

## KEY POINTS

- Micro, small, and medium enterprises (MSMEs) are among the key players driving the economic development of Tamil Nadu.
- The study identified policy, institutional, and process reforms to improve the Single Window Clearance Mechanism for MSMEs.
- The study resulted in the implementation of an online single window mechanism for the MSME Department that ensures simplified, fast-track processes as well as transparent and time-bound clearances to investors, supported by an enabling legislation (Tamil Nadu Business Facilitation Act, 2018).

## Investment Climate Improvement in East Coast Economic Corridor of India: Governance and Institutional Reforms Support to the Micro, Small, and Medium Enterprises Department, Government of Tamil Nadu

### SETTING THE CONTEXT: THE IMPORTANCE OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN THE TAMIL NADU ECONOMY

Micro, small, and medium enterprises (MSMEs) play a vital role in the economic development of India. They contribute about 45% of India's industrial production and 40% of its exports; furthermore, they constitute 95% of the total industrial units in the country.<sup>1</sup> Energizing MSMEs can significantly boost manufacturing growth and employment in India, and Tamil Nadu in particular where they have a strong presence.

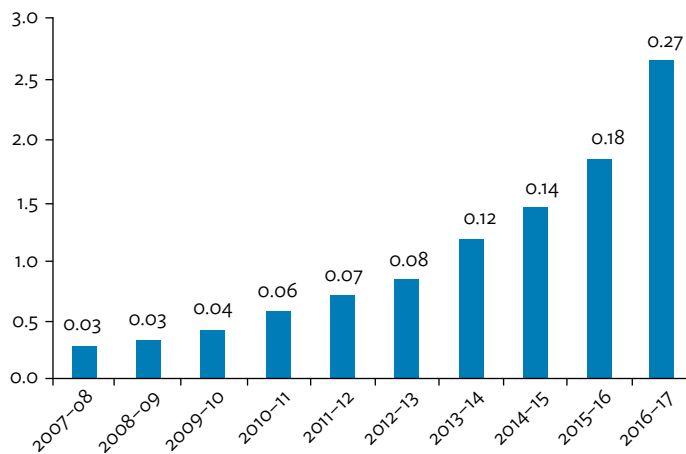
In Tamil Nadu, during 2007–2017, around 1 million entrepreneurs have registered with the MSME Department, providing employment opportunities to about 6.3 million people with a total investment of ₹1,515 billion (Figures 1, 2, and 3).<sup>2</sup>

Investment in MSMEs has grown at a compounded annual growth rate of 34% during 2007–2017. In addition, there has been a 71% increase in employment generated through MSMEs in 2016/17 over 2015/16 along with a steady 29% increase year-on-year in the number of units registered with the MSME Department. It is evident that the acceleration in MSME growth in Tamil Nadu will need to be sustained through interventions that improve the ease of starting, operating, and doing MSME business in the state.

<sup>1</sup> Government of Tamil Nadu. Micro, Small and Medium Enterprises Department. 2017. *Policy Note Demand No. 44*. Chennai. p. 84.

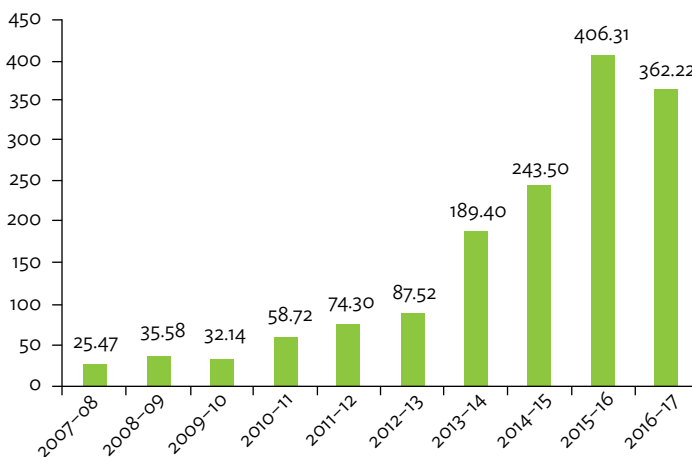
<sup>2</sup> See footnote 1.

