this case, the Office of the ICDIC.</p>	
	<p><b>Right to Services Act in Tamil Nadu:</b> The Right to Services Act is essential to provide services to citizens in a time-bound manner. Each department defines its own Citizens Charter and the Act then mandates the delivery of services as per the Citizens Charter.</p> <p>The Office of the ICDIC is the nodal entity to address the requirements of Industries. Specifically in the context of MSMEs, the Act should provide adequate provisions for ensuring that the data pertaining to the services provided by the line departments are made available to the 'nodal department', in this case, the Office of the ICDIC.</p>	Short
14	<p><b>Department websites:</b> to be designed keeping user personas in mind (rather than serving as a repository of government data). The government should come out with a Guidebook on GoTN Website Design specifying the minimum data points that each department should place online (e.g. Acts, Rules, Approvals accorded – with reference to the relevant clauses, Forms, GPS locations of land parcels, and list of upcoming projects).</p>	Short
15	<p><b>Continuous engagement with line departments:</b> The process of engaging with the line departments and simplifying application forms, and compliance modalities should continue under the ambit of MTIPB beyond the tenure of this committee since this is an on-going exercise. MTIPB can build on the learnings/ experiences of Guidance Bureau and continue with a specific focus on MSMEs and their compliance needs. It would be prudent if Guidance Bureau and MTIPB work together in making EoDB a reality for all businesses in Tamil Nadu.</p>	Short
<b>Legislative Reforms/ Recommendations (Pan Government)</b>		
1	<p><b>Administrative Procedures Act:</b> Drafting of an act/ G.O. that lists the legislative, quasi-judicial and executive functions of each department of the Government of Tamil Nadu.</p>	Long
2	<p><b>Standards:</b> Evaluate and perform dynamic cost-benefit analyses of all existing and forthcoming standards set out by the Government of Tamil Nadu and reform them based on consultation with key stakeholders.</p>	Long

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
3	<b>Classification of industries/ businesses:</b> Undertake a risk-based classification of all industries/ businesses to ensure appropriate regulatory and statutory compliance.	Short
4	<b>Third-party certification:</b> Identify processes/ depts. where third-party certification is not used and if applicable, introduce the same. Clearly outline functions for third-party certifications and work towards institutionalising the same.	Short
5	<b>Single point approvals</b> for assessment of building plans and permits.	Short
<b>Department Specific Process Reforms/ Recommendations</b>		
1	<b>Trade Licence:</b> Increase of validity of licence (with auto-renewal), reduction in documentary requirement, and reduction in approval timeline. (Directorate of Town Panchayat – DTP), Rural Development and Panchayat Raj (RDPR) and Greater Chennai Corporation (GCC).	Short
2	<b>Site inspections for construction permits:</b> Modified process of identifying sites to be inspected, based on the applicant's risk classification and compliance history. Random inspections to also follow similar logic. (Directorate of Town and Country Planning – DTCP and Chennai Metropolitan Development Authority – CMDA)	Short
3	<b>Tamil Nadu e-Gazette:</b> Transformation of the e-Gazette into a user-friendly, push-notified, online portal, in line with portals of the Government of India and other states. (Department of Printing and Stationery)	Medium
4	<b>Factory licence and contract labour licence:</b> Definition of timelines for approval (with deemed approval), online downloading of approved licences and auto-renewal of licences. (Directorate of Industrial Safety and Health – DISH)	Short
5	<b>Empanelment of professionals (architects/ engineers):</b> Transformation of the empanelment process into an online process, with an integrated portal for different departments. A ranking/ compliance score for these professionals is also recommended. (Directorate of Town and Country Planning – DTCP and Chennai Metropolitan Development Authority – CMDA)	Short
<b>Pan Government Process Reforms and Recommendations</b>		
1	<b>Inspections:</b> Making inspection checklists publicly available on department websites, along with definition of timelines.	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
2	<b>Rationalising No-Objection Certificates (NOCs):</b> Identification and rationalisation of NOCs across all departments to remove redundancy.	Short
3	<b>“Once Only” policy:</b> Documents uploaded by an applicant for an application, to not be asked again by a different department, for a different application. All documents (and approvals/ certificates) to be synched through an online digilocker database/ system.	Short
4	<b>Periodic data-driven assessments/ reviews:</b> Conduct department-wise periodic reviews using application data to ensure approval timelines.	Short
5	<b>Decriminalisation:</b> Removal imprisonment terms attached to low-risk and medium-risk offences.	Medium
<b>Formal Finance for MSMEs in Tamil Nadu</b>		
1	<b>Equitable and Institutionally Agnostic Financing:</b> The state Government must aim to channel financing to MSMEs more equitably and must do so in an institution-agnostic manner, and not just focussed on Public Sector Banks. They should thus encourage multiple lending approaches across lending institutions like Banks, NBFCs and Fintechs. The Government may consider incentives to encourage banks, NBFCs and fintechs to expand coverage to significant clusters and districts with low credit-GDP.	Medium
2	<b>Role of SFIs:</b> State Government or state Government sponsored Financial Institutions (SFI), given their scarce budgetary resources, must move away from lending directly to MSMEs in the long run, but try to leverage their capital to help leverage funds from Banks and other Financial Institutions. We recommend SFIs build capabilities to participate in securitisation transactions to achieve this.	Long
3	SFIs gradually diversify direct lending and participate as second-loss guarantors in rated MSME securitisations by high-quality issuers (banks, NBFCs): <ul style="list-style-type: none"> <li>• Providing credit enhancements in the form of partial or full second loss guarantees in securitisation transactions involving MSME loans.</li> <li>• Credit enhancements in the form of co-guarantees on second loss in securitisation transactions involving MSME loans, along with other guarantors such as banks and NBFCs.</li> <li>• Investment in Pass-Through Certificates representing junior tranches in securitisation transactions involving MSME loans.</li> </ul>	Medium

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
4	<p><b>Credit Guarantee programs:</b></p> <p><b>Strengthening the existing SIDBI's CGTMSE programme:</b> Only 201 units in Tamil Nadu have availed of this scheme amounting to approximately Rs. 50 crore of guarantees. <b>There is a need to accelerate adoption of this scheme by lenders in the state.</b></p> <p><b>New Guarantee programme proposed by the state:</b> The state Government has announced a credit guarantee scheme (CGS) with an initial capital of Rs. 100 Cr. With the scheme still in its early stages, the following principles need to be kept in mind while designing the scheme:</p> <ul style="list-style-type: none"> <li>• The Member Lending Institution (MLI) needs to have adequate “skin in the game” to avoid moral hazard. To ensure this, the first loss should be taken by the MLI and the quantum of first loss should be benchmarked to the historically observed credit costs for that particular MLI.</li> <li>• Financial sustainability is integral to the effective functioning of the CGS. This implies that the guarantees need to be priced according to the risk of the exposure. For loan level guarantees, the assessment of risk should consider borrower level factors like financial capacity of the borrower, project feasibility and management ability of the borrower. For portfolio level guarantees, the assessment of risk should be based on the portfolio being guaranteed and the risk profile of the originating MLI.</li> <li>• The claim management process should be clearly documented, transparent and efficient while ensuring that MLIs have adequate incentive to pursue loan recovery post default.</li> <li>• The performance of the CGS, in terms of its financial additionality and sustainability, should be evaluated periodically and systematically, and the results of the evaluation should be disclosed publicly.</li> </ul>	Short
5	<p><b>Secondary Market for Movable Assets:</b> The state Government could take the lead in developing a second-hand marketplace for movable assets of MSMEs in partnership with Development Financial Institutions that have experience of doing this in other countries.</p>	Medium
6	<p><b>Leveraging on SIDBI Schemes:</b> Schemes from SIDBI such as SIDBI Cluster Development Fund (SCDF), schemes specific to startups and several others should be adequately utilised for</p>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	MSMEs, to develop clusters, and also enabling MSMEs to cover project cost.	
7	<b>Quasi - equity instruments:</b> The Committee recommends that more work be done in partnership with SIDBI and/or TIIC to develop quasi-equity instruments such as long-term debt with coupon and revenue-share components or convertible debt instruments that will provide growth capital for firms that are past the proof-of-concept stage.	Medium
8	<b>Timely payments to MSMEs:</b> Ensure timely payments by Government departments and state Public Sector Units (PSUs). Defaulting PSUs and departments should be fined at a significant penal interest for every day of default beyond the limit of 45 days set out by the Act and the proceeds should be transferred to the affected MSME, along with the amount in default. Such a covenant should be mandatorily included in all government contracts with MSMEs. <b>Micro and Small Enterprises Facilitation Council (MSEFCs),</b> setup under the MSMED Act, 2006: The state has faced setbacks when orders issued by the MSEFCs have been challenged in courts. There are also challenges around the recovery of dues from respondents even after orders have been passed by the Council. The state should undertake a detailed study of these matters, obtain a legal opinion and represent their case to the MSME Department, Government of India for resolution of the same.	Short
9	<b>COVID relief measures:</b> This Committee does not recommend any additional measures at this point. Once the Central Government schemes are phased out, a fresh look maybe needed. It is recommended that interventions be taken on a detailed assessment of the extent of stress on the MSME sector.	Short
10	<b>Suitable health insurance scheme for micro units:</b> With more than 95% of the MSMEs in the state being run as proprietorships, the death or illness of the proprietor could result in the closure of the unit and consequently lead to loss of employment and income for many families <sup>100</sup> . The state Government can help mitigate this risk by providing access to the state health insurance scheme for all micro-units registered with Udyam. It is recommended that a budget of Rs. 200 cr. be provided for co-contribution to the premium for such enterprises. However, it should be ensured that there is no	Medium

<sup>100</sup> NSSO 73<sup>rd</sup> round.

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	overlap with existing government health insurance schemes. The government can consider extending the programme to labourers in MSMEs as well. For this, the government should take a policy decision on extending the programme to migrant labourers since they are a key requirement for manufacturing enterprises.	
11	<b>Explore disaster and calamity risk mitigation through insurance:</b> The State Government may work with General Insurers to develop an under-writing and distribution approach for insuring MSMEs against natural disasters and supply chain shocks. This insurance could be bundled along with credit (similar to credit life insurance bundled with micro-loans) but the premium costs may need to be supported by the Government until such time as sufficient claims data exists for under-writing.	Medium
12	<b>Notify Chapter 3 of IBC (Insolvency and Bankruptcy Code):</b> The State Government may request the Government of India to notify Chapter 3 of the IBC. This can increase the confidence of lenders as they will have more clarity and predictability with regard to recovery of defaulted loans. Also, a bankruptcy and insolvency system for MSMEs aids in the swift reallocation of productive assets to healthier MSMEs and firms.	Short
	<b>Industrial Corridors, Clusters and Shared Services</b>	
1	<b>Cluster Development Authority at State Level:</b> There should be a dedicated Cluster Development Authority (or an integrated planning model, with a nodal entity) at the state level to oversee the development of the existing and new clusters in the state. The Committee also recommends that periodical trust-building meetings by the Cluster Development Authority (or of the constituent members) with the stakeholders of each cluster be organised.	Short
2	<b>Diagnostic Studies across Value Chain:</b> For every cluster, both old and new, a diagnostic study should be conducted to identify gaps in the value chain which should be followed by remedial action.	Long
3	<b>Support and shared services for clusters:</b> All clusters in the state shall be assisted by a shared services organisation and Common Facility Centres (CFCs) at the cluster-level to assist all MSMEs in the cluster in the following activities: Human Resource (HR) management, Information Technology (IT) services, food & accommodation, housekeeping, training, branding, etc. This shall free up the MSMEs in the cluster to focus on improving their products/ services. The CFCs may be in the form of plug-and-	Medium

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	play facilities with cubicles for the office spaces of the MSMEs. The Govt. may consider investing in these CFCs in a big way.	
4	<b>Common Branding and Identity:</b> At the cluster level, a common brand shall be developed and the same shall be used to expand both domestic and export market shares. Individual MSMEs may sell products/ services under their own brand names, but the common brand of the cluster should be present on all labels/ packaging. This enables a clear branding for the cluster, and provides a unified image for the cluster at a global stage.	Medium
5	<b>Periodic third party reviews:</b> The MSMEs in the clusters, along with the other organisations present (including the shared services organisation), shall be reviewed periodically through third party experts. This is to identify key areas of focus and other areas of assistance that the cluster may require from the various stake-holders.	Short
6	<b>Handholding support on the SWP:</b> The Government may assist MSMEs in the clusters with dedicated handholding on the SWP.	Short
7	<b>Customised financial assistance to clusters:</b> loans, subsidies, funding schemes as decided by the Government.	Medium
	<b>Infrastructure</b>	
1	<b>Land:</b> The Committee recommends measures of a) Land pooling b) Monitoring Land Utilisation c) Collaborative role of ULBs to address issues on land availability. There is also a need to make available data on land availability and utilisation to allow for balanced growth of MSMEs across TN.	Medium
2	<b>Water:</b> The Committee recommends the following measures keeping in mind sustainable use of water as a resource: incentivising industrial units that adopt practices such as rain water harvesting or waste water recycling.	Medium
3	<b>Electricity:</b> In order to avoid delays and disruptions in availability and supply of power for MSMEs, the Committee proposes the following be put in place: a) Electricity monitoring systems b) Transparent and timely processing of applications c) Mechanisms tapping on renewable energy such as solar, and wind.	Short
4	<b>Warehouses, roads, ports and other logistical infrastructure:</b> To increase access and address problems of connectivity, the Committee recommends that the State consider: a) Establishment of warehouses in collaboration with the TN State Warehousing Corporation Ltd. across districts with large scale	Medium

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	MSME presence – Delta and southern districts b) Ensure maintenance, connectivity and raw material access to MSMEs in coordination with the Roads and Highways department c) Access to inland container depots for MSMEs to be considered.	
5	<b>Raw material banks:</b> The Committee recommends – a) The MSME department should actively bring on-board raw material aggregators and link them to MSMEs to help bring down input costs. b) Price stabilisation fund to address price fluctuations in sectors such as cotton c) A standard set of clauses on price variation, to be defined by the Finance department, that can be included in contracts beyond say one year in duration. The clauses should be such that they allow for price variation based on market realities.	Medium
6	<b>Common Facility Centres (CFS):</b> The Committee suggests that in line with the Government's role as an aggregator, it focus on setting up CFCs, and that these CFCs offer services that cannot be procured by individual MSMEs or tend to be costly for an individual MSME to access.	
7	<b>Social infrastructure for labour:</b> The Committee recommends that consideration be extended to a) hostel facilities in industrial parks b) Strengthen UPHCs c) Tamil language training to migrant workforce d) Modifications to the ESIC Scheme to support workforce with accessible healthcare.	Medium
	<b>Markets, Imports and Exports</b>	
1	<b>MSME database:</b> An MSME database needs to urgently be put in place which allows the creation of a profile, a catalogue of MSMEs, their products, their assets (Generator, Lift), their certifications - so that they can be linked with large buyers. DICs should be encouraged to link these MSMEs with local large buyers - like a match-making mela. This database should set the base for all other initiatives of the department and should be taken up promptly by MTIPB.	Short
2	<b>Connect with large buyers:</b> Each established MSME in Tamil Nadu will have specific vendor requirements. Attempts should be made to connect these MSMEs, who are today not customers of the large enterprises/ PSUs by institutionalising a) buyer – seller meets b) buying houses (as in the leather and textiles sector) c) coach MSMEs to approach and interact with large buyers d) put in place a mechanism, through private sector	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	involvement, so that smaller enterprises can be coached on quality and the consistency of output.	
3	<b>Platform for expertise:</b> MSMEs sometimes may require expertise that the company doesn't have. An expert from outside might be necessary to extend help. It is recommended that the Government setup a platform (through a private entity) on which experts and services are provided for MSMEs. These services may be chargeable.	Short
4	<b>Taking MSMEs online:</b> tie up with e-market places so that MSMEs get quick onboarding. Existing e-commerce platforms expect that MSMEs have trademarks, brand names, high quality photographs of their products for successful online uploading and profile creation. The department should centrally negotiate with these service providers to make it easier, faster and cheaper for MSMEs to come online.	Short
5	<b>Canton (like) Fair:</b> A multi-product fair could be considered in TN. A calendar of events can be fixed for a year and fairs organised. These fairs can be complemented by a permanent online fair as well.  The Committee also suggests setting up of mini, multipurpose trade centres for MSME clusters near the major airports/ districts (Chennai, Coimbatore, Madurai, Trichy, Hosur, for example), operated by industry associations but with investment support from the Government. This can be operated by the trade/industry associations in conjunction with the DICs.	Medium
6	<b>Bring in skilled experts:</b> Involving skilled experts at MTIPB, who can take up a consulting project for MSMEs and conceptualise/ implement changes. In addition, for providing skills to MSMEs, skill councils have adequate funds that need to be systematically tapped into. A voucher-based system can be considered for this wherein MSMEs are given vouchers for skill training redemption.	Short
7	<b>TT Act:</b> Follow Government of India mandate of purchasing select items only from MSMEs; mandate a certain percentage of purchase from MSMEs; also from MSMEs only in Tamil Nadu. Policy similar to the Public Procurement Policy of Government of India which mandates that at least 25% <sup>101</sup> of purchase by government departments/ Central PSUs is from MSMEs, could be adopted in Tamil Nadu. Further, a certain percentage of purchases from MSMEs in Tamil Nadu should also be notified.	Short

<sup>101</sup> <https://dpe.gov.in/amendment-public-procurement-policy-micro-small-enterprisesmses-order-2012dpeom-no-pp-742007-fin>

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
8	<b>Public Procurement:</b> The exemption of Earnest Money Deposit (EMD) should be given only to MSMEs with production facilities in the state and to Services MSMEs. These initiatives are important because most MSMEs cater to in-state markets and so will help them scale up.	Short
9	<b>Government e-marketplace:</b> Pursue it aggressively to monitor purchases from MSMEs. Departments are required to be urged to register and procure through GeM.	Short
10	<b>Common brands for artisanal MSMEs:</b> A common brand for artisanal products either based on clusters or for the state as a whole needs to be designed and promoted. This is to be accompanied by facilities of testing, quality certifications, and launch of GI tags in select sectors.	Short
11	<b>Tourism linked marketing:</b> Tamil Nadu is a major tourist destination. Tourist inflow can be tapped to expand markets for products produced in artisanal clusters such as handlooms and handicrafts. Tourist circuits can be reworked in collaboration with tour operators to cover important handicraft and handloom clusters in the state. This can be tied to eco-labelling and source tracing of inputs to encourage ethical buying initiatives.	Short
12	<b>Development of an Export Policy:</b> The Government of Tamil Nadu has recently released an Export Policy. This policy needs to be developed further to respond to sector-specific strategies beyond incentives for encouraging exports.	Short
13	<b>Satellite Centre of IIFT in Tamil Nadu:</b> The Government may take up with the Ministry of Commerce, Government of India to set up a satellite Centre of the Indian Institute of Foreign Trade (IIFT) in Tamil Nadu (such centres already exist in Telangana and Karnataka). The physical infrastructure required may be provided by the state Government.	Medium
14	<b>Export incubation support:</b> There are entrepreneurs who want to become exporters and have the potential to export their products. Conversion of these MSMEs into exporters is needed for boosting exports in the state. Export promotion councils may be approached to design and implement an export incubation program. FIEO has a working programme in Chennai and Coimbatore that should be leveraged.	Short
15	<b>Infrastructure for exports:</b> The State Government could partner with probable organisations such as CONCOR to make available adequate containers at reasonable costs.	Short

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	Additionally, expansion of infrastructure at airports, and digital connectivity for exports is also to be considered.	
16	<p><b>Micro park for MSMEs with plug and play, and logistics infrastructure:</b> Industrial Parks are generally planned as larger Mega Clusters but the MSME companies find it difficult to join the same. The committee recommends setting up exclusive Micro parks for the MSME export sector. These Micro parks may be considered in existing brown field clusters. Smaller land parcels of up to 10 acres especially in defunct government enterprises may be considered.</p> <p>Plug and Play sheds of 2,000 to 10,000 sq. ft. may be considered. By leasing the sheds, the MSMEs with limited resources can start quickly.</p>	Long
	<b>Technology</b>	
1	<p><b>Cloud based ERP solutions:</b> One of the key parameters of managing a successful and sustainable business is efficient resource planning and many Enterprise Resource Planning (ERP) solutions are available for the same including cloud-based ERP solutions. The Committee recommends that the Government design a scheme where MSMEs of TN can pay per license, for a product which the GoTN centrally contracts for. This will bring down the per-unit cost for MSMEs.</p>	Short
2	<p><b>Industry - Academia Collaboration:</b> An important missing link in the innovation ecosystem is the inadequacy of industry-university collaborations at the cluster/ district level for innovations despite the state being home to one of the largest number of technical institutions in the country. Even in clusters like the Greater Chennai region and Coimbatore where there are several technical institutions and MSMEs, collaborative relationships that can contribute to the dynamism of MSMEs are inadequate. MTIPB should play a facilitative role in organising pre-determined, sector specific interactions.</p>	Short
3	<p><b>Technology for Industry 4.0:</b> The Committee recommends setting up of a Center of Excellence (CoE) for effective in collection of information, development and dissemination of knowledge, facilitation in capacity building of industries in co-ordination with various stakeholders.</p> <p>The Committee also proposes that initiatives be taken to familiarise MSMEs with Industry 4.0 methodologies and help them adopt these principles in their operation.</p>	Medium
4	<p><b>Incentives for technology upgradation:</b> The Capital Subsidy scheme for expansion of MSMEs may be expanded to cover the</p>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	cost incurred in technology upgradation. For this, beyond turnover increase, it is proposed to include parameters such as output and productivity increase also as base criteria for award of the scheme. The existing cap of 15% of cost of plant and machinery may be revised accordingly by the Government. In addition to the same, the Government may consider revising the clause that prevents already established MSMEs (more than 1 year of operation) from utilising the Capital Subsidy scheme. The scheme may be modelled in line with the Credit Linked Capital Subsidy for Technology Upgradation (CLCSS) scheme implemented by the Ministry of MSME, Government of India under the National Manufacturing Competitiveness Programme (NMCP).	
	<b>People and Skilling</b>	
1	<b>Improving institutional coordination:</b> There is a need for a common Board (constituted as a coordination committee) that meets and works towards a common agenda, for instance, on areas of location and functioning of it is, schools, colleges, mapping of curriculum to state industrial requirements. These need to be signed off on by the Industries and MSME departments to ensure alignment to the state's industrial growth plans. This is primarily to ensure involvement of diverse entities associated with skilling, but spread across multiple departments. This is common practice in countries such as Sweden and Finland. <i>In the absence of the above coordination mechanisms, the state will continue to work towards 'balanced regional development' but will not meet with success since departments are not working cohesively.</i>	Short
2	<b>Labour Market Information System (LMIS):</b> The Committee recommends a two-tier system. At the cluster level, the diagnostic tool identified in the 'Technology' section can be used to do a mapping of current and future labour requirements across key clusters in line with shifts in technologies in that particular sector. A cluster specific skills gap analysis can be undertaken accordingly. This exercise can be undertaken by DICs in partnership with industry/cluster associations. At the state level, institutionalising a LMIS system would help in data backed policy making. This database should be mapped to the Census, MSME data from other sources such as Udyam and NSS.	Medium
3	<b>Revamping Technical Training Institutes (Polytechnics/ ITIs):</b> <ul style="list-style-type: none"> <li>Industry associations should have a role in designing curriculum and pedagogy in technical training institutes. The Directorate of Technical Education (DOTE) and the</li> </ul>	Medium

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	<p>Directorate of Employment and Training can facilitate this and can partner with Sector Skills Councils for this purpose.</p> <ul style="list-style-type: none"> <li>• Institutes should also impart problem solving skills along with exposure to frontier technologies. They should re-orient their focus on frontier technologies such as Data Sciences, and AI.</li> <li>• Institutes can choose to provide training in streams that are in demand in adjoining clusters.</li> <li>• A new stream of accreditation and skilling that is part digital can be encouraged.</li> <li>• Ranking of Technical Training institutes should be introduced.</li> <li>• The Government should consider allowing these institutes to work in three shifts, where at least 1 – 2 shifts are for manufacturing/ production enterprises using the facilities in the institute. The institutes should also look at models which are capex-light.</li> </ul>	
4	<p><b>Practical orientation of trainers:</b> Training for trainers should be mandatory, held by certified agencies in partnership with industry associations with measurable outcomes and well defined metrics. A metric for teachers to have dual qualifications (theory and practical) has to be evolved and the share of trainers having such dual qualifications should be increased in a time-bound manner. The process can also be aided by drawing on adjunct faculty from industry/ recognised institutions and from practitioners in the industry.</p>	Short
5	<p><b>Coding – vocational training combinations:</b> Coding skills should therefore be combined with traditional vocational courses. For this, the SkillsFuture Singapore model (the program aims to expand job, traineeship, and skills training opportunities to support individuals affected by the economic impact of COVID-19) can be explored where the Government allows Singapore citizens to upskill themselves across accredited training partners and redeem government vouchers for discounts.</p>	Short
6	<p><b>Industry – academia partnerships:</b> Greater collaboration between publicly supported research institutions like SITRA, IIFPT and CLRI, and industry actors must be encouraged. Additionally, projects in areas of recycling such as battery recycling, reusing plastics, recycling and upcycling could be driven in PPP mode.</p>	Short

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7	<b>Training entrepreneurs:</b> targeted, sectoral interventions made to train entrepreneurs based on their needs. The MSME department should look at targeted, sectoral interventions in which specific sectoral plans are made to train entrepreneurs based on their needs. Examples of such interventions include, trade visits, links with design schools, links to e-markets, training in digital and social media marketing. Existing programmes like Growtherator <sup>102</sup> , organised by Global Alliance for Mass Entrepreneurship (GAME) can be leveraged, along with partnerships with Tamil Nadu Women's Development Corporation.	Short
8	<b>Internships and apprenticeships:</b> MSMEs find it difficult to compete with large firms in attracting trainees and retaining them. The government should therefore provide additional incentives for students to intern/ apprentice with the MSME sector. Paid internships (may be for one full year) for students in polytechnics and in colleges should be made mandatory for this purpose. For this, the MSME department will need to work with the Education and Labour departments.	Short
<b>Tamil Nadu as a Thriving State for Start-ups</b>		
1	<b>Infrastructure:</b> a) Fab Labs / Makers Lab / Tinkering Labs b) Conversion of select Industrial Training Institutes (ITIs)/ Polytechnic colleges into Innovation Centres to be setup to ensure startups across all sectors are provided customised infrastructure support.	Long
2	<b>Converting well equipped ITIs into Innovation Centres:</b> Many Industrial Training Institutes (ITIs) in the districts have the facilities and equipment required for Start-ups. The Committee suggests that 50 well-equipped ITIs may be selected across the state and upgraded as Innovation Centres whose facilities may be allowed to be accessed at nominal costs by the innovators and start-ups for their product development.	Medium
3	<b>Innovation Funding Scheme:</b> The Committee is of the view that funding schemes to encourage innovations and start-ups at various stages of development have to be implemented proactively. The Innovation Funding Schemes have to be decentralised and the selection of innovators/start-ups/MSMEs	Short

<sup>102</sup> Growtherator is a 6-month Business accelerator program conducted by Global Alliance for Mass Entrepreneurship (GAME). It helps growth-oriented firms learn industry best practices on talent management, cash flow management and business development. It provides an avenue for connecting with sector experts, business leaders, investors, bank and finance experts, successful entrepreneurs. It also provides leadership training encouraging entrepreneurs to be role models. The programme is designed to help businesses show growth and plan for scale.

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	has to be done at the district level by a Committee headed by the District Collector, similar to the process followed in the case of the Prime Minister's Employment Guarantee (PMEGP) scheme. The district level scouting and selection of innovations and start-ups will help in spreading the innovation culture across the state, bring in inclusiveness, and innovations addressing local needs will get priority.	
4	<b>Innovation Voucher Programme:</b> The Government of Tamil Nadu has initiated the Innovation Voucher Programme (IVP), a grant-in-aid scheme to encourage research and innovation among MSMEs and start-ups in the manufacturing sectors. It is recommended that in the scheme the funds be paid to the entrepreneur rather than through an academic institution.	Short
5	<b>Credit support for service startups:</b> The Government should work with financial institutions to push products such as bill discounting, and value chain financing for startups.	Short
6	<b>Access to markets:</b> The Committee recommends that the Startup policy be amended and a certain proportion of the department's procurement budget be earmarked for procurement from startups, or at least allow for direct procurement from innovative startups. Preferential procurement of unique products, exemptions and relaxations in public procurement have been recommended based on existing practises adopted in states such as Maharashtra.	Short
7	<b>Licensed software for startups/ MSMEs:</b> The start-ups/ MSMEs find it difficult to purchase the licensed software (Example: Tally, Solidworks, CATIA, ProE, AutoCAD and other software) to accelerate/ scale their business due to the cost of the software products. While the MSME policy states that the government will support the purchase of software products at cost-effective prices, there seems to be no mechanism or process has been put in place so far. The Committee recommends that a scheme or process be put in place for the same.	Medium
8	<b>Encouraging grassroots innovators:</b> In practise, each member of the Legislative Assembly (MLA) may be allowed to spend INR 5 lakhs per annum to encourage grassroots level innovation by awarding innovative ideas from young school children and college students in his/ her constituency. The Committee recommends that a local Committee may be formed to identify innovative ideas for these awards. Additionally, in order to handhold these innovators, the Committee recommends industry – academia partnerships,	Medium

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	bootcamps, hackathons, startup incubation, and identification of startup ambassadors.	
9	<b>Startup funding for SC/ ST entrepreneurs:</b> The GoTN may consider implementing dedicated schemes/ funds to fund the startups of SC/ ST entrepreneurs in the state.	Short
	<b>Sector Specific Recommendations</b>	
1	<p>The Committee had 16 meetings with various sectoral industries associations across the State. Many useful suggestions and insights emerged during these meetings.</p> <p>Recommendations have been made for sectors of engineering, auto components, textiles and garments, leather, coir, agro and food processing, marine products, pharmaceuticals, and services.</p> <p>Recommendations are sector specific and span across areas of infrastructure, business facilitation, resource availability, and other social and economic parameters such as labour, training, price volatility, trade patterns, and sectoral linkages. These have been detailed in Section 3.10.2 of this report.</p>	Medium - Long
	<b>Development of Micro Enterprises in Tamil Nadu</b>	
1	<p><b>Livelihood assurance:</b> The first responsibility of the state is to provide this class of One-man micro enterprises an assurance of sustenance and livelihood. If they could be assured of their livelihoods, then their burden would be much relieved. They should be covered under existing programmes including provision of houses for the poor, assistance in education and provision of textbooks, apart from access to the PDS system. This is also the category which could benefit immediately from the CM's promised monthly income scheme.</p> <p>The recommendation is that, for this category, a priority could be given for access to all the welfare and livelihood support schemes for which Tamil Nadu is already famous, and to add to it a monthly income that is part of the CM's promise. In addition, the state could take on the responsibility of providing an insurance cover for their families, which would enable access in the event of any catastrophe.</p>	Medium
2	<p><b>Formalisation of Micro Units:</b></p> <p>a) to provide access to MSMEs in terms of finance, markets and other infrastructural support.</p> <p>b) to evade the substantial fixed cost component to tax regulatory requirements and compliance costs (record keeping, filing and payment processes) at national, regional and municipal levels.</p> <p>c) With the introduction of GST, TReDS, MSME Samadhaan, the</p>	Short

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	<p>Accounts Aggregators, the possibilities of supply chain financing by linking GST invoices and the TReDS platform, and enforcement of the MSME Form 1 details (reported to MCA) before invoices end up on Samadhaan, several opportunities have opened up for formalised MSMEs.</p> <p>d) For an MSME that intends to scale, and raise funds, either as debt or equity, formalisation is a must.</p>	
3	<p><b>Combating Adverse Effects of Natural Disasters and Health Risks:</b> The state Government should work with General Insurers to develop an under-writing and distribution approach for insuring MSMEs against natural disasters and supply chain shocks. This insurance could be bundled along with credit (similar to credit life insurance bundled with micro-loans) but the premium costs may need to be supported by the Government until such time as sufficient claims data exists for under-writing. This has also been mentioned in the chapter on Finances.</p>	Medium
4	<p><b>Encouraging Alternative Formal Financing Methods:</b> Data from secondary sources and literature on banking and finance indicates that the cost of lending to business units with a turnover of less than INR 20 lakhs is relatively high. The largely informal nature of the sector renders it difficult for formal sector lenders to effectively assess credit worthiness of these firms due to the high information asymmetry. Additionally, since most micro units typically do not have collateral, under-writing them often requires a “high-touch” approach which, in turn, translates into higher operating cost for lenders. However, with adoption of electronic KYC (e-KYC), digital transaction and Account Aggregators, formal lenders can underwrite MSMEs, specifically micro units, without incurring high transaction costs. The Government should, after creation of the MSME database link these lenders to the micro enterprises for lending at improved terms.</p>	Short
5	<p><b>Addressing requirements of B2C and B2B Micro Units:</b> There is a need to address requirements of these enterprises using a different approach.</p> <ul style="list-style-type: none"> <li>• <b>Aggregation:</b> Units of such nature could be attempted to be aggregated under a common brand. While attempts are being made by the GoTN to drive aggregation of MSMEs, the Committee strongly endorses this effort and urges that the state also promote aggregation.</li> <li>• <b>Awareness of and Accessibility to Government Services:</b> a) In order to ensure last mile delivery of welfare services, there is a need to develop technology-enabled, user-friendly</li> </ul>	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<b>delivery systems which allow for increased awareness and access to welfare and financial services for micro enterprises.</b> Such systems can be developed in partnership with civil society actors. b) These systems could be developed and driven through professionals who could also help train micro entrepreneurs and handhold them in using such tech-enabled systems.	
6	<b>Institutional ownership:</b> Given the variety and scale of micro units, there is a need for adequate and special attention to be provided to these units. Activities such as formalising micro units, increasing awareness, development of a database of micro and the other categories can be areas aligned to the functioning of MTIPB. In addition, since almost 90% of enterprises are already micro enterprises the role of the MSME department itself should be oriented towards primarily supporting them.	Short
7	<b>Micro cluster scheme:</b> The Committee endorses the Common Production Infrastructure (CPI) scheme of SIDCO. The GoTN may also consider implementing a similar scheme, with reduced maximum subsidy values, with a focus on Micro enterprises.	Short
8	<b>Funding for MSMEs:</b> A dedicated fund may be setup for MSMEs, to fund traditional MSMEs that would not be able to raise capital otherwise. A part of the funds of Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC), under the Tamil Nadu Emerging Sector Seed Fund (TNESSF) may be earmarked for MSMEs, for this purpose.	Short
9	<b>Plug and play facilities:</b> SIDCO is currently involved in building plug and play facilities for MSMEs. These facilities provide MSMEs with the requisite infrastructure for starting up and running their businesses. The Committee endorses that these initiatives be continued by SIDCO. Focus may be provided to newer, green sectors such as electric vehicles and digital technology.	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	<b>COVID Relief and Measures for MSMEs</b>	
1	Committee acknowledges the various initiatives taken by the state and union governments towards revival of MSMEs from the COVID-19 crisis. The recommendations made in other parts of the report are compiled below for ease of reference:	
2	<b>Prioritising the State Credit Guarantee Scheme:</b> The government should launch the state credit guarantee scheme at the earliest so as to benefit MSMEs in the state.	Short
3	<b>Adequate sectoral coverage of schemes:</b> The existing ECLGS should be designed to target manufacturing, services, and trading adequately.	Short
4	<b>Insurance for MSMEs covering disaster and health risks:</b> Insurance for MSMEs (owners and labourer – including migrant labourers) for disaster and health risk mitigation should be implemented.	Medium
5	<b>Measures ensuring minimum disruption to business cycles:</b> Measures such as banning products/ re-classifying businesses into different pollution categories should be done in a graduated manner with a two-year notice.	Medium
	<b>Schemes and Subsidies</b>	
1	<b>Mass awareness campaign:</b> The Government of Tamil Nadu, through the ICDIC and MTIPB, shall undertake a vigorous, current and targeted awareness campaign to make the public/ MSMEs aware of the existing schemes. The key objectives, benefits and processes of application for all schemes shall need to be made aware across the state through online and offline platforms.	Short
2	<b>Periodic review and redesigning of schemes</b> every three to five years is to be undertaken by the ICDIC. This may be done through an independent, external agency. This agency shall financially appraise and evaluate details of the schemes such as: reach of schemes to the public, value disbursed against target, profile of beneficiaries, relevance of the scheme to the current MSME needs, and requirement of new schemes to meet the needs of MSMEs. Eligibility, maximum subsidy values, etc. of the existing schemes may be modified in line with the insights obtained.	Short
3	<b>IT enablement of the ICDIC:</b> The ICDIC shall become an end-to-end IT enabled department, for all scheme applications, processing and disbursement. This is also required to be linked	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	to the larger aspect of the MSME database being put together from various sources.	
4	The Committee recommends that the Capital Subsidy should continue, but the focus should be more on new enterprises, particularly those adopting new technology. The Committee recommends that not less than 50% of the allocation for capital subsidy should be earmarked for new and innovative enterprises.	Short
5	<b>Inclusion of computer hardware and software under the capital subsidy scheme</b> with adequate safeguards against misuse. The Committee also recommends that the Capital Subsidy should continue, but the focus should be more on new enterprises, particularly those adopting new technology. The Committee recommends that not less than 50% of the allocation for capital subsidy should be earmarked for new and innovative enterprises.	Short
6	<b>Enforcement of purchase preference:</b> The Purchase Preference of 25% for Micro and Small enterprises, under the Tamil Nadu Transparency in Tenders Rules 2000, shall need to be enforced clearly across all Govt. depts./ organisations in Tamil Nadu <sup>103</sup> . The Government of Tamil Nadu, through the ICDIC and MTIPB, shall track and ensure effective implementation of the same across all Government departments.	Short
7	<b>Extension of schemes to service sector:</b> The Committee recommends that the Services sector get as much focus and as many benefits (in rupee terms) as the manufacturing sector receives and for that the Services sector be looked at on an equal footing while redesigning schemes.	Short
8	<b>New schemes:</b> The Committee recommends the following new schemes for MSMEs: a) Employee insurance scheme, aggregated across MSMEs. b) Empanelment of service providers and reduced cost of services. c) Reimbursement and buyback incentive for solar power. d) Schemes for start-ups, clean/ green energy, conservation and recycling businesses and initiatives. The benefits of these schemes (percentage of subsidy provided and maximum value of subsidy provided) shall be different	Medium

<sup>103</sup> Tamil Nadu Transparency in Tenders Rules 2000 (as amended up to 26 June 2020), allows for a Tamil Nadu Govt. dept./ Tamil Nadu Govt. organisation to allot 25% of the total requirement in the procurement to a Micro or a Small enterprise located in Tamil Nadu. Detailed under para 30-A: Purchase preference to domestic enterprises, under Chapter VI-A: Purchase Preference in the Tamil Nadu Transparency in Tenders Rules 2000.

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	between Micro, Small and Medium enterprises. Micro enterprises shall receive the maximum permissible benefits under the schemes, followed by Small enterprises and Medium enterprises.	
	<b>Uniform Development across the state</b>	
1	<b>Framework for balanced regional development:</b> Develop a common framework for measuring “balanced regional development” including qualitative and quantitative factors.	Short
2	<b>Regional asset based mapping:</b> to identify potential sectors for promotion and to identify institutional and infrastructural gaps	Short
3	<b>Focus on multitude of factors for development:</b> like physical infrastructure, social infrastructure, HRD, Finance, Governance, and Institutional Reforms, allowing for better labour and workforce mobility.	Short
4	<b>Identification of sub sectors and establishing linkages:</b> Based on the asset profile of the districts, a set of sub-sectors within manufacturing and services can be identified that have the potential to develop in less industrialised regions.	Medium
5	<b>Anchor investors:</b> Identifying anchor units to establish in the southern districts and development of ancillary units through a hub and spokes model is also recommended. These anchor investors can be attracted through incentive and infrastructure benefits.	Medium
6	<b>Subsidies:</b> For a fixed time period, a transport subsidy scheme can be implemented in backward districts that allows firms in these districts to claim a subsidy for transporting raw materials and finished goods. Similarly, incentives can be introduced for private firms to procure from Delta/ southern districts.	Medium
7	<b>Potential for tourism in southern districts</b> (especially coastal towns, and districts such as Ariyalur, Perambalur, Purukottai) and development of tourism infrastructure. Parallely addressing waste management and pollution.	Medium
8	<b>Software services and digital infrastructure:</b> The pandemic has also highlighted the potential for software services to be decentralised once digital infrastructure is in place. Identification of segments of software and IT-enabled services that can be undertaken in tier two locations and provision of digital infrastructure to aid the process of moving these sectors to such locations can be done.	Long
9	<b>Supporting SC/ST entrepreneurs:</b> The Government may reimagine the schemes of TAHDCO to better utilize the funds	Short

Sl.	Recommendations of the Committee for the Revival of MSMEs in Tamil Nadu	Timeline/ Classification
	from the Special Component Plan/ Special Central Assistance to better target deserving start-ups from SC/ST entrepreneurs from Delta/Southern districts.	
	<b>Sectors and Business with Potential</b>	
1	New age (Fintechs, IT, ITeS, AR, VR, MR, AI, Med tech, smart equipment), manufacturing (auto components, EV, textiles, agri, leather, plastics, gems and jewels), services (medical services, hospitality, facilities management, design, advisory, logistics), trading (wholesale, retail, dealers and distributors), media and entertainment sectors.	Medium - Long

### 3.17 Conclusion and Way Forward

While 'change' is the only constant factor in the world that we exist in today, the MSME sector has overtime been caught up in their own day to day firefighting thereby forcing them to adopt a 'status quo' approach to stay afloat. In the current environment of changing dynamics and too many uncertainties, it is in the interest of this sector as a whole, to embrace 'change' as and when required and as appropriate, without disrupting their existing business models. The committee has approached its agenda of making recommendations, keeping in mind the need to balance 'status quo' versus 'change'.

A one-size-fits-all approach to all MSMEs is unworkable and untenable. It is therefore important for the Government to base its future strategic direction on the specific requirements of each category of MSMEs. This distinction should find a place in future policies, strategies, incentive schemes, and investments of the Government.

While small and medium enterprises will generally align themselves better to economic changes, micro enterprises will require constant support in view of their inherent shortcomings and their smallness. Formalising micro enterprises through a combination of push and pull interventions will be a credible first step for the state government to take.

Technology and collaboration are going to be key differentiators for MSMEs and those that embrace this change are more likely to sustain in the medium and long run. On similar lines, the cluster model has its advantages. With greater collaboration within the cluster, the success ratio of clusters will significantly increase. Investment by the Government investment is perhaps better spent by setting up common service centres, common platforms and aggregator models with well thought through governance frameworks.

This report covers a large canvas. Having taken into account the suggestions received from the diverse group of stakeholders, the Committee has made key directional recommendations for the revival of MSMEs in Tamil Nadu. It is hoped that these recommendations will provide a template for transformation of the MSME sector in the years to come.

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## Annexure 1: G.O. Constituting the Committee



### **ABSTRACT**

Micro, Small and Medium Enterprises - Constitution of Committee for Revival of MSMEs in Tamil Nadu based on the Announcement made in the Governor's Address 2021- Orders Issued.

### **MICRO, SMALL AND MEDIUM ENTERPRISES [D(2)] DEPARTMENT**

G.O.(Ms) No.42

Dated: 28.07.2021

திருவள்ளூர் ஆண்டு 2052  
பிலவ வருடம், ஆடி 12

Read:

From the Industries Commissioner and Director of Industries and Commerce letter Rc. No.19323/PDK1/2021-1, dated 15.07.2021.

### **Order:**

During the Governor's Address on 21.06.2021, the Hon'ble Governor has made the following Announcement:-

"An expert committee consisting of industrialists, banking and financial experts and Government officials will be constituted to formulate schemes for revival of MSMEs".

2. Based on the above Announcement, Government hereby issues orders for constitution of the Committee for Revival of MSMEs in Tamil Nadu consisting of industrialists, banking and financial experts and Government officials, with the following Members:-

### **Chairman**

Dr. N.Sunderadevan, I.A.S., (Retd), Former Industries Secretary, Government of Tamil Nadu.

### **Members:**

- 1) Prof. M.Vijayabhaskar, Part time member, State Development Policy Council and Professor, Madras Institute of Development Studies (MIDS).

- ii) Tmt. Bindu Anand, former Member of RBI Committees on financial inclusion, SME Finance and Securitization. Currently, Co-founder and Chair of Dvara Trust.
- iii) Thiru N. Balasubramaniam, former Chairman and Managing Director, Small Industries Development Bank of India (SIDBI).
- iv) Tmt. Hemalatha Annamalai, Co-founder and Ex-CEO Ampere Vehicles and Past Chair, TIE Women.
- v) Thiru. Israr Ahamed, Regional Chairman, Federation of Indian Export Organisations.
- vi) Thiru. Anburajan, President, Tamil Nadu Small and Tiny Industries Association (TANSTIA).
- vii) Thiru R. Anand, Ex partner, Ernest and Young and Chartered Accountant and former Member of RBI Committee on Asset Reconstruction Companies.

**Ex Officio Members:**

- viii) Secretary in Charge of Finance Department.
- ix) Secretary in Charge of Industries Department
- x) Secretary in Charge of MSME Department
- xi) Industries Commissioner, (Member Convener)
- xii) Chairman, State Level Bankers Committee

3. The above committee shall be treated as a First Class Committee. The expenditure of the Committee shall be met by the MSME-Trade and Investment Promotion Bureau (M-TIPB) from its existing budgetary grant for business promotion.

4. The Terms of Reference (ToR) of the Committee shall be follows:-

- (a) To assess the challenges faced by the MSME sector in Tamil Nadu, including but not limited to the impact of COVID-19 pandemic.
- (b) To suggest immediate, medium term and long term measures required for the revival of the MSME sector and build resilience in the MSME in the State.

- (c) To identify the problems in MSME financing and recommend methods to ease the flow of credit and expand the coverage of MSMEs coming under the formal banking sector, including use of new financing models driven by technology.
- (d) To recommend measures needed to boost exports from MSMEs in the State.
- (e) To suggest measures to fill critical infrastructure and human resource gaps in the MSME sector including common facility centres, affordable industrial land and non-availability of skilled man power.
- (f) To reexamine the effectiveness of the Capital Subsidy Scheme as a method to encourage investment in the MSME Sector.
- (g) To recommend measures that will improve the Ease of Doing Business for MSMEs in the State.
- (h) To recommend methods for new market development for MSMEs.
- (i) To recommend measures that will encourage the growth of MSMEs in industrially backward regions of the State.
- (j) To identify a few sectors which has future growth potential including sunrise sectors, and suggest targeted interventions needed to stimulate growth in these sector.
- (k) Any other aspect, which in the opinion of the Committee will contribute to the development of MSME sector in Tamil Nadu.

5. The Committee is requested to submit its report within three months.

**V.ARUN ROY**  
**SECRETARY TO GOVERNMENT**

To

- 1) Dr. N.Sunderadevan, I.A.S., (Retd), Former Industries Secretary, Government of Tamil Nadu.
- 2) Prof. M.Vijayabhaskar, Part time member, State Development Policy Council and Professor, Madras Institute of Development Studies (MIDS).
- 3) Tmt. Bindu Anand, former Member of RBI Committees on financial inclusion, SME Finance and Securitization. Currently, Cofounder and Chair of Dvara Trust.
- 4) Thiru N.Balasubramaniam, former Chairman and Managing Director, Small Industries Development Bank of India (SIDBI).

- 5) Tmt. Hemalatha Annamalai, Cofounder and Ex-CEO Ampere Vehicles (Electric Vehicle) and Past Chair, TIE Women.
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- 7) Thiru. Anburajan, President, Tamil Nadu Small and Tiny Industries Association (TANSTIA).
- 8) Thiru R. Anand, Ex partner, Ernest and Young and Chartered Accountant and former Member of RBI Committee on Asset Reconstruction Companies.

Secretary in Charge of Micro, Small and Medium Enterprises Department.

Secretary in Charge of Finance Department.

Secretary in Charge of Industries Department.

Industries Commissioner and  
Director of Industries and Commerce,  
Guindy, Chennai-32.

Chairman, State Level Bankers Committee.

**Copy to:**

Office of the Hon'ble Chief Minister.

Office of the Minister (Rural Industries).

The Personal Assistant to Secretary to Government,  
Micro, Small and Medium Enterprises Department,  
Secretariat, Chennai-9.

The Managing Director,  
Tamil Nadu Small Industries Development Corporation Limited,  
Guindy, Chennai-32.

The Principal Secretary / Chairman and Managing Director,  
Tamil Nadu Small Industries Corporation Limited,  
Guindy, Chennai-32.

The Additional Chief Secretary / Director,  
Entrepreneurship Development and Innovation Institute - Tamil Nadu,  
Guindy, Chennai-32.

Sf/Sc.

**//FORWARDED BY ORDER //**

*28/07/2021*  
**SECTION OFFICER**

## Annexure 2: Consultations of the Committee

Table 22: List of meetings of the Committee with various stakeholders

Sl.	Date	Name of Meeting
1	31-July-2021	Informal introductory meeting of the Committee
2	05-August-2021	Sector Meeting - Engineering Products
3	05-August-2021	Formal meeting of Expert Committee
4	06-August-2021	Discussion with GM DICs
5	09-August-2021	Sector Meeting - Coir
6	10-August-2021	Sector Meeting - Leather
7	11-August-2021	Sector Meeting - Textiles and Garments
8	13-August-2021	Cashew, Agro and Processed Food
9	14-August-2021	Weekly Review Meeting
10	16-August-2021	Marine Products
11	17-August-2021	Pharma Products
12	19-August-2021	Meeting with Small Finance Banks (SFBs)
13	21-August-2021	Weekly Review Meeting
14	25-August-2021	Interaction with Associations at Coimbatore and Members of CODISSIA
15	28-August-2021	Interaction with Women Entrepreneurs
16	04-September-2021	Meeting with Tamil Nadu Guidance Bureau, GAME and Line Departments of GoTN on EoDB and Compliances
17	06-September-2021	Meeting with TIIC
18	07-September-2021	TANSTIA - Food Processing
19	07-September-2021	TANSTIA - Textiles
20	08-September-2021	TANSTIA - Engineering and Infrastructure
21	08-September-2021	TANSTIA - Auto Components
22	09-September-2021	TANSTIA - Service Providers and Hospitality Industry
23	10-September-2021	TANSTIA - Construction
24	10-September-2021	TANSTIA - Pharmaceuticals
25	11-September-2021	Weekly Review Meeting
26	11-September-2021	TANSTIA - Plastics
27	18-September-2021	Weekly Review Meeting
28	21-September-2021	Presentation on MSME Financing by Ms. Bindu Ananth
29	25-September-2021	Weekly Review Meeting
30	02-October-2021	Weekly Review Meeting

Sl.	Date	Name of Meeting
31	04-October-2021	PPT by EY
32	06-October-2021	PPT by Deloitte.
33	09-October-2021	Weekly Review Meeting
34	13-October-2021	Meeting with TiE Angels
35	13-October-2021	Internal Review Meeting
36	14-October-2021	Weekly Review Meeting
37	16-October-2021	Meeting with SIDBI
38	19-October-2021	Internal Review Meeting
39	20-October-2021	Discussion on Compliances and Portals with Tamil Nadu Guidance Bureau
40	21-October-2021	Internal Review Meeting
41	22-October-2021	Internal Review Meeting
42	23-October-2021	Weekly Review Meeting
43	26-October-2021	Internal Review Meeting
44	27-October-2021	Internal Review Meeting
45	27-October-2021	Meetings at IITM Research Park
46	29-October-2021	Discussion on Deeptech for MSMEs
47	29-October-2021	Discussion on EoDB Report Annexure with GAME
48	30-October-2021	Weekly Review Meeting
49	02-November-2021	Internal Review Meeting
50	03-November-2021	Discussion with BCG
51	05-November-2021	Discussion with Chiratae Ventures
52	06-November-2021	Weekly Review Meeting
53	08-November-2021	Discussion of Sub-committee on Equity for MSMEs (Clarifications)
54	11-November-2021	Meeting with Dr. G Viswanathan, Chancellor VIT
55	13-November-2021	Meeting with Dr. S. Narayan IAS + Weekly Review
56	16-November-2021	Internal Review Meeting
57	17-November-2021	Meeting with Sub Committee on Trichy Cluster
58	17-November-2021	Meeting with the Govt of Haryana on EoDB Reforms
59	18-November-2021	Meeting with INDCOSERVE and Ms. Supriya Sahu IAS
60	18-November-2021	Meeting with Sub-committee on EoDB Reforms for Tamil Nadu
61	23-November-2021	Internal Review Meeting
62	25-November-2021	Internal Review Meeting
63	01-December-2021	Internal Review Meeting
64	01-December-2021	Meeting with Mr. C.R. Rajagopalan

Sl.	Date	Name of Meeting
65	04-December-2021	Weekly Review Meeting
66	05-December-2021	Internal Review Meeting
67	06-December-2021	Internal Review meeting
68	09-December-2021	Internal meeting for meeting with Mr. Raghuram G Rajan
69	11-December-2021	Weekly Review Meeting
70	13-December-2021	Meeting with Prof. Raghuram G Rajan
71	15-December-2021	Meeting with TIIC
72	16-December-2021	Internal Review Meeting
73	21-December-2021	Internal Review Meeting
74	30-December-2021	Internal Review Meeting
75	31-December-2021	Internal Review Meeting

Table 23: Meetings of the Committee for understanding MSME approval processes

Sl.	Date	Name of the Department
1	29-September-2021	Tamil Nadu Electrical Inspectorate
2	29-September-2021	Tamil Nadu Pollution Control Board (TNPCB)
3	29-September-2021	Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)
4	29-September-2021	Department of Town and Country Planning (DTCP)
5	29-September-2021	Rural Development and Panchayat Raj Dept
6	30-September-2021	Commissionerate of Town Panchayat
7	01-October-21	Chennai Metropolitan Development Authority (CMDA)
8	01-October-21	Directorate of Industrial Safety and Health (DISH)
9	01-October-21	Department of Town and Country Planning
10	05-October-21	Greater Chennai Corporation (GCC)
11	06-October-21	Directorate of Boilers
12	06-October-21	Department of Agriculture
13	08-October-21	Tamil Nadu Fire and Rescue Services
14	13-October-21	Directorate of Town and Country Planning
15	26-October-21	Chennai Metropolitan Development Authority
16	26-October-21	Directorate of Industrial Safety and Health (DISH)
17	28-October-21	Department of Agriculture
18	28-October-21	Directorate of Town and Country Planning
19	29-October-21	Chennai Metropolitan Development Authority
20	19-November-21	Tamil Nadu Pollution Control Board (TNPCB)

## Annexure 3: Socio-economic Data on Tamil Nadu

Table 24: GSDP of all Indian states and Union Territories

Rank	State/ Union Territory	Gross State Domestic Product (GSDP) in 2019-20 (current prices) (INR lakhs)	Percentage of the total GSDP across all states/ union territories
1	Maharashtra	28,18,55,457.00	13.57%
2	<b>Tamil Nadu</b>	<b>17,97,22,872.00</b>	<b>8.65%</b>
3	Uttar Pradesh	16,87,81,799.00	8.12%
4	Gujarat	16,30,24,012.00	7.85%
5	Karnataka	16,28,92,793.00	7.84%
6	West Bengal	12,07,82,261.00	5.81%
7	Rajasthan	9,98,99,911.00	4.81%
8	Andhra Pradesh	9,71,22,422.00	4.68%
9	Telangana	9,57,20,710.00	4.61%
10	Madhya Pradesh	9,37,40,518.00	4.51%
11	Kerala	8,54,68,899.00	4.11%
12	Delhi	8,30,87,249.00	4.00%
13	Haryana	7,80,61,235.00	3.76%
14	Bihar	5,94,01,640.00	2.86%
15	Odisha	5,47,95,908.00	2.64%
16	Punjab	5,39,68,655.00	2.60%
17	Chhattisgarh	3,44,95,535.00	1.66%
18	Assam	3,35,23,811.00	1.61%
19	Jharkhand	3,21,15,731.00	1.55%
20	Uttarakhand	2,53,66,625.00	1.22%
21	Jammu and Kashmir	1,70,38,211.00	0.82%
22	Himachal Pradesh	1,62,81,593.00	0.78%
23	Goa	74,82,837.00	0.36%
24	Tripura	55,85,694.00	0.27%
25	Chandigarh	43,67,434.00	0.21%
26	Puducherry	38,00,369.00	0.18%
27	Meghalaya	34,71,570.00	0.17%

Rank	State/ Union Territory	Gross State Domestic Product (GSDP) in 2019-20 (current prices) (INR lakhs)	Percentage of the total GSDP across all states/ union territories
28	Manipur	31,79,030.00	0.15%
29	Sikkim	30,80,899.00	0.15%
30	Nagaland	29,53,593.00	0.14%
31	Arunachal Pradesh	28,04,613.00	0.14%
32	Mizoram	25,14,857.00	0.12%
33	Andaman and Nicobar Islands	9,71,923.00	0.05%
<b>Sum of all state GSDPs</b>		<b>2,07,73,60,666.00</b>	

Source: Handbook of statistics of Indian states of the Reserve Bank of India for 2021, available at: <https://rbi.org.in/Scripts/AnnualPublications.aspx%3Fhead%3Dhandbook%20of%20Statistics%20on%20Indian%20States>.

Table 25: Net State Domestic Product (NSDP) per capita, of all Indian states and Union Territories

Rank	State/Union Territory	Net State Domestic Product, per capita, in 2019-20 (current prices) (INR)
1	Goa	4,35,959.00
2	Sikkim	4,03,376.00
3	Delhi	3,76,221.00
4	Chandigarh	3,30,015.00
5	Haryana	2,47,628.00
6	Telangana	2,33,325.00
7	Karnataka	2,23,175.00
8	Kerala	2,21,904.00
9	Puducherry	2,20,949.00
10	Andaman and Nicobar Islands	2,18,649.00
11	Gujarat	2,13,936.00
12	<b>Tamil Nadu</b>	<b>2,13,396.00</b>
13	Uttarakhand	2,02,895.00
14	Maharashtra	2,02,130.00
15	Himachal Pradesh	1,90,407.00
16	Mizoram	1,87,327.00
17	Arunachal Pradesh	1,69,742.00
18	Andhra Pradesh	1,68,480.00

Rank	State/Union Territory	Net State Domestic Product, per capita, in 2019-20 (current prices) (INR)
19	Punjab	1,55,491.00
20	Tripura	1,25,675.00
21	Nagaland	1,20,518.00
22	Rajasthan	1,15,492.00
23	West Bengal	1,13,163.00
24	Odisha	1,10,434.00
25	Chhattisgarh	1,05,089.00
26	Madhya Pradesh	1,03,288.00
27	Jammu and Kashmir	1,02,789.00
28	Meghalaya	87,170.00
29	Assam	86,801.00
30	Manipur	84,746.00
31	Jharkhand	77,739.00
32	Uttar Pradesh	65,704.00
33	Bihar	45,071.00

Source: Handbook of statistics of Indian states of the Reserve Bank of India for 2021, available at: <https://rbi.org.in/Scripts/AnnualPublications.aspx%3Fhead%3Dhandbook%20of%20Statistics%20on%20Indian%20States>.

Table 26: Tamil Nadu's performance across multiple parameters, based on ASI 2018-19

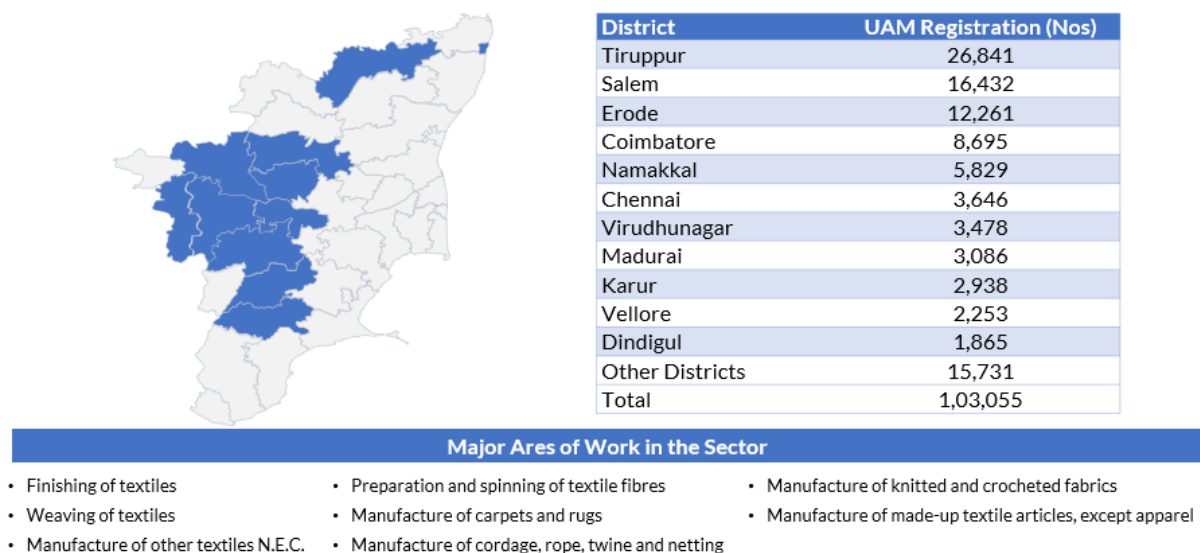
Parameter	Tamil Nadu Rank	Value	Top ranked state	Value of Top ranked state
No. of factories	1	38,131 factories	-	-
No. of people engaged	1	25,53,599 persons	-	-
Gross Output	3	INR 9.39 lakh crore	Gujarat	INR 16.19 lakh crore
Gross Value Add	3	INR 1.68 lakh crore	Maharashtra	INR 2.32 lakh crore
Invested Capital	3	INR 4.22 lakh crore	Gujarat	INR 9.23 lakh crore

Source: Policy Note 2021-22 (Demand no. 27) of the Industries dept., Government of Tamil Nadu

## Annexure 4: MSME Distribution in Key Sectors in Tamil Nadu

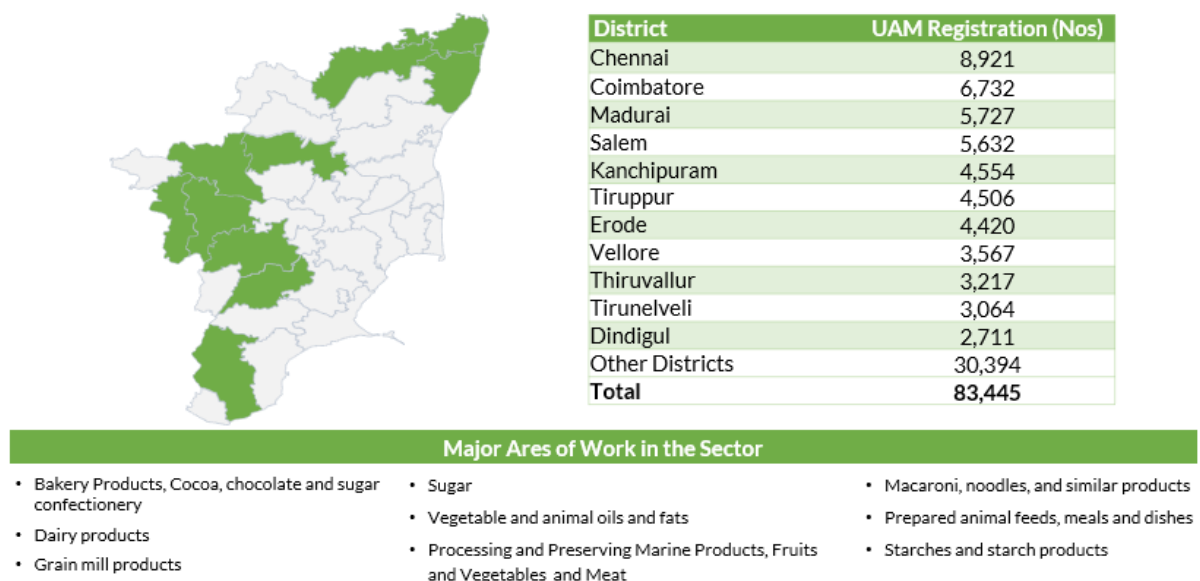
Note: The figures are for the combined districts as they existed before the recent round of bifurcations.

Figure 24 Distribution of MSMEs involved in the manufacturing of textiles



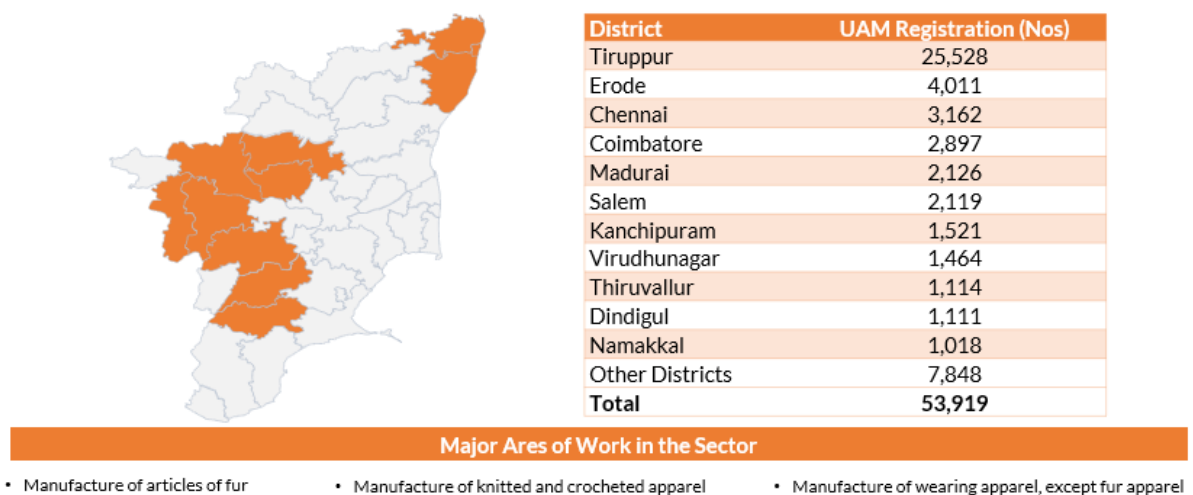
Source: Udhyog Aadhar Memorandum (UAM) database

Figure 25 Distribution of MSMEs involved in the manufacturing of food products



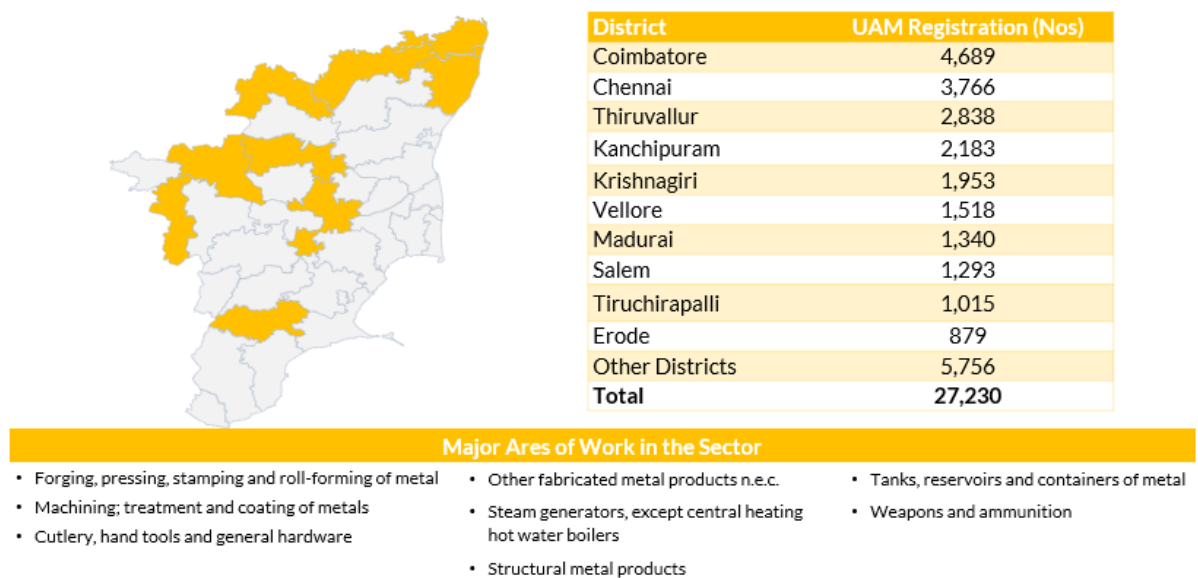
Source: Udhyog Aadhar Memorandum (UAM) database

Figure 26 Distribution of MSMEs involved in the manufacturing of weaving apparel



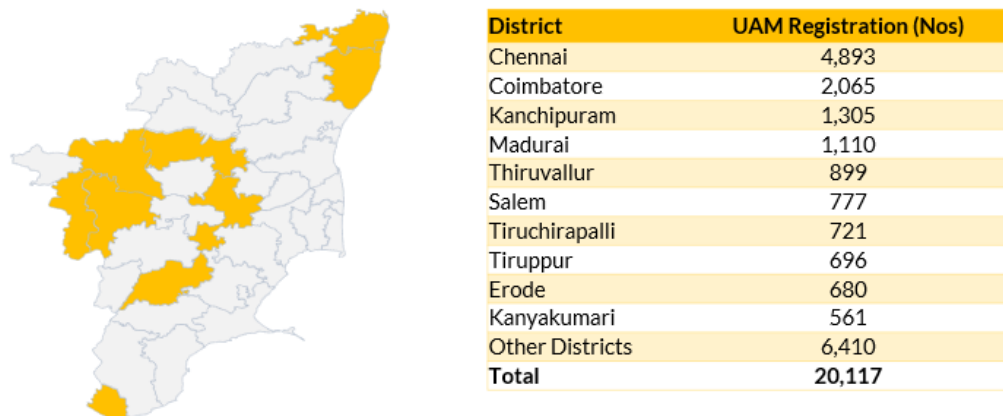
Source: Udhog Aadhar Memorandum (UAM) database

Figure 27 Distribution of MSMEs involved in the manufacturing of fabricated metal products



Source: Udhog Aadhar Memorandum (UAM) database

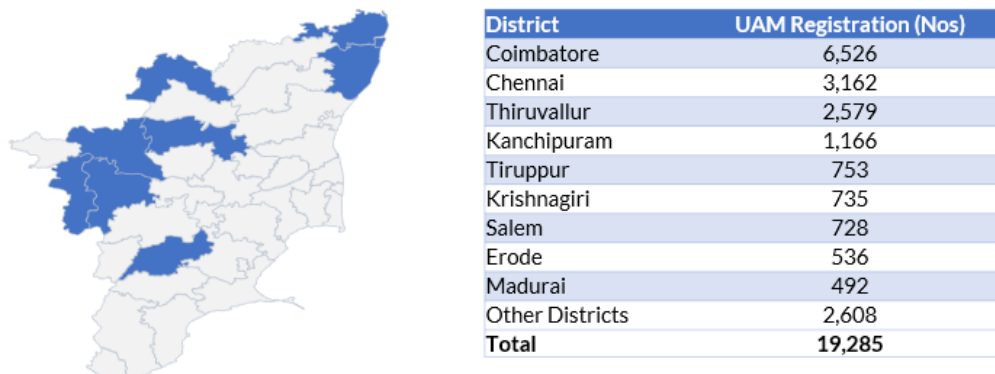
Figure 28 Distribution of MSMEs involved in software consultancy and programming services

**Major Ares of Work in the Sector**

- Computer consultancy and computer facilities management activities
- Computer programming activities
- Other information technology and computer service activities

Source: Udhyog Aadhar Memorandum (UAM) database

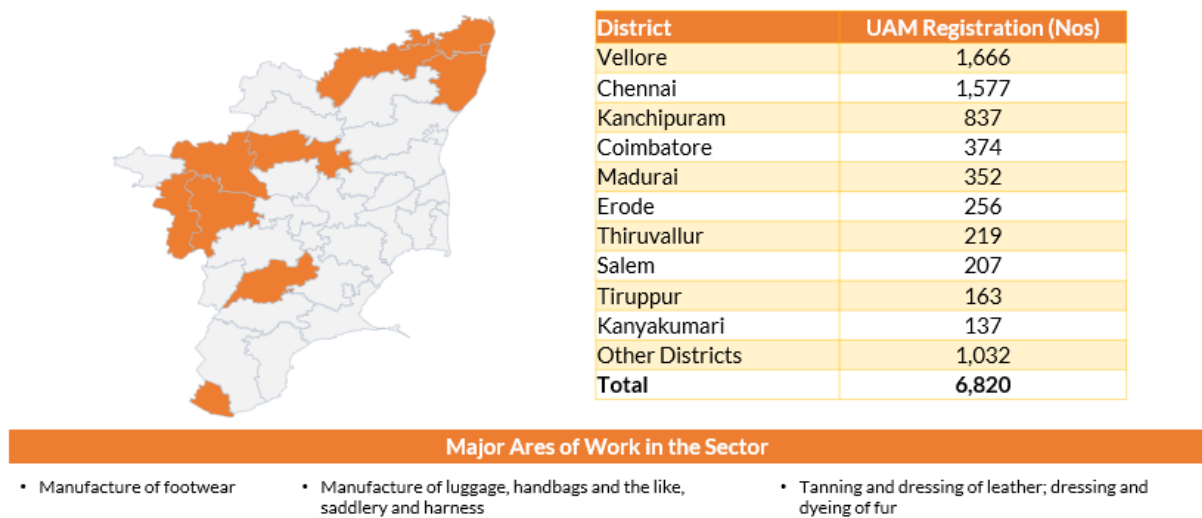
Figure 29 Distribution of MSMEs involved in the manufacturing of machinery and equipment

**Major Ares of Work in the Sector**

- Agricultural and forestry machinery
- Bearings, gears, and driving elements
- Engines and turbines
- Fluid power equipment
- Lifting and handling equipment
- Machinery for food and beverage
- Machinery for metallurgy, mining, quarrying
- Machinery for textile, apparel and leather
- Metal-forming machinery and machine tools
- Office machinery and equipment
- General-purpose machinery
- Pumps, compressors, taps and valves
- Special-purpose machinery
- Ovens, furnaces and furnace burners
- Power-driven hand tools

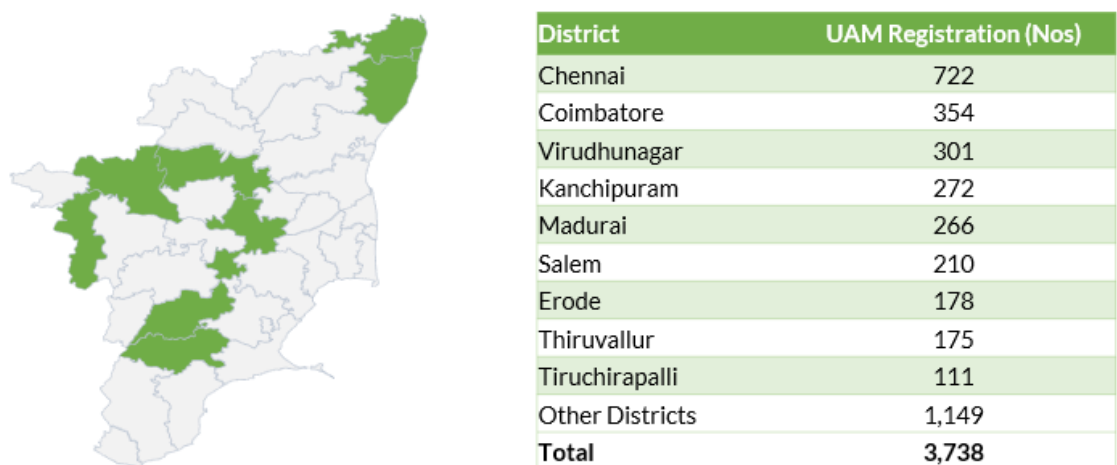
Source: Udhyog Aadhar Memorandum (UAM) database

Figure 30 Distribution of MSMEs involved in the manufacturing of leather products



Source: Udhayog Aadhar Memorandum (UAM) database

Figure 31 Distribution of MSMEs involved in the manufacturing of pharmaceuticals, medicinal, chemical and botanical products



Source: Udhayog Aadhar Memorandum (UAM) database

Figure 32 Distribution of MSMEs involved in the quarrying of stone, sand and clay



Districts	UAM Registration (Nos)
Chennai	352
Krishnagiri	306
Salem	294
Tiruppur	292
Coimbatore	269
Kanchipuram	254
Madurai	184
Tirunelveli	153
Virudhunagar	140
Kanyakumari	139
Other Districts	1,293
<b>Total</b>	<b>3,676</b>

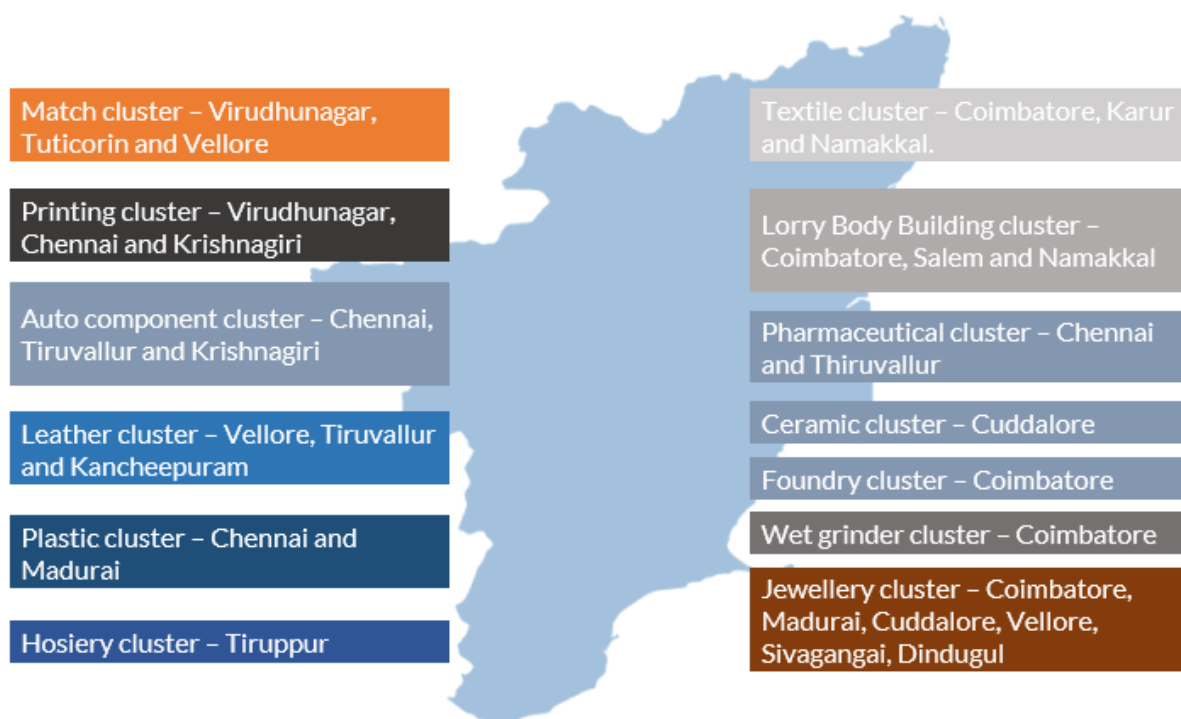
#### Major Ares of Work in the Sector

- Mining of clays
- Mining of dolomite
- Mining of gypsum including selenite
- Mining of refractory non-clay minerals
- Mining/quarrying of limestone
- Operation of sand or gravel pits, basalt / porphyry, clay crushing and breaking of stone
- Quarrying of granite
- Quarrying of marble
- Quarrying of slate and building and monumental stone

Source: Udhayog Aadhar Memorandum (UAM) database

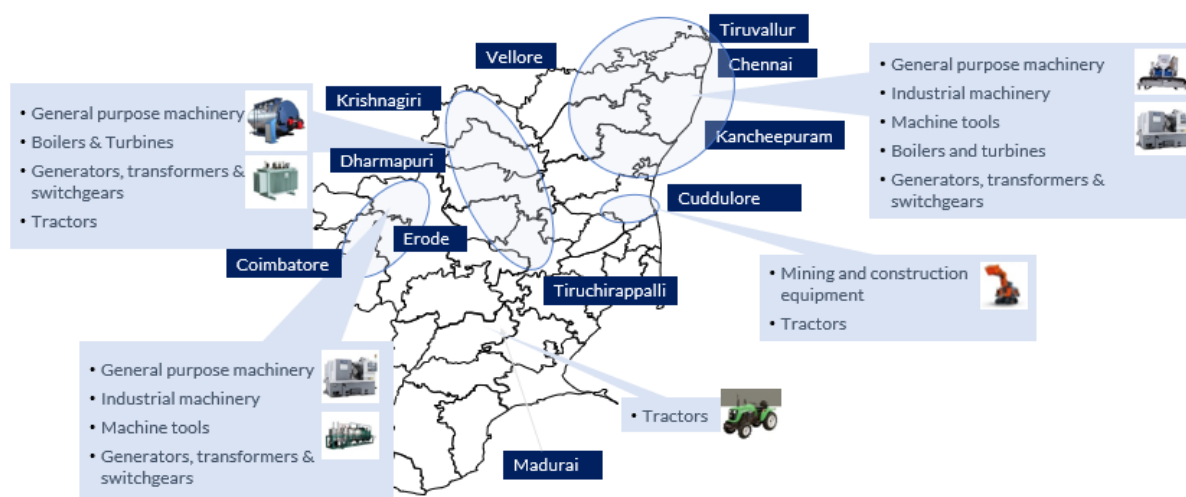
## Annexure 5: Details of clusters in Tamil Nadu

Figure 33 List of clusters in Tamil Nadu developed by TANSIDCO



Source: ICDIC

Figure 34 Engineering clusters in Tamil Nadu



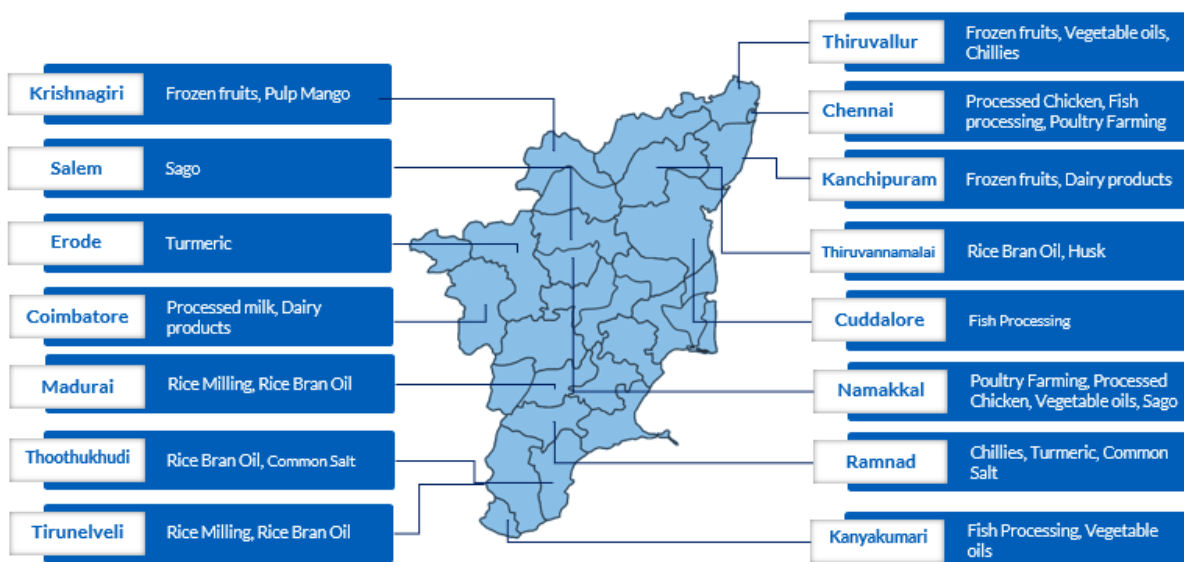
Source: ICDIC

Figure 35 Automobile and auto component clusters in Tamil Nadu



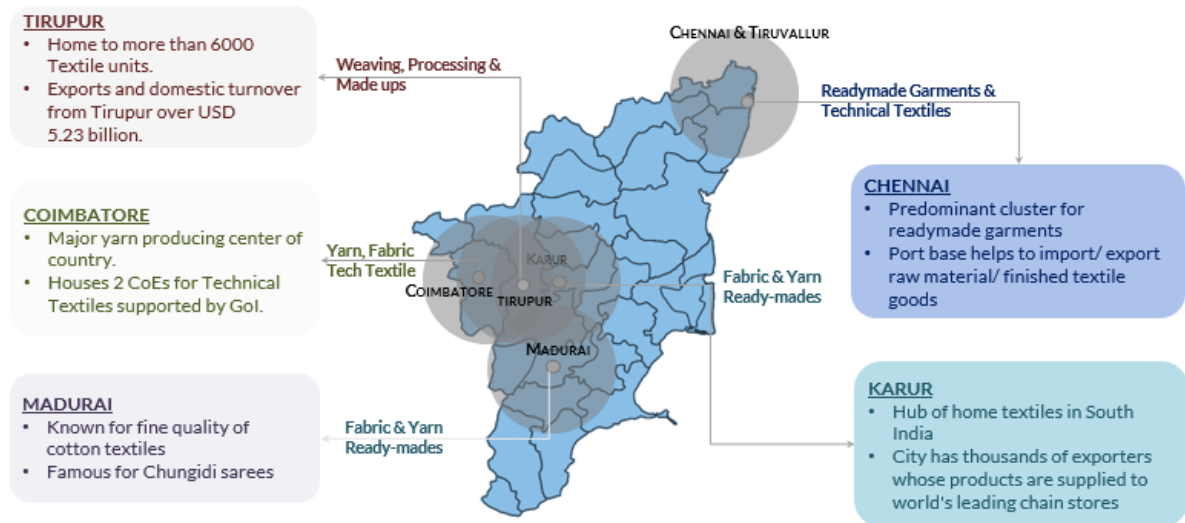
Source: ICDIC

Figure 36 Agro and food processing clusters in Tamil Nadu



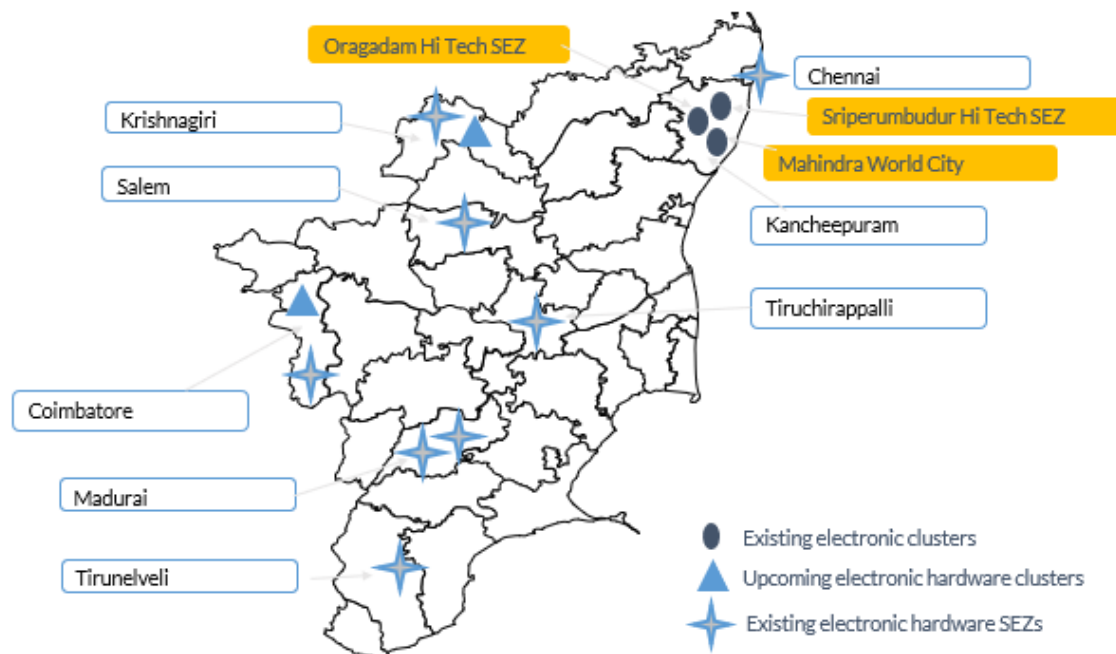
Source: ICDIC

Figure 37 Textiles and apparel clusters in Tamil Nadu



Source: ICDIC

Figure 38 Electronic hardware SEZs and electronic manufacturing clusters in Tamil Nadu



Source: ICDIC

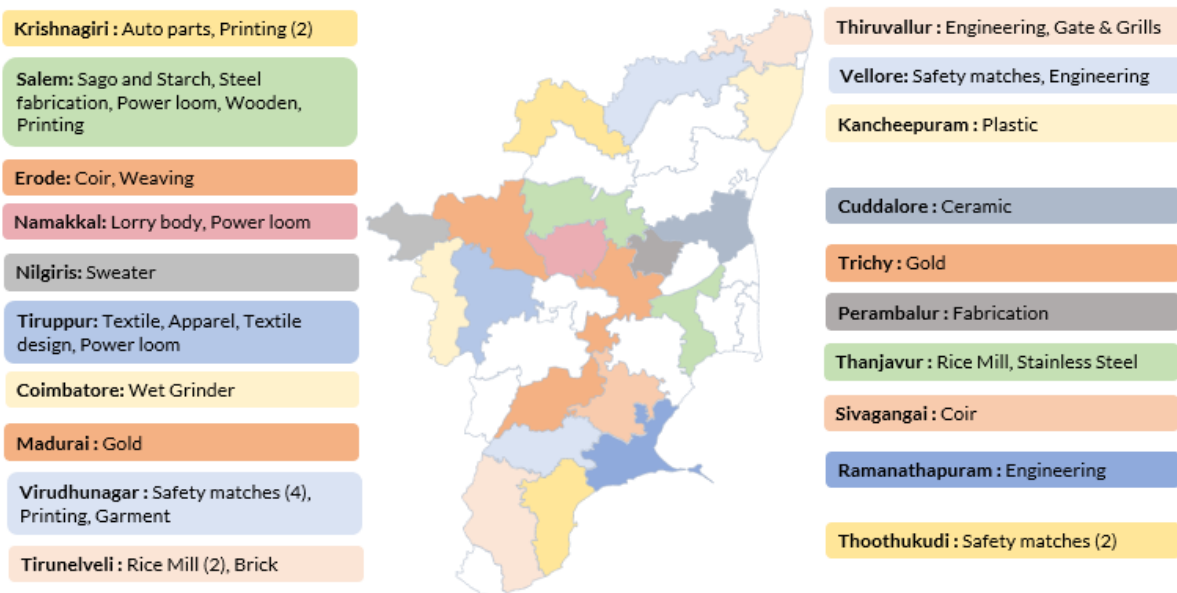
Figure 39 Aerospace and defence clusters in Tamil Nadu

- Coimbatore is to be developed into a defence manufacturing hub by 2028.
- Proposed India's first Defence Innovation Centre.
- To specialize in the fields of small arms, armoured /heavy vehicles and aerospace applications.
- Presence of establishments of Army, Navy and Air Force.
- Ecosystem synergy between industry, quality institutes, skill development centers and defence manufacturers.



Source: ICDIC

Figure 40 Clusters in Tamil Nadu under the MSE-CDP



Source: ICDIC

## Annexure 6: COVID-19 Responses by Governments

### Government of India

Since the outbreak of the epidemic, Government of India has undertaken several relief measures for the MSME sector<sup>104</sup>. Some key measures that the government announced to tide over the constraints in liquidity and credit brought about by the pandemic are as follows:

1. Credit Guarantee Scheme for MSMEs with an outlay of INR 3 lakh crores, under which MSMEs could borrow 20% of their total pending credit before the outbreak of the pandemic.
1. A subordinated debt of INR 20,000 crores for MSMEs that have been declared NPA or are stressed.
2. Creation of a Fund of funds (FoF) with a corpus of INR 10,000 crores to infuse equity into MSMEs that are viable and have the potential to grow. It will also urge MSMEs to list on stock exchanges.
3. Revision of the definition of MSMEs to include turnover as a criterion, thereby accommodating manufacturing and service units (including trade) in the same metric.
4. Fast-tracking the payment of dues held by the government and central public sector enterprises (CPSE) by mandating the release of payments within 45 days of supply.
5. A moratorium period of six months for repayment of MSME loans and other forms of debts, together with a provision of “no change” in the credit rating during the said period.
6. Norms for declaring NPA period in banks be extended to 180 days for at least the next two years.
7. Interest rate subvention @ 3% on MSME loans that are healthy and not NPAs.

### Southern States

A benchmarking analysis of relief measures adopted by the states of Kerala, Karnataka, Andhra Pradesh and Telangana, in comparison to the initiatives of Tamil Nadu was undertaken.

<sup>104</sup> An In-depth Analysis of One Year of SME and Entrepreneurship Policy Responses to COVID-19 © OECD 2021.

Table 27: Details of COVID relief measures across the southern states of India

Sl.	State	Key Takeaways on Covid Relief Measures for MSMEs
1	Kerala <sup>105</sup>	<ul style="list-style-type: none"> <li>• <b>Overview:</b> Supplementary package worth Rs 5650 cr announced.</li> <li>• <b>Beneficiaries:</b> Farmers, Small Traders, Start-ups, Large Industries.</li> <li>• <b>Rent Waiver:</b> The government will waive off rent from traders in government buildings between July and December 31.</li> <li>• <b>Building Tax:</b> MSMEs exempted from paying building tax and electricity fixed charge between July and December.</li> <li>• <b>Interest on Loans:</b> <ul style="list-style-type: none"> <li>○ Govt to bear 4 pc interest of loans up to Rs 2 lakh for six months, availed from financial institutions under the state and central governments, cooperatives and commercial banks. An amount of Rs 2,000 crore has been earmarked for this and about one lakh persons will benefit from it. It will be applicable for loans sanctioned from August 1.</li> <li>○ Penal interest on loans which are default since January 20, 2021, will be avoided until September 30.</li> </ul> </li> <li>• <b>Startup Kerala Loans through the Kerala Finance Corporation (KFC):</b> Start-Up Kerala loans will be sanctioned up to a maximum of Rs 1 crore without collateral security. Rs 50 crore will be allocated for this. Loans up to a maximum of Rs 20 crore will be sanctioned to enterprises in governments industrial estates.</li> <li>• <b>One Year Moratorium to Small Traders through KFC:</b> Kerala Financial Corporation will give one-year moratorium for loans sanctioned to small-scale entrepreneurs who were prompt in repayment until March 31. It will cover 820 loan accounts. Loan accounts will be restructured as per the RBI guidelines to avoid categorisation as NPA.</li> <li>• <b>Chief Minister's Entrepreneurship Development Programme:</b> Chief Minister's Entrepreneurship Development Programme will be revamped. Loans up to a maximum of INR 1 crore will be sanctioned to new units at five percent interest rate. 500 units will be selected annually for the next five years. The beneficiaries should be below the age of 50.</li> <li>• <b>Other Initiatives:</b> Additional loans to the tune of 20 pc of the original capital will be sanctioned to customers in the small-scale and tourism sectors. Special loans will be sanctioned to enterprises engaged in Covid prevention. Up to 90 pc of the project cost will be sanctioned. The interest range for small-scale industries and enterprises in tourism and healthcare was slashed from 9.5 pc-12 pc to 8 pc-10.5 pc The government will spend Rs 526 crore for the Onam special kit distribution.</li> </ul>

<sup>105</sup> Kerala Government Announces Additional Covid Relief Measures worth Rs. 5,650 cr, New Indian Express, 31 July 2021 <https://www.newindianexpress.com/states/kerala/2021/jul/31/kerala-govt-announces-additional-covid-relief-measures-worth-rs-5650-crore-2337917.html>

Sl.	State	Key Takeaways on Covid Relief Measures for MSMEs
		Welfare pension for July and August will be distributed early next month.
2	Karnataka <sup>106</sup>	<ul style="list-style-type: none"> <li>• <b>Overview:</b> Rs 1610 cr package announced in the state.</li> <li>• <b>Power:</b> Monthly fixed charges on electricity waived off for two months (as of May 2020). Subsequently, payment of balance bill amounts in instalments, without stoppage of power.</li> <li>• <b>Scheme for Weavers:</b> Karnataka announced a new scheme for weavers in addition to the Rs 109 crore weaver loan waiver scheme announced in budget 2020-2021. Under the new 'Nekarara Sammana Yojane' some 54,000 handloom weavers will receive Rs 2000 as DBT into their bank accounts.</li> <li>• <b>Construction Sector:</b> The state has announced additional relief of Rs 3000 per person to registered construction workers. Karnataka had already announced transfer of Rs 2000 to labourers but now an additional Rs 3000 has been added to their benefit. 15.80 lakh building workers are expected to benefit out of this announcement.</li> <li>• <b>Other Initiatives:</b> 11% excise duty hike (over and above 6% announced in the budget).</li> <li>• <b>Other Beneficiaries:</b> Direct relief to barbers, washermen, flower vendors, etc.</li> </ul>
3	Andhra Pradesh <sup>107</sup>	<ul style="list-style-type: none"> <li>• <b>Overview:</b> Revival of Sector through Announcement of New Industrial Development Policy 2020 – 23.</li> <li>• <b>YSR AP One:</b> Highlight of the policy is 'YSR AP One' a new multi-faceted capability centre to be setup in the state. The new centre will offer ten key services including entrepreneurship facilitation, sales support and MSME revitalisation.</li> <li>• <b>Uniform Development:</b> Targeted to be achieved through reduction of cost and risk of doing business in the state. Commitment made towards releasing all the dues owed to MSMEs pending for several years, despite severe financial crunch due to COVID crisis.</li> <li>• <b>Infrastructure:</b> The new industrial policy for 2020-23 proposes interventions across infrastructure, ease of doing business, skill development, business enablement and fiscal incentives. Notable interventions include complete zoning and pre-clearance of industrial land in the state, setting up of MSME parks with plug and play facilities.</li> <li>• <b>Ease of Doing Business:</b> Government proposes to provide deemed approval with a grace period of 3 years for all green category MSMEs. 30 skill centres and 2 skilling universities</li> </ul>

<sup>106</sup> Lockdown Distress: Karnataka Government announces Rs. 1,610 cr Package, Times of India, 06 may 2020: <https://timesofindia.indiatimes.com/city/bengaluru/lockdown-distress-karnataka-government-announces-rs-1610-crore-package/articleshow/75571505.cms>

<sup>107</sup> New Industrial Development Policy 2020 – 23, Government of Andhra Pradesh <https://apedb.gov.in/news-ap-unveils-new-industrial-development-policy-2020-23.html>

Sl.	State	Key Takeaways on Covid Relief Measures for MSMEs
		<p>shall be established in the state. Global immersion programs shall be started to provide global exposure to top talent in the state.</p> <ul style="list-style-type: none"> <li>• <b>Incentives:</b> Fiscal incentives proposed for MSEs include 100% reimbursement of stamp duty, power subsidy of Re 1/unit, reimbursement of 100% of net SGST, 15% investment subsidy and interest subsidy upto 3%. For medium, large and mega industries, net SGST reimbursement linked to employment generation has been proposed. The policy also lays down additional incentives for units owned women entrepreneurs belonging to disadvantaged sections of the society.</li> <li>• <b>Focus Sectors:</b> The policy identified 10 thrust sectors including Food processing, Textiles, Pharma and Biotechnology, Electronics, Defence and Aerospace, Leather and Footwear, Toys and Furniture, Petrochemical and allied, Automobiles, Machinery, precision equipment and mineral-based industries.</li> </ul>
4	Telangana <sup>108-109</sup>	<ul style="list-style-type: none"> <li>• <b>Overview:</b> Relief packages linked to Atmanirbhar package and PLI scheme initiated by the Government of India.</li> <li>• <b>Credit and Finance for MSMEs:</b> Telangana Government, their networking partner for MSMEs partnered with Bombay Stock Exchange (BSE) to help MSMEs go public and meet capital requirements. Apart from helping address finance-related issues and enhancing credibility for MSMEs, BSE would also offer 'intellectual and manpower support to create awareness about the importance and benefits of listing.</li> <li>• <b>Global Linker Portal for MSMEs:</b> Launched in 2019, the portal for MSMEs to go digital and seek support in growing their business. The state government currently offers a free e-commerce store with payment gateway and logistics capabilities, buyers-sellers connect, support for exports, etc. on the portal.</li> </ul>

Source: Data provided by the ICDIC, MSME Dept., and secondary research.

Key takeaways from the analysis indicate that:

1. **Methods of Intervention:** The levels and means of intervention vary across states. For instance, efforts in Andhra Pradesh have been through announcement of a new industrial development policy while in those of Kerala are linked to waivers on fixed costs such as rent.

<sup>108</sup> Telangana govt steps up support for MSMEs' credit need; partners with BSE for ease of listing, more, Financial Express, 19 October 2020: <https://www.financialexpress.com/industry/sme/msme-fin-telangana-govt-steps-up-support-for-msmes-funding-need-partners-with-bse-for-ease-of-listing-more/2109146/>

<sup>109</sup> Impact of Atmanirbhar package on MSMEs minimal: Telangana, The Hindu BusinessLine, 17 June 2021: <https://www.thehindubusinessline.com/news/impact-of-atmanirbhar-package-on-msmes-minimal-telangana/article34843316.ece>

2. **Sectoral Variation:** Focus and targeted sectors vary from state to state. For instance, in Karnataka emphasis has been on weavers and the agro sector, in Kerala the emphasis has been on start-ups. Andhra Pradesh has identified its own set of thrust sectors.
3. **Waivers and Subventions:** Interest subventions and waivers of penalties and charges are a common thread of measures implemented for MSMEs across states.
4. **Technology:** Technological interventions such as the global linker portal of Telangana have come to play a crucial role in revival of MSMEs in the areas of ancillary services such as vendor ecosystem management, payment gateways, e-commerce, etc.
5. **Other Areas:** Measures also extensively focus on promoting start-ups, reducing cost and burden of doing business, skilling and capacity building, partnerships for financing, etc.

### Government of Tamil Nadu

The Government of Tamil Nadu introduced a number of measures to ease the liquidity position of MSMEs:

1. **Capital Subsidy:** The Government has allocated INR 280 crores for supporting the capital subsidy schemes of the MSMEs. To ensure eligible MSMEs are supported on a priority basis, 60% of the allotted amount (INR 168 crores) has been released by the Government in June-July 2021. Capital subsidy paid in single instalment instead of 3 separate instalments to facilitate promotions of manufacturing sector. Norms have been relaxed for the Capital subsidy.
2. **Investment subsidy** amounting to INR 270 crores disbursed, benefitted 3,491 MSMEs.
3. **Extending the validity of statutory licenses** pertaining to Fire & Rescue Department, Industrial Safety and Health (DISH) and Pollution Control Board expiring from the month of May 2021 to September 2021, up to December 2021; vide G.O. (Ms) No.33 dated 01.06.2021.
4. Immediate release of the back-ended interest subsidy of 5% for the loans under CGTMSE and Technology up-gradation scheme.
5. Incentives for scaling up for MSMEs are based on MSMEs increasing sales by 25%. This condition was exempted till 31<sup>st</sup> March 2021 and has now been extended till 31<sup>st</sup> Dec 2021.
6. Extension of the time limit for the payment of plot cost, instalment dues and rental dues to the SIDCO for 6 months. Decided to allot SIDCO plots on a fast-track basis.
7. MSMEs were exempted from registration charges of MOD while acquiring a loan from banks till 31<sup>st</sup> March 2021. It has now been extended till 31<sup>st</sup> Dec 2021.

8. All applicants accepted for training from EDII instead of the earlier selection process that was followed.
9. Special package for manufacturing of COVID related products.
10. **Vaccination:** Ref: G.O. (D) No. 22, dated 17.05.2021, MSME (F) Dept. Vaccination drive for all eligible staff members/ employees/ workers above the age of 45 years and working in MSME Units/ SIDCO Industrial Estate Units/ Industrial Cooperatives.
11. Other amounts disbursed to MSMEs:

Table 28: Details of disbursements to MSMEs as COVID relief schemes

Sl.	Name of scheme	Amount disbursed (INR Cr.)	No. of beneficiaries	Period	Remarks
1	ECLGS	15,617	3,22,156	From 1-Apr-20 to 30-Apr-21	-
2	Scheme for expansion of MSMEs	148.30	1,844	From 1-Apr-20 to 31-Mar-21	331 additional beneficiaries benefitted from the same scheme (amounting to INR 52.78 Crores) during the period 1-Apr-21 to 1-Mar-22, with the same relaxed conditions for expansion.
3	NEEDS	86.94	935	From 1-Apr-20 to 31-Mar-21	-
4	UYEGP	33	3,591	From 1-Apr-20 to 31-Mar-21	-
5	CORUS (TIIC)	203.90	1,179	From 1-Apr-20 to 30-Apr-21	-

Source: Data provided by the ICDIC, MSME Dept.

## Annexure 7: Licenses extended during COVID-19

Table 29: Details of licences extended during COVID-19

Sl.	Description of the License	Authority for Renewal
1	Renewal of consent to operate from Tamil Nadu Pollution Control Board (TNPCB) under section 25 of The Water (Prevention and Control of pollution) Act, 1974 and under section 21 of the Air (Prevention and Control of pollution) Act, 1981.	Tamil Nadu Pollution Control Board (TNPCB) (Environment and Forest Department)
2	Renewal of authorisation for handling hazardous wastes from TNPCB under rule 6 of the Hazardous and other wastes (Management and Transboundary movement) Rules, 2016.	Tamil Nadu Pollution Control Board (TNPCB) (Environment and Forest Department)
3	Renewal of certificate authorizing the use of boilers from Directorate of Boilers under Section 8 of the Boilers Act, 1923. <i>(The validity of the Boiler licenses is extended subject to the condition that the owner of the Boiler to run and maintain it as per the provision of the Boilers Act 1923 and regulation and rules framed under the Act and owner shall also be responsible for any violation of the provisions.)</i>	Directorate of Boilers (Public Works Department)
4	Renewal of approval for Boiler Manufacturer from the Directorate of Boilers under section 48 of the Tamil Nadu Boilers Rules, 1972. <i>(The validity of the Boiler licenses is extended subject to the condition that the owner of the Boiler consents to run and maintain it as per the provision of the Boilers Act 1923 and regulation and rules framed under the Act and owner shall also be responsible for any violation of the provisions.)</i>	Directorate of Boilers (Public Works Department)
5	Renewal of Factories License from the Directorate of Industrial Safety and Health under rule 7 of Tamil Nadu Factories Rules, 1950.	Directorate of Industrial Safety and Health. (Labour and Employment Department)
6	Renewal of License for Contractor for employing contractual workmen from Directorate of Industrial Safety and Health under rule 29 of the Tamil Nadu Contract Labour (Regulation and Abolition) Rules, 1975.	Directorate of Industrial Safety and Health. (Labour and Employment Department)
7	Renewal of License for Contractor for employing Inter-State migration workmen from Directorate of Industrial Safety and Health under rule 14 (1) of the Inter-State Migrant	Directorate of Industrial Safety and Health.

Sl.	Description of the License	Authority for Renewal
	Workmen (Regulation of employment and conditions of service) Central Rules, 1980.	(Labour and Employment Department)
8	Renewal of License for Manufacturer/ Repairer/ Dealer of weights or Measures from Labour Department under rule 11 (2) of the Tamil Nadu Legal Metrology (Enforcement) Rules, 2011.	Labour Department. (Labour and Employment Department)
9	Renewal of Fire and Rescue services License under rule 13 of the Tamil Nadu Fire Service Rules, 1990.	Fire and Rescue Services. (Home, Prohibition and Excise Department)
10	Renewal of License to sell, stock or exhibit or offer for sale or distribute drugs from Food safety and Drug administration Department under section 18 of the Drugs and cosmetics Act, 1940.	Food safety and Drugs administration Department (Health and Family Welfare Department)
11	Renewal of license / loan license to manufacture/ repack for sale or for distribution of drugs from Food safety and Drug administration Department under section 18 of the Drugs and cosmetics Act, 1940.	Food safety and Drugs administration Department (Health and Family Welfare Department)
12	Renewal of Trade licenses by Greater Chennai Corporation under section 279,287,288,299 (1),304 and 309 of the Chennai Municipal Corporation Act, 1919.	Greater Chennai Corporation (Municipal Administration and Water Supply Department)
13	Renewal of Trade License by Municipalities under section 249 of the Tamil Nadu District Municipalities Act, 1920.	Urban local bodies (Municipal Administration and Water Supply Department)
14	Renewal of Trade license by village panchayats under section 148 of the Tamil Nadu Panchayats Act, 1994.	Village Panchayats (Rural Development and Panchayati Raj Department)

## Annexure 8: Analysis of Schemes based on Type of MSME

Table 30: Analysis of schemes based on type of MSME

Sl.	Name of ICDIC scheme	Eligibility for scheme							
		Micro	Small	Medium	Manufacturing	Services	New	Existing & diversifying	Existing but not diversifying
1	New Entrepreneur cum Enterprise Development Scheme (NEEDS)	Yes	Yes	Yes	Yes	Yes	Yes	No	No
2	Unemployed Youth Employment Generation Programme (UYEGP)	Yes	Yes	Yes	Yes	Yes	Yes	No	No
3	Prime Minister's Employment Generation Programme (PMEGP)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
4	Capital subsidy for Micro enterprises	Yes	No	No	Yes	No	Yes	Yes	No
5	Additional Capital subsidy for Micro enterprises	Yes	No	No	Yes	No	Yes	Yes	No
6	Capital Subsidy for Small and Medium enterprises	No	Yes	Yes	Yes	No	Yes	Yes	No
7	Additional Capital subsidy for Special category	Yes	Yes	Yes	Yes	No	Yes	No	No
8	Additional Capital subsidy for promotion of cleaner and environment-friendly technologies	Yes	Yes	Yes	Yes	No	Yes	Yes	No
9	Additional Capital subsidy for scaling up	Yes	Yes	No	Yes	No	Yes	Yes	No
10	Special Capital subsidy for Thrust sector enterprises	Yes	Yes	Yes	Yes	No	Yes	Yes	No
11	Payroll subsidy	Yes	Yes	Yes	Yes	No	Yes	No	No
12	Low Tension Power Tariff (LTPT) subsidy	Yes	No	No	Yes	No	Yes	Yes	No
13	Back-ended interest subsidy	Yes	Yes	No	Yes	Yes	Yes	Yes	No
14	Generator subsidy	Yes	No	No	Yes	No	Yes	Yes	Yes
15	Promotion of Energy Audit & Conservation of Energy (PEACE)	Yes	Yes	Yes	Yes	No	No	Yes	Yes
16	Scheme for acquiring Quality Certification (Q-Cert)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
17	Reimbursement of Stamp duty and Registration charges	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
18	Subsidy for asset creation for intellectual property	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes

Sl.	Name of ICDIC scheme	Eligibility for scheme							
		Micro	Small	Medium	Manufact-uring	Services	New	Existing & diversifying	Existing but not diversifying
19	Scheme for fund raising through SME exchange	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20	Skill training and employment scheme	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
21	Assistance for trade fairs	No	No	No	No	No	No	No	No
22	Reimbursement of Hall Rent	No	No	No	No	No	No	No	No
23	Stamp Duty Exemption under Atmanirbhar Bharat Scheme	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Source:* Guidelines for administration of incentives & concessions announced in the Micro, Small & Medium Enterprises Policy, 2021 and Micro, Small and Medium Industries Policy 2008 and Guidelines for administration of incentives and concessions in the Policy.

## Annexure 9: Summary of GoTN's Programme to enable lending to MSMEs

At the commencement of the deliberations of this Committee, it was informed that the State Government is in advanced stages of developing and rolling out the following: a) A Credit Guarantee programme for MSMEs in Tamil Nadu, b) A Credit Rating System for MSMEs in Tamil Nadu, c) A comprehensive database of MSMEs in Tamil Nadu, d) Initiatives to make TReDS based discounting mainstream, and e) Re-purposing of TAICO Bank to enable lending to MSMEs.

An abstract of the work being carried out by the state government is provided in this annexure.

### 1. Building the TN Credit Guarantee Scheme (TNCGS)

The Tamil Nadu government has decided to create an ecosystem leveraging on which the financial institutions can extend credit to MSMEs. For this, it is envisaged to tie up with CGTMSE for a combined program of credit guarantee of loans. In this programme, the following details are proposed.

- a. Focus on providing a stronger reason for financial institutions to lend to this segment with specific focus on Micro and Small enterprises.
- b. Increase the level of guarantee from 75% (as is in the existing CGTMSE scheme) to 90% in the TNCGS scheme for loans up to INR 40 lakhs with an annual upper limit of 8% for each lending institution's portfolio.
- c. Design the scheme such that the lending institutions can draw the guarantee by proportionately putting forth their proportion of the first loss.
- d. Loan level monitoring will further provide guidance to lending institutions.
- e. End to end electronic interface is envisaged through a high end fintech approach which will help cover NBFCs and Fin-Techs.
- f. The guarantee cover will depend on the credit rating of MSMEs.
- g. The Government will initially ride on the rules of the CGTMSE, but will also make customisations where necessary so that the GoTN can provide full 90% guarantee where GoTN will solely decide on the rules of coverage.
- h. CGTMSE will administer the program till such time that GoTN can build capability to run the program.

### 2. Credit Rating for MSMEs

The Government of Tamil Nadu proposes to couple the Tamil Nadu Credit Guarantee Scheme (TNCGS) with an integrated Credit Rating Scheme. It will start with real time verification and analysis of GST, IT returns, bank statements, credit bureau scores and regular financial appraisal ratios. In the medium term, integration through

APIs with the following is envisaged for further strengthening of the credit-rating procedure.

- a. Inputs to be obtained through Account Aggregators (from institutions regulated by RBI, SEBI, PFRDA and IRDA).
- b. Inputs on land ownership to be obtained from Tamil Nadu Revenue Department.
- c. Compliance behaviour to be examined through payment of property tax, water bills, electricity bills and other dues to state government entities.
- d. Compliance behaviour to be examined based on filings with departments handling labour, factory, fire and safety, and pollution control.
- e. Value chain tracking through GST e-way to establish whether the MSME is in the tier 1/ 2/ 3/ 4 of reputed companies/ OEMs, in order to establish quality of products and order book reliability.
- f. The invoices cleared in TReDs, which indicates past orders.
- g. The information from MSEFC Samadhan systems and TReDs, and MCA Form I (where available) to track payment pattern to own suppliers.

### **3. MSME Database**

Currently, the data of existing MSMEs are available across various electronic databases in silos. In certain departments, the electronic databases are non-existent. The Tamil Nadu government therefore plans to build and or/ interconnect databases keeping in view the data gaps and consent requirements so that MSMEs in Tamil Nadu experience seamless facilitation through MTIPB from their registration till closure. The database, once created, will enable the following services to MSMEs:

- a. Compliance through Single Window Portal and eventually through Public Service Delivery Act.
- b. Financing, marketing and branding.
- c. Access to Government procurement notices.
- d. Common services - Accounts, HR and legal services.
- e. GST filing, income lifecycle through GST e-way bills and TReDs.
- f. MSEFC Samadhan process.
- g. Technology upscaling and reinvention every 4-5 years.
- h. Access to registered manpower seeking jobs.
- i. Access to SIDCO's and SIPCOT's land banks.

### **4. Using TReDS to enable state PSUs and state govt. department payments to MSMEs**

TReDs aims to bridge the time delay in payments for receivables due to the MSMEs by arranging financing in the interim. The intention is to also provide competitive interest rates to MSMEs for payments due from GoTN entities. For this, an enabling

framework is being created to allow for bill discounting of invoices of MSMEs. Steps are being taken to provide existing financial institutions additional credit comfort so that the lowest possible interest rates are offered to the MSMEs. The Tamil Nadu government (GoTN) therefore intends to onboard State Government PSUs, Apex Cooperatives and Statutory bodies, on TReDs so that the working capital requirements of its MSMEs are taken care of.

#### **5. Repurposing of TAICO Bank to enable lending to MSMEs**

TAICO Bank under the MSME Department has been only extending jewel loans like many other financial institutions in the cooperative sector. The Tamil Nadu government proposes to repurpose TAICO to lend to MSMEs and participate in TReDs. There is now a need to build technology, infrastructure, and people capabilities in TAICO Bank to begin lending to MSMEs. For this, TAICO will work along with TIIC and leverage the other's skills to offer solutions to MSMEs. TAICO and TIIC will also participate in the CGTMSE program as well as the TReDS program.

## Annexure 10: Issues and Recommendations for MSMEs in Trichy District associated with BHEL, Trichy

The Tamil Nadu Boiler association, an association of MSMEs engaged in the fabrication of structural and other boiler components from Trichy, vendors of BHEL, Trichy has represented to the Government to safeguard the interests of promoters, workers and employees in view of reduced orders from BHEL. They have pleaded that the units declared as NPAs be taken over by TIIC by sanctioning a special term loan to settle the outstanding with the present bankers.

In order to resolve the issue, the Government was also requested to include the following in the Terms of Reference of the Expert Committee constituted for the revival of the MSMEs - **‘to study the issues of MSMEs in Trichy District associated with BHEL, Trichy and to suggest a way forward’**.

In this regard, a Technical Advisory Team is constituted to assist the Expert Committee for the revival of MSMEs with the following members.

Table 31: Members on the Technical Advisory Team

1.	Mr. Krishnamoorthy, Project Director, Defense Corridor, TIDCO	Chairperson
2.	Mr. KS. Manikandan, IIM, Trichy	Member
3.	Mr. R. Ravichandran, DGM - Projects, TIIC	Member
4.	Mr. T.V. Krishnan, AGM (Rtd.), BHEL	Member
5.	Mr. K. Susil Kumar, Regional Manager, TIIC, Trichy	Member
6.	Mr. R. B. Ganesh Rajaram, TIIC (Rtd.)	Member
7.	Industry expert from a German Company in TN	Member
8.	Mr. Rajappa Rajkumar, TN Boiler Association & BHEL SIA	Member
9.	Mr. Mahesh Kumar, Member, CODISSIA	Member
10.	GM – DIC, Trichy	Member- Convenor

### Present scenario of the ancillary enterprises affiliated to BHEL

Trichy is considered as the fabrication hub of South India and the enterprises here are heavy engineering enterprises that are engaged in the fabrication of structural components for power plants and boilers. These enterprises are mainly dependent on BHEL as their source of job orders and have been catering to the needs of BHEL for more than five decades. Apart from structural fabrication works from BHEL, few units are engaged in machine shop activities like fabrication of wind mill towers, and valve body machining. Some are catering to the needs of the Ordinance Factory, Trichy and Heavy Alloy Penetration Plant, Trichy as well.

India is one of the signatories to 2015 Paris agreement and aims to reduce the dependency on fossil fuels by 50% in the next two decades and increase the share of renewables in India's primary energy mix, including for power supply. This, inter alia reduces the order books of BHEL and as a cascading affect the ancillary enterprises which are dependent on BHEL have starting showing losses.

There are roughly around 450 direct vendors for BHEL which are into structural fabrication alone and BHEL was outsourcing around 7,00,000 MTPA of fabrication works from these vendors up to 2013. Earlier BHEL was supplying the material along with the technical drawings to these vendors and later on from 2008-09 onwards due to the shift in the outsourcing policy of BHEL the vendors were requested to bring in their own material (Away Centre Fabrication model). The uniqueness of the fabrication units in Trichy is that all along the way they were nurtured by BHEL by the way of supplying raw material, and providing technical support wherever necessary.

This model was successful till 2014. The introduction of Away Center Fabrication model as well the depletion in the orders for BHEL of late has resulted in the decline of the ancillary units. Some of the MSMEs have expanded their customer base and diversified their products. Out of the 450 enterprises 36 enterprises have closed their operations in a span of 4 to 5 years from 2014 and 52 enterprises have been categorised as NPA from 2016 onwards. Out of these 52 enterprises, 13 enterprises have wound up their operations. For the remaining enterprises they were assisted under the relief package offered by the Government of India under Covid-19 through ECLGS.

The graphs and tables in Annexure – 10.1 clearly indicate the present order book position of BHEL. The ancillaries which were catering to BHEL started showing signs of distress and the financial institutions have initiated legal action to recover their dues from the ancillary enterprises. The Tamil Nadu Boilers Component Manufacturers association has made number of representations to various forums as well as to the central and state governments to intervene and stop the legal action initiated by the financial institutions against the ancillary units. Initially the Association has presented a list of 52 enterprises (Annexure 10.2) located in Tiruchirappalli, Thanjavur and Pudukkottai Districts that are the vendors of BHEL, Trichy and are facing legal action by financial institutions.

The Association has also filed a writ of mandamus praying for directions to 17 financial institutions to restrain their recovery proceedings in 2019. Based on the directions given by Madurai Bench of Madras High Court, District Collector, Tiruchirappalli has advised the financial institutions to hold the legal process till suitable Government orders are issued. Meanwhile, the Tamilnadu Boilers Components Manufacturers Association has come up with a revised list of 39 enterprises (Annexure 10.3) which need Bailout Package for revival.

## Analysis of 39 enterprises

The 39 enterprises are classified into 5 broad categories.

- **Category 1.** Enterprises which have assets like land, building & machineries intact and are continuously in operation by doing private jobs.
- **Category 2.** Units which have assets such land, building & machineries and are operating intermittently.
- **Category 3.** Units not in operation. This category includes enterprises which have partial assets intact and are not in operation in the recent past.
- **Category 4.** Enterprises which have more than one Bank account either in the name of the same enterprise or in the name of someone else who is/ are closely associated with the original promoter and doesn't have any assets on their own.
- **Category 5.** Enterprises for which already legal action is taken by financial institutions and possession of assets was already taken by the financial institutions for recovery.

A detailed assessment of the enterprises was carried out on the basis of the profile of the entities, their financial performance, and liabilities.

In addition, it was also seen that three service associations are active in the region. These associations are likely to play an important role in the revival process, and have hence been discussed below:

- **BIDASS** – A Section 8 company successfully running for the past 36 years. It buys all the required consumables like welding electrodes, grinding wheels, paints and other consumables directly from the approved manufacturers and distributes it to the members.
- **BRAMAS** – A Section 8 Company successfully running for the past 10 years. It buys steel raw materials from approved manufacturers like SAIL, Jindal, RINL and others on MoU basis and distributes it to the members.
- **TREAT** – Trichy Engineering and Technology Cluster is a Section 8 Company formed around 12 years back under Industrial Infrastructure Upgradation Scheme with grant from Government of India and TIDCO's equity of INR 10 crores. In TREAT, heavy and precision machining facilities for large jobs are available. TREAT also comprises of INR 110 crore common industrial facility centre established on 15 acres of land provided by the park and funded by a combination of government grants, local industries/ loans. It is located about 25 Km from Trichy on NH-45. TREAT helps enhance the fabrication capabilities of industries, both existing in the park and outside the park, by providing state-of-the-art technology/ machinery for pre-processing, processing and post-processing activities mainly for the fabrication, machining and engineering equipment manufacturing.

## Business opportunities for revival of MSMEs

From an on-ground study and discussions with stakeholders, the following opportunities to diversify their customer and product mix seem viable:

Table 32: Business opportunities for revival in Trichy

Sl.	Organisation	Products	Remarks
<b>Government Sector</b>			
1	Bharat Earth Movers Limited	Parts of Armoured Vehicles; Aluminium bridges	Sample of product (main body frame) sent for testing by TREAT.
2	Integral Coach Factory	Wagons, Base frames and other parts	Some MSME units in Trichy have been supplying parts of wagon bodies and base frames.
3	Ordinance factory, Medak	Parts of Armoured Vehicles	Some MSME units in Trichy has been supplying parts of wagon bodies and base frames.
4	Nuclear Power Corporation	Components and accessories - Stainless steel vessels and tanks, crane beams etc.	MSME units in Trichy has been supplying these parts.
5	Vizag Ship Yard	Frames for steam generators; Parts of Body Frames	MSME units in Trichy has been supplying these parts.
6	Bharat Heavy Electricals Limited	Boiler components, FGD structures, Containers	Some units are supplying some of these parts already to BHEL and other companies. 2.5 lakh MT of orders are pending with BHEL for this year 2021-2022.
7	Indian Space Research Organisation	Shutters and clamps	Some units are supplying these parts to TATA Projects for Indian Space Research Organisation.
8	Heavy Vehicles Factory	Body frames and machining components	Some units are supplying these parts to Heavy Vehicles Factory.
9	CONCOR, Calcutta	Container manufacturing	Received enquiries from CONCOR. Some units are supplying container parts already.
10	Brahmos	Rocket launcher components and accessories	Enquiries have been received by some units on machining components. This

Sl.	Organisation	Products	Remarks
			opportunity is in exploratory stage.
11	Municipalities	Waste Management Equipment; Ballistic separator	Some units have developed and delivered waste management equipment to Vizag Municipality. This can be a good future opportunity for revived units.
<b>Private Sector</b>			
1	Larsen and Toubro	Components for Infrastructure Projects, Airport Structures	Some MSME units in Trichy have been supplying these parts.
2	JSW	Components for Infrastructure Projects, Airport Structures	Some MSME units in Trichy have been supplying these parts.
3	Private transport companies	Bus Body Building	Some MSME units in Trichy have been supplying these parts.
4	Petroleum Corporations	Structures and Tanks	Some MSME units in Trichy have been supplying these parts.
5.	TAFE and other agri equipment manufacturers	Agricultural implements	Huge potential for expansion of customer base.

### New business opportunities

#### Railway wagon Manufacturing & Module Fabrication for Naval Ships

Currently there is a huge requirement for rail Wagons and the current production capacity is not adequate to meet the requirement of Railways. Presently Golden Rock workshop is engaged in Wagon manufacturing but they have capacity limitations. There is scope for 30,000 MT requirements of Railway Wagons which can be targeted for Trichy. TREAT cluster has already got approval from Railway Board for the fabrication of railway bogies and the siding facility which is a pre requisite for participating in railway tenders is already available in Thiruverumbur SIDCO Industrial Estate. This facility which is under the control of TANSI may be leased to TREAT cluster for further exploring the opportunity. Additionally, Railways may be pursued to finalise the contract on this Cluster at the current purchasing price. In such case TIDCO/ TIIC may support the Cluster for the financial qualification requirement of the Cluster and also extend working capital facility to the Cluster. Further, to undertake this work 5 axis CNC machining centre with table length of 10 m X 5 m X 2.7 m along with the rotary table of 5 m diameter is required. These are already available in the TREAT Cluster. Wagon project involves fabrication, machining and integration which are ideal jobs for these existing fabrication industries. The cluster management team shall take the overall responsibility and accountability for the project. Prefabricated components can

be assembled either at Golden Rock work shop or at BHEL Railway sliding facility to roll out the fully assembled products by Rail.

### **Module Fabrication for Naval Ships:**

Currently there are many ships being built by Ship Building Industries such as Cochin Shipyard, Vizag Shipyard, Garden Reach Shipyard, Goa Shipyard, Mazagon Dock etc. Each ship weighs around 50,000 MT, primarily of fabricated structures. These structures can be manufactured as small transportable size modules which can be transported to shipyards for integration. As fabrication is the primary job of Trichy Industries, fabricating modules for ship will be an ideal job. As all the shipyards are well connected to Trichy by National Highways, transportation will not be a constraint. The cluster can also take space for module integration at the Shipyard itself. Further, to undertake this work a 5 axis CNC machining centre with a rotary table of 5 m diameter is required. This is already available in TREAT Cluster.

### **Defence Product Manufacturing**

The following products can be manufactured in and around Trichy for which most of the required facilities are available.

- Tank Sub Assembly Modules involving Fabrication, Machining, Hydro Pneumatics and Electrical with Module Integration
- Recovery Vehicles Modules involving Fabrication, Machining, Hydro Pneumatics, Electrical with Module Integration
- Missile Launch System
- Missiles
- Bridges for Army
- Launch Pad for Rockets for ISRO
- Submarine Hull fabrication

### **Agricultural implements and equipment**

With the existing infrastructure available in the TREAT cluster the MSMEs can enter into the manufacturing of agricultural implements and equipment and can become vendors for TAFE and other agro equipment manufacturers and commercial vehicle manufacturers such as Hyundai, Nissan and Daimler Chrysler.

### **Recommendations for Revival and Sustainability**

The following options for the revival and sustainability of the MSMEs are recommended

1. **Marketing:** If the enterprises identified for the bailout package and revival have to turn around, they need a lot of support in the form of marketing, skill development and access to latest technology. If these enterprises are brought under the ambit of TREAT cluster, TREAT can act as a marketing front for these enterprises and the orders procured by TREAT can be appropriated among the members.

The TREAT cluster is at present engaged in small level of Marketing. TREAT is a Registered vendor for BEML Limited for Machining and Fabrication in respect of Off-loading Items. The facility is also registered with NLC India Limited. They have recently bagged an order from M/s. TATA Projects for about 50,000 MT which was apportioned among the members of TREAT for execution. For NTPC Projects, TREAT has been approved by NTPC for executing their orders through any primary contractors. The same facility can be augmented by deploying a marketing agency or agents to cater to the marketing needs of the Trichy MSMEs for revival. This can be supported by M-TIPB and TIDCO.

2. **Testing facilities:** A state of the art testing centre for mechanical testing is needed at Trichy. TIDCO has carried out a gap analysis and identified the lack of mechanical testing facility in Trichy as a need for the diversification of MSMEs. This facility can be created in collaboration with MSMEs and TIDCO. The required test facilities are detailed in Annexure 10.5.
3. **Export potential:** Some of the MSMEs from Trichy cluster have forayed into overseas markets. To quote a few success stories, M/s. Baby Engineering Pvt. Ltd., Thuvakudi, Trichy has ventured into the Middle East market through EEPC. M/s. Ezhil Energies, Thuvakudi, Trichy is exporting midsize non-IBR Boilers to rice mills in Sri Lanka even during the pandemic period and has invested in expansion of their existing capacity. M/s. Kumar Industries has manufactured and delivered 300 sample units of impellers to U.S. Navy. The units have been approved and bulk orders are awaited. The services of EEPC can be utilised for promoting the MSMEs as exporters through their schemes.
4. **Raw Material:** Raw material and consumable needs of the MSMEs associated with BHEL are already taken care of by BRAMAS and BIDASS.
5. **Buyer Seller meets:** To explore the domestic as well as international markets, buyer-seller meets can be periodically organised through EEPC, and M-TIPB. MSME department can arrange for periodical vendor meets with major industries with special focus on automobile sector. The possibility of utilising the market development assistance scheme for the benefit of MSMEs engaged in fabrication activity can be explored to venture into overseas markets.
6. **Detailing:** The unexplored area is the detailing of mechanical drawings which is having a lot of scope for these MSMEs and a well-equipped detailing centre with training facilities can also be established to provide necessary service to the MSMEs. At present BHEL, Trichy has an order for Flue Gas Desulphurisation (FGD) units with an estimated requirement of 2,50,000 MT for 2021-22 which is a low hanging fruit for the MSMEs under revival. By clubbing the MSMEs with design facilities for the FGD immediate results will be visible.
7. TIDCO is in the process of creating centres of excellence in association with M/s. Dassault Systems, GE and SIEMENS. The experience centre by Dassault systems and Siemens product development centre are being set up in Chennai as part of common facilities being set up for advanced manufacturing in the state. The centres

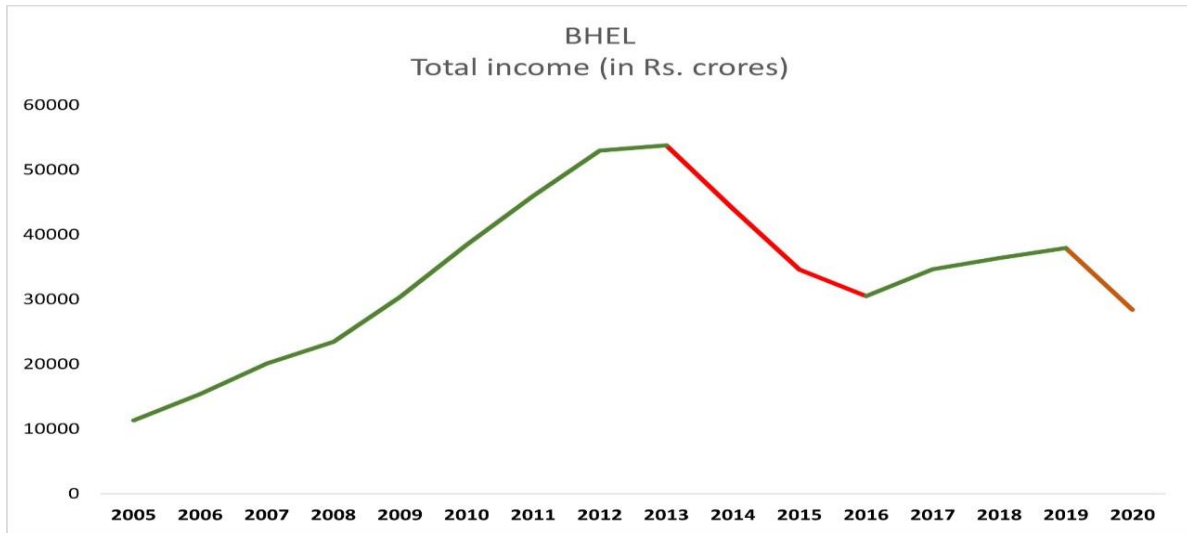
will be focussing on product development, digital twins, design & manufacturing processes and skill development. Both facilities will be run by Dassault and Siemens for the first three years. The centre shall operate in a hub and spoke model with spokes in the different nodes. TREAT, Trichy is one of the nodes identified by TIDCO for the above. Supply order of 50,000 MT to M/s. TATA Projects by TREAT is a detailing work executed through outsourcing. The services of the Design Centre can be leveraged for the execution of above FGD orders of BHEL, Trichy.

8. **Augmentation of facilities:** TREAT cluster has already got approval from Railway Board for the fabrication of railway bogies. The siding facility which is a prerequisite for participating in railway tenders is already available in Thiruverumbur SIDCO Industrial Estate under the control of TANSI. This facility which is unused presently may be leased to TREAT cluster for further exploring the opportunity.
9. **Support Programme for Capability Building:** Financial support, if any, to MSMEs should be backed by a support programme to strengthen the technical and business capabilities of the units. Such a support programme will ensure that the units make the best of their second chance and also increase the probability of the units meeting their debt obligations by the agreed timeline. The programme can comprise three parts:
  - (i) Strengthening Technical Skills;
  - (ii) Towards Technical and Manufacturing Excellence; and,
  - (iii) Building Business and Managerial Competence.

As a follow up to the report, it is understood that the Government held an internal meeting at which it was decided that a unit-by-unit assessment will be carried out and based on the possibility of revival, a consultation with the banks will be carried out. For units that show promise, action steps such as one time settlement, equity infusion through TIDCO, lending by TIIC from its own funds or other similar options may be considered.

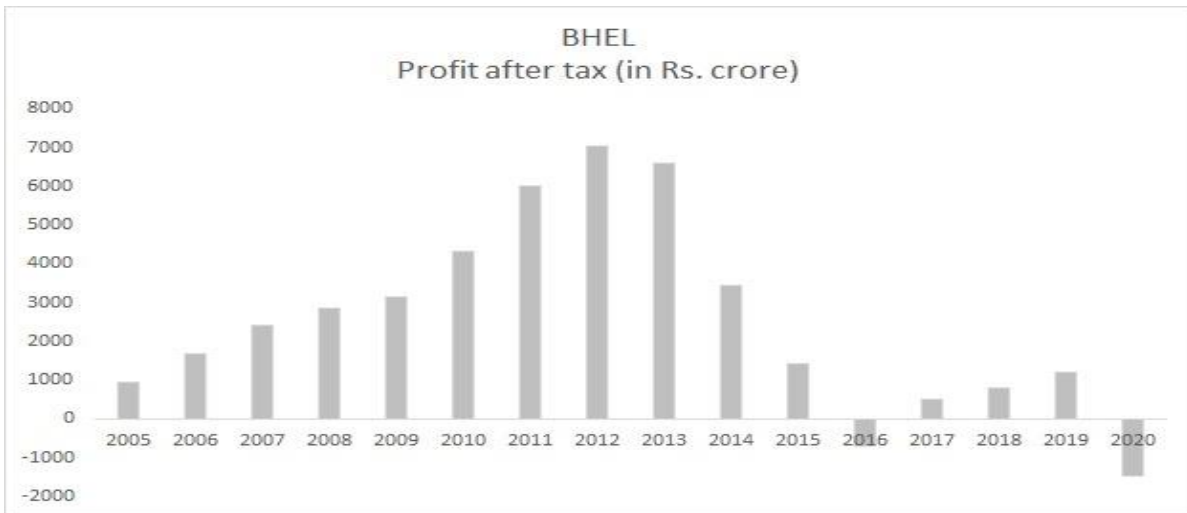
## Annexure 10.1

Figure 41 Turnover of BHEL in INR Crore



Source: CMIE Prowess

Figure 42 Profit After Tax of BHEL in INR Crore



Source: CMIE Prowess

**Annexure 10.2****List of enterprises facing legal action by banks for recovery by Tamil Nadu Boilers Association, Trichy**

Table 33: Enterprises facing legal action by banks in Trichy

Sl.	Unit Name	Bank Name	Branch Name
1	Sri Sastha Engg Works	Canara Bank	Cantonment, Trichy
2	Kumar Industries	Canara Bank	Thuvakudi
3	Danish Engineering	Canara Bank	Thuvakudi
4	Paragon Industries	Canara Bank	Thuvakudi
5	Paragon Industries	Canara Bank	Thuvakudi
6	Super Shapers	Canara Bank	Cantonment, Trichy
7	Vansen Enterpriese	Canara Bank	Cantonment, Trichy
8	Matrix Boilers	Canara Bank	Cantonment, Trichy
9	Axon Engineering	Canara Bank	Cantonment, Trichy
10	Radiant Engineering	Canara Bank	Cantonment, Trichy
11	CJP Industries	Canara Bank	Cantonment, Trichy
12	Mantex Group	Canara Bank	Cantonment, Trichy
13	JB Flux Industries	Canara Bank	Cantonment, Trichy
14	KKM Engg. Industries	Canara Bank	Cantonment, Trichy
15	S Kumar Engineering	Canara Bank	Cantonment, Trichy
16	Divya Enco	Canara Bank	Thanjavur
17	AMJ Engineering	Canara Bank	Thuvakudi
18	Vijay Industries	Canara Bank	Thuvakudi
19	Riyaa Fab	Canara Bank	Cantonment, Trichy
20	Angalamman Industries	Canara Bank	Cantonment, Trichy
21	Aig Industries	Canara Bank	Thuvakudi
22	Visves Industries	Canara Bank	Coimbatore
23	MSE Industries	Canara Bank	Thuvakudi
24	Anesh Engineering	Canara Bank	Thuvakudi
25	GB Engineering	State Bank of India	Thuvakudi
26	G B Ansaldo	State Bank of India	Thuvakudi
27	Veesons Energy Systems	State Bank of India	Thuvakudi
28	Perfect International	State Bank of India	Thuvakudi
29	S.M. Engineering	State Bank of India	Thuvakudi
30	Royal Engg works	State Bank of India	Thuvakudi
31	Sri Velmurugan Fab	State Bank of India	Thuvakudi

Sl.	Unit Name	Bank Name	Branch Name
32	Mano Fabrications	State Bank of India	Thuvakudi
33	Sigma Fem Co	State Bank of India	Thuvakudi
34	Ramar Engg. Contractor	State Bank of India	Thuvakudi
35	Kanmani Engineering	Indian bank	Cantonment, Trichy
36	EMCEE Engineering works	Indian bank	Cantonment, Trichy
37	Contech Engineers	Indian bank	Cantonment, Trichy
38	The Tamil Nadu Cheran	Indian bank	Cantonment, Trichy
39	Easvari Industrial works	Indian bank	Cantonment, Trichy
40	VKN shot blasting industries	Indian bank	Cantonment, Trichy
41	Lena Industries	Indian bank	Cantonment, Trichy
42	VKN Structural	Indian bank	Cantonment, Trichy
43	VKN Enterprises	Indian bank	Cantonment, Trichy
44	Kalyan Industries	Indian bank	Cantonment, Trichy
45	VKN Industries	Indian bank	Cantonment, Trichy
46	VKN Engineering works	Indian bank	Cantonment, Trichy
47	Enlite Energy	Syndicate bank	Trichy
48	Padma Machine shop	Syndicate bank	Kattur
49	ESSES tool room	Andhra Bank	Cantonment, Trichy
50	DR Associates	TIIC	Trichy
51	Kreeth enterprises	TIIC	Trichy
52	Sree Jyothi Ent. Unit -II	City Union Bank	Cantonment, Trichy

### Annexure 10.3

#### Revised List of enterprises facing legal action by banks for recovery by Tamil Nadu Boilers Association, Trichy

Table 34: Revised list of enterprises facing legal action by banks in Trichy

Sl.	Unit Name	Date of NPA	Bank Name	Branch Name
1	Matrix Boilers	18.04.2017	Canara Bank	Madurai Region
2	Kumar Industries	30.01.2016	Canara Bank	Madurai Region
3	Paragon Industries	31.03.2016	Canara Bank	Madurai Region
4	Paragon Industries	31.03.2016	Canara Bank	Madurai Region
5	Super Shapers	25.11.2016	Canara Bank	Madurai Region
6	Vansen Enterprises	25.11.2016	Canara Bank	Madurai Region

Sl.	Unit Name	Date of NPA	Bank Name	Branch Name
7	Axon Engineering	09.09.2016	Canara Bank	Madurai Region
8	Radiant Engineering	20.09.2016	Canara Bank	Madurai Region
9	Mantek Galvanisers	19.07.2018	Canara Bank	Madurai Region
10	Mantek weldaid flux	19.07.2018	Canara Bank	Madurai Region
11	Mantek electrodes	19.07.2018	Canara Bank	Madurai Region
12	Mantek Engg. Ent.	19.07.2018	Canara Bank	Madurai Region
13	KKM Engg Industries	01.04.2018	Canara Bank	Madurai Region
14	S Kumar engineering	31.07.2016	Canara Bank	Madurai Region
15	Danish Engineering	30.05.2017	Canara Bank	Madurai Region
16	Divya Enco	18.06.2018	Canara Bank	Madurai Region
17	Angalamman Industries	02.05.2018	Canara Bank	Madurai Region
18	AIG Industries	02.05.2018	Canara Bank	Madurai Region
19	Visves Industries	25.01.2018	Canara Bank	Madurai Region
20	Subesh Industries	18.0.2020	Canara Bank	Madurai Region
21	Devibala Straktural	16.12.2016	Canara Bank	Madurai Region
22	Sri Selvavinayaka	14.05.2020	Canara Bank	Madurai Region
23	Enlite Energy	29.12.2017	Canara Bank	Madurai Region
24	Padma Machine shop	30.11.2017	Canara Bank	Madurai Region
25	Nandeeswara Industries	27.03.2016	Canara Bank	Madurai Region
26	Ambigai Engineering works	12.05.2021	Canara Bank	Madurai Region
27	Paramount Fabricators	04.04.2021	Canara Bank	Madurai Region
28	Yogabarathi Industries	03.08.2021	Canara Bank	Madurai Region
29	Sri Renga Industries	04.05.2021	Canara Bank	Madurai Region
30	MSE Industries Coimbatore	06.08.2018	Canara Bank	Coimbatore Region
31	Sri Velmurugan Fab	16.01.2017	SBI	Trichy Region
32	Mano Fabricators	31.08.2018	SBI	Trichy Region
33	SIGMA Fem co	31.08.2018	SBI	Trichy Region
34	Ramar Engg. Contractor	31.08.2018	SBI	State Bank of India
35	Garuda Engineering	15.03.2020	SBI	State Bank of India
36	Kanmani Engineering	31.08.2018	Indian bank	Indian Bank
37	EMCEE Engineering works	30.06.2018	Indian bank	Indian Bank
38	Vethri Engineers	31.05.2019	IOB	Indian Overseas Bank
39	ESSESS tool Room	31.10.2017	Indian bank	Union Bank of India

## ANNEXURE 10.4

### Views expressed by the Technical Committee Members

Some members of the Technical Advisory Committee have put forth their views and approach for the financial revival of these 36 enterprises as below:

- a) Additional Working Capital facility can be obtained from TIIC – TAICO Bank based on the MOU signed between the institutions.
- b) Bailout package may be considered for the enterprises falling under the categories I & II only.
- c) For enterprises falling under category III, IV & V the package may be extended after a detailed case to case study.
- d) To negotiate with bankers to get maximum benefit and to arrive at the least possible one time settlement amount in line with settlement of loan accounts through sale of assets to ARCs accordingly.
- e) In many cases the realisation to banks through sale of assets to Asset Reconstruction Companies (ARCs) are around 15 to 25 percentage of total dues for Banks. Similar operation of OTS has been approved by State Bank of India, SARB Madurai for M/s. Pooncholai Fab, No. 21/10-21/9B, Rasipuram Road, Mathur, Pudukkottai - 622 515.
- f) M/s. Emcee Engineering works, who is a member of Tamilnadu Boilers Association, has also obtained OTS for INR 13.50 crore and remitted initial amount to its banker M/s. Indian Bank, Trichy.
- g) On consideration of Bailout package, the corporate offices of the member banks namely M/s. Canara Bank, M/s. Indian Bank, M/s. State Bank India and M/s. Union Bank of India have to be approached.
- h) ARC settlement may be done with the meagre amount of 15% to 25% of the loan outstanding as on NPA date in all the distress accounts.
- i) Such bailout package for the Tamilnadu Boilers Association may be considered after assessing the value of the properties mortgaged to the respective bankers along with the final OTS settlement amount.

**ANNEXURE 10.5****Details of Testing Equipment**

Table 35: List of testing equipment required at Trichy Cluster

Sl.	Properties for testing	Basic Machines suggested
1.	Physical properties Testing of ferrous and Nonferrous materials	1.Universal Tensile Testing Machine 2.Hardness testing -Brinell Hardness, Rockwell Hardness, Vickers Hardness 3.Impact Testing machine 4.Bend Test Dies 5.Macro Examination 6.Micro Examination by Optical Microscope
2.	Chemical composition of ferrous and Nonferrous materials	1.Optical Emission Spectrometer 2.X-ray fluorescence analyser 3.Wet analysis
3.	Paint Testing facility	1.Gas Chromatograph 2.All environmental testing equipment- salt spray, Ultra Violet weather meter, environmental chambers, Temperature and Humidity Test Chamber
4.	Electronic component Testing facility	1.IP68 test facility and 2.All environmental testing equipment 3.Temperature coefficient Test 4.Sound meter 5.Lux meter
5.	Ingress protection test facility	1.Vacuum chamber 2.Water Bath
6.	Tribology Lab	3.Test equipment to test grease, lubricating oil, high speed diesel/kerosene/petrol, lube oil filter
7.	3D profiler for reverse engineering	1.Rapid Prototype Equipment 2.Coordinate Measuring Machine 3.3D Laser Measuring Machine
8.	Optical instruments for observing the grain structures and reagents for etching	Details given above
9.	Workshop equipment (fixed & Portable) for test specimen geometry and surface finish	1.CNC Turning Centre 2.CNC Vertical Machining Centre 3.Drilling machine 4.Power Hexa Machine 5.Bench grinder 6.Surface Grinder

Source: Inputs obtained through primary interactions with suppliers

The specifications of the shortlisted equipment for the above requirements are as listed below:

Table 36: Specifications of testing equipment required at Trichy Cluster

Sl.	Name of Machinery & Equipment	Specification / Range
1	Universal testing machine	0-1000 KN
2	Universal testing machine	0-600 KN
3	Tensile testing machine 120 Tonne	0-120 KN
4	Compression testing machine	0-50000 KgF
5	Universal pendulum Impact tester- IT- 30 model	0-30 KGM for Charpy / 0-16.52 KGM for Izod
6	Tenso meter	2 Tonne
7	Rockwell hardness tester -RAS -1	0-150 KgF HRC / 0-60 KgF HRB
8	Vickers cum brinell hardness tester	0-60 KgF HRB / 0-250 KgF HV / 0-187.5 KgF HB
9	Erichsen cupping testing machine	Upto 2 mm thick
10	Vickers hardness tester	Upto 100 KgF for HV and all scales HRC, HB, HRB
11	Wrapping tester (a wire winding testing machine)	Upto 18mm diameter
12	Torsion tester	Upto 10mm diameter
13	Metallurgical microscope (Image analyser)	0- 2000 X Magnification
14	OES (Optical Emission Spectrometer)	Aluminium, Copper, Ferrous, Zinc & Tin Bases
<b>Metrology Lab Equipment</b>		
15	CMM 1.5 meter / 2.0 M	Carl Zeiss
16	CMM 1 meter / 0.6 M	Carl Zeiss
17	Non-contact Video Measuring system	Carl Zeiss
18	Roundness tester	Carl Zeiss
19	Surface roughness tester	Carl Zeiss
20	Contour measuring system	Carl Zeiss
21	Universal length measuring system	Trimso

Source: Inputs obtained through primary interactions with suppliers

