

No diluting norms without our nod: MSME Ministry

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New Delhi, July 9

The Ministry of Micro, Small and Medium Enterprises (MSME) is against tweaking or diluting Foreign Direct Investment guidelines in single-brand retail without its nod.

Incidentally, applicants such as the Swedish furniture and home accessories retail giant IKEA have expressed reservations over the norm that companies with over 51 per cent FDI should source at least 30 per cent from small industries in India.

The MSME Ministry is the deciding factor on the issue as the changes sought are concerning 'small industries', and therefore, any change will only happen with its consent, highly placed official sources told

Business Line. The Ministry has maintained that all applications for FDI in single-brand retail will be considered only according to the extant norms cleared by the Union Cabinet.

However, the sources said, if any Department (including in this case the FDI policy nodal body – the Department of Industrial Policy and Promotion or the DIPP) wishes to bring in changes going beyond the parameters of the Cabinet decision or wants to give any interpretation that amounts to amending the letter and spirit of the current guidelines, then, normal Government procedure specifies that the Ministry concerned will have to float a Cabinet note/discussion paper and consult all the stakeholder Ministries (including in

FDI TANGLE

- IKEA reservations over small industries' sourcing norm
- If DIPP wants changes, it should float Cabinet note/discussion paper and consult other Ministries
- Final changes in FDI policy will have to be approved by Cabinet, notified by the DIPP

this case the MSME Ministry).

The final changes in the FDI policy, if any, will then have to be approved by the Cabinet and notified by the DIPP. However, so far the MSME Ministry has not received any Cabinet note/discussion paper from the DIPP on changes in the local sourcing norms, they said.

They said the MSME Ministry has been resisting making any changes. However, they

added that if a company faces any practical difficulties and the DIPP is keen on making any changes, the MSME Ministry's view has to be taken.

The sources said without a new Cabinet decision on the changes, the Foreign Investment Promotion Board (FIPB) – comprising representatives from different Ministries to consider FDI proposals – can decide on any application on FDI in single-brand retail only

according to the existing norms.

The MSME Ministry has also insisted that companies directly owning and fully controlling the particular brand itself must make the application or else if any problems occur, there could be dangers of them turning around and saying they do not have control.

On finding recently that there is a huge gap (of over 10 times in some cases) between the cost of procuring by the big companies from small industries and the final sale price of the item, the MSME Ministry says that it seems imperative to have a discussion on the specifics of the 30 per cent local sourcing norm – that is whether it should be 30 per cent of

the manufacturing cost / landed cost / the cost inclusive of taxes / the sale price. The Ministry is also ready for a considered view of the Cabinet on the sourcing time, which is whether the retailer should be asked to comply with the deadline immediately or within 2-10 years.

The Ministry has also ruled out making any changes in the definition of 'small industries' (which have a total investment in plant and machinery not exceeding \$1 million) as it will then amount to amending the MSME Development Act which defines the same. Any amendment of an Act can only be done by Parliament, unlike the FDI policy which is an executive decision.

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