**Figure 1: Number of Micro, Small, and Medium Units Registered in Tamil Nadu (in million)**



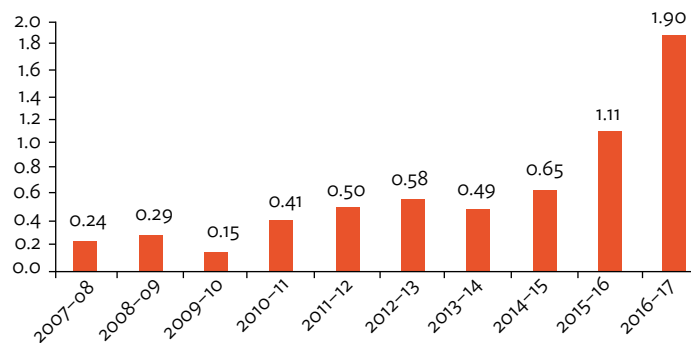
Source: Tamil Nadu MSME Policy Note 2017-18, www.tn.gov.in

**Figure 2: Investment in Micro, Small, and Medium Enterprises in Tamil Nadu (₹ billion)**



Source: Tamil Nadu MSME Policy Note 2017-18, www.tn.gov.in

**Figure 3: Employment in Micro, Small, and Medium Enterprises in Tamil Nadu (in million)**



Source: Tamil Nadu MSME Policy Note 2017-18, www.tn.gov.in

## EXECUTING THE BUSINESS REFORMS ACTION PLAN 2017 IN TAMIL NADU

To improve the “Ease of Doing Business” across India, the Department of Industrial Policy and Promotion, Government of India, published the Business Reforms Action Plan (BRAP) 2017. The BRAP 2017 focuses on 12 thematic areas covering 372 reform action points to be achieved by states.

One of the primary objectives of BRAP 2017 is the facilitation of time-bound and transparent approvals and clearances (both one-time and recurring) from state and local government departments and agencies without the need for any physical touch-points for investors. Significant, therefore, is a single window mechanism of interface between investors and the state government for the receipt of applications, monitoring, and tracking of application status, and resolution of grievances, etc.

To meet the objectives of BRAP 2017, the Tamil Nadu Industrial Guidance and Export Promotion Bureau and a study team from the Asian Development Bank (ADB) reviewed the incentives provided and the list of clearances required at various stages of setting up and running a large enterprise in Tamil Nadu. Further, the ADB team assisted Tamil Nadu in reform implementation and operationalization of the Online Single Window System for large industries which was launched on 2 November 2017 by the Chief Minister of Tamil Nadu. Given its success with large enterprises, the Government of Tamil Nadu decided to customize the online single window portal for the MSMEs. An assessment of the additional MSME-specific clearances and incentive disbursement mechanisms was then conducted by the ADB study team.

## FINDINGS FROM THE QUICK ASSESSMENT STUDY FOR INVESTORS IN MICRO, SMALL, AND MEDIUM ENTERPRISES

During the quick assessment study conducted by ADB to better understand the existing single window mechanism followed at the District Industries Centers (DICs), the study team visited the DIC in Kanchipuram.<sup>3</sup> It was observed that the DICs as the single window agency were facilitating only the select clearances and approvals required at the time of establishment of the enterprise, i.e. preestablishment clearances (Table 1).

Applications for securing preestablishment clearances were received and processed manually by the DICs through the single window mechanism. However, feedback from the MSMEs highlighted that applicants had been using the existing portals of the concerned departments and agencies for securing 3 of the 11 clearances and approvals listed in Table 1, viz., fire safety no-objection certificate (NOC), the low tension power connection, and consent to establish from the Tamil Nadu Pollution Control Board. The applicant could either choose to apply for the remaining eight clearances and incentives at one time or for specific ones individually.

<sup>3</sup> The DIC in Kanchipuram was selected based on discussions with key stakeholders in the MSME Department of Tamil Nadu.

**Table 1: Preestablishment Clearances**

1.	Planning permission for factory buildings
2.	Building permit from the concerned urban/rural local body
3.	Approval for factory plans from the Directorate of Industrial Safety and Health (DISH)
4.	No Objection Certificate (NOC) from Fire & Rescue Services Department
5.	The NOC from Directorate of Public Health and Preventive Medicine
6.	Low tension power connection from Tamil Nadu Generation and Distribution Corporation (TANGEDCO)
7.	Consent to establish from the Tamil Nadu Pollution Control Board
8.	Capital subsidy from the Department of Industries and Commerce
9.	Generator subsidy from the Department of Industries and Commerce
10.	Low tension power tariff subsidy from the Department of Industries and Commerce
11.	Back-end interest subsidy from the Department of Industries and Commerce

Source: Government of Tamil Nadu. Micro, Small and Medium Enterprises Department.

These clearances and incentives are being obtained through the following procedures at the DICs:

1. The applicant submits the completed “combined application form” and supporting enclosures to the office of the General Manager of the DIC (GM-DIC). If the application form is found to be complete in all respects, an acknowledgement is issued to the applicant.
2. The application, along with supporting enclosures, is dispatched by the DIC to the various competent authorities through post.<sup>4</sup> The competent authorities process the application, following their internal workflows.
3. After processing the application, each competent authority communicates its decision (of approval or rejection) along with necessary comments, using an offline mode. The approval or rejection certificate is sent directly to the applicant with a copy to the GM-DIC.

In addition to visiting the MSME Department and DICs, the study team also secured feedback from industry associations through stakeholder consultation workshops held in Chennai, Madurai, Trichy, and Coimbatore (Table 2).

Taking inputs from all stakeholders on board, the ADB study team proceeded to customize the online single window interface for MSMEs. Among the 11 clearances and incentives for MSMEs (mentioned in Table 1), 5 clearances were integrated by the ADB study team with the single window portal developed earlier for large industries. The remainder, currently being administered by DICs for the MSMEs manually, was identified for automation and integration with the single window portal (Table 3).

**Table 2: Feedback from Industry Associations**

#### Policies and Regulations

- Since only a limited number of preestablishment clearances are offered through the single window mechanism, the applicant is compelled to deal with multiple departments for securing other clearances and approvals.
- Preoperation clearances and approvals are not served through the existing single window mechanism; as a result, the applicant has to deal with multiple departments for securing these clearances and approvals before starting operations.
- Competent authorities repeatedly seek additional information.
- Grievance redress mechanisms are absent.

#### Processes

- There are delays in application processing because the procedures for application acceptance, verification of supporting documents, and dispatching are manual.
- There is lack of clarity on the supporting documents required and modes of fee payment.
- There is no mechanism for the applicant to track the status of the application.
- Online systems for incentives disbursement are absent.
- Multiple interactions with competent authorities are often needed to secure approvals and clearances.

#### Institutional Framework

- Single Window Committee meetings are infrequent.
- Well-defined mechanisms to monitor and expedite approvals and clearances are absent.

Source: Industry Associations

**Table 3: Clearances and Incentives for Micro, Small, and Medium Enterprises to be Integrated into the Single Window Portal**

1.	Building permit from Village Panchayat
2.	No Objection Certificate from Directorate of Public Health and Preventive Medicine
3.	Capital subsidy from the Department of Industries and Commerce
4.	Generator subsidy from the Department of Industries and Commerce
5.	Low tension power tariff subsidy from the Department of Industries and Commerce
6.	Back-end interest subsidy from the Department of Industries and Commerce

Note: The Village Panchayat is the rural local body in Tamil Nadu. Source: Government of Tamil Nadu. Micro, Small and Medium Enterprises Department.

<sup>4</sup> Competent authorities here refer to the various departments mentioned in Table 1 that issue the clearances and approvals, such as the Directorate of Public Health and Preventive Medicine, Department of Industries and Commerce, etc.

The list of preoperation clearances and the processes involved in obtaining them are identical for MSMEs and large enterprises. Therefore, the single window clearances portal for large enterprises is being replicated for MSMEs. Accordingly, functional inputs for preoperation clearances were not required.<sup>5</sup>

## KEY REFORMS IMPLEMENTED BY THE GOVERNMENT OF TAMIL NADU

Certain process and institutional reforms needed to precede the desired automation and integration of clearances and incentives with the single window portal. The ADB study team identified these reforms for the MSME Department and subsequently supported their implementation.

### Process Interventions

For those MSME clearances and services which were still being processed offline, an in-depth process study was undertaken by ADB. As a result of this study, functional inputs were prepared for simplifying the procedure and automating these clearances through the single window portal, post reengineering.

Key features of the new online application process for each clearance are listed below:

#### 1. Building permit from the Village Panchayat

- i) facility to automatically populate certain fields in the application form by linking it with the Combined Application Form (CAF) filled by an applicant on the single window portal;
- ii) automated flow of documents submitted by an investor through the single window portal to the Directorate of Town and Country Planning (DTCP), and Village Panchayat for the purpose of obtaining the building permit post approval from DTCP (eliminating multiple document submissions);
- iii) online fee calculation and communication of the same to the applicant through the single window system;
- iv) provision for online payment of fee by the applicant; and
- v) reduction in time required to obtain building permit from 30 days to 14 days.

#### 2. No Objection Certificate from Directorate of Public Health and Preventive Medicine

- i) process simplification and elimination of redundancies in terms of multiple reviews of an application without much value addition at each level;
- ii) building accountability for key process owners, for example, accountability of the block health supervisor

- for the receipt of the application and supporting documents, conducting site inspection and raising queries, if any, in a time bound manner;
- iii) issue of NOC to an applicant through the online single window portal;
- iv) provision for downloading and printing of the legally valid NOC; and
- v) ensuring that an NOC is issued within 15 days of application (as opposed to endless waits earlier).

#### 3. Disbursement of Incentives

The online portal for disbursing was already being developed by the National Informatics Centre (NIC). ADB team studied the process flow prepared by MSME Department and suggested the changes below:

- i) integration of the standalone incentive system with single window portal to provide a single interface for an applicant;
- ii) rationalization of the list of documents required by the MSME Department;
- iii) simplification of the templates for identified supporting documents, to make the supporting documents transparent and easy to understand;
- iv) provision for updating latest bank details in the system, eliminating the need for the applicant to visit GM-DIC to provide bank details for disbursement of incentives;
- v) integration of the incentive portal with the Tamil Nadu Generation and Distribution Corporation (TANGEDCO) portal to seamlessly fetch details of electricity bill during monthly claim of low tension power tariff subsidy;
- vi) digitally signed sanction/ rejection letter to be sent to the applicant through single window portal; and
- vii) online transfer of incentive scheme funds to an applicant's bank account.

Time lines were defined for key incentive disbursement related activities, i.e., issue of sanction order within 30 days, and disbursement of incentive within 15 days from the allotment of funds by the government to the department.

Key policy enablers such as time line for approval or rejection of an application, deemed approval, and parallel processing of applications were defined for the above-mentioned clearances and incentives through the Tamil Nadu Business Facilitation Act, 2018.<sup>6</sup>

While the detailed functional inputs provided for reengineering the processes for obtaining building permits, NOCs, and the capital subsidy incentive are provided in the Annexes, key highlights of process-related interventions are presented in Figure 4.

<sup>5</sup> Functional inputs refer to work flow or process maps, application forms, and the checklist of documents pertaining to specific clearances or incentives.

<sup>6</sup> Discussed in the ADB Brief "Investment Climate Improvement in East Coast Economic Corridor of India: Regulatory, Institutional and Policy Reforms support to the Government of Tamil Nadu."

## Institution-Related Interventions

In order to ensure that the departments undertake the requisite interventions and continue to provide services to investors in a coordinated manner through the online single window system, Government of Tamil Nadu decided to establish necessary institutional mechanisms at the districts. These mechanