

TIES

increase employ-
deprived classes.
cannot compete
despite lower labour
to understand the
SME sector is
decades.

SME growth

and excessive
working capital
interest, which
than for foreign
ort.
laws that limit the
SME customers to
received for 90
large commer-
as the govern-
capital needs also



Statutory dues to the government and other bodies have to be paid as soon as the sale is recorded. This brings further pressure on the working capital.

Industry-unfriendly labour laws.

Labour laws in India disable the management to ensure work discipline. Any efforts to do so is defeated since outside political labour unions step in and create a crisis through confrontation, often to line their pockets. Lack of work discipline takes a toll on productivity and quality compliance.

A study reveals that the root cause of SME closure is on account of labour unrest. Our SMEs' competitors abroad enjoy flexibility to trim the workforce depending on the need. They can also ensure work discipline.

Avoidable complexity in excise duty regime. Many SMEs are sub-system suppliers to large units. They have to pay excise on these sub-assemblies and also branded goods that they produce for bigger industries while they take these out of their factories. This excise amount is deducted from the excise on the complete product paid by the buyer industry. Thus, excise paid by the SME does not contribute to the government's excise revenue but it certainly adds to its need for the working capital.

One wonders why this avoidable absurdity continues unhindered. It costs heavily to both the SME as well as the government that employs extra staff to supervise excise collections from the SMEs. Foreign competitors of SMEs across the border do not have to suffer such tax regime.

Rewarding SMEs for large employment compared to trading firms.

If one of the main objectives of the government is to create employment, then taking steps to ensure rapid growth of SMEs is its best bet. This way the government can ensure rapid growth.

Let us understand that SME production is often labour-intensive.

SMEs with an annual sale of ₹ 100 million typically employ 80 to 100 employees. For a similar annual sale, a trading outfit employs no more than 25 employees. Both these companies pay the same income tax if profits are similar. Still, the current income tax policy has no reward for SMEs for creating large employment. Is this not inopportune?

If the government gives, say, 50 per cent income tax exemption to such SMEs, it will reward only those SMEs who make profit. Thus, you are not benefitting unworthy SMEs. Would this not attract large investments in this sector? I had brought this to the notice of former Prime Minister Late Shri Narasimha Rao. He liked the idea but his finance ministry ignored it.

Simplified method of offsetting taxes on inputs. In China, tax authorities have made it simple for SMEs to file for refund of taxes on its inputs by assuming that SMEs have 33 per cent value addition. This reduces the government's cost and tax complexity for Chinese SMEs. They are allowed to simply deduct 66 per cent of the taxes paid on inputs from the taxes they charge on their output. One wonders why this taxation simplicity cannot be adopted by us!

Unfair business terms to foreign companies invited to Make in India. Make in India thrust so far has revealed that in due course foreign companies will start production in India. We have SMEs in India who make competing products that multinationals will be producing.

Now consider that, while such SMEs will get their working capital at an interest rate of minimum 12 per cent, their foreign competitors on Indian soil will get it at four per cent or less. Besides, our state governments, in their eagerness and enthusiasm, have offered power at ₹ 2 per unit and several other exemptions including large lands at

throw-away prices—something that SMEs will never get.

In addition, there are several other exemptions that are not available to SMEs. Is this fair? Is it encouragement to Indian entrepreneurs from IITs who set up their shops for high-technology products?

Learning from rapid growth of electronics production in 1980s.

Make in India initiative may look at policy changes that ensured rapid manufacturing growth of electronics hardware industry in the 1980s and use those measures.

I have been a policy maker during the 1980s but cannot claim to have any knowledge about policy options that the present government can implement for healthy manufacturing growth. Therefore I thought it better to tell the current problems and handicaps of the current SME sector and the policy making to the government in power. Experienced policy makers can remove the above-mentioned handicaps and please their bosses with fast manufacturing growth.

Ensuring doubling of SME growth and industrial employment from 2016-17

I believe that if the current advisors to the government in power resolve all the above real-life problems faced by SMEs, then the SMEs will grow immediately, at the least doubling their production and employment every year. This sector will also attract large investments from within the country, which still has huge investible funds in rupees. In fact, with clever schemes, the country can bring in money that is locked up under the beds and above the ceilings of many a rich in India.

Our Prime Minister Narendra Modi is a clean and clever leader and a task master. If he drives his team to solve the above-listed problems of the SME sector, he will achieve many of his objectives towards establishing a strong India. **EFY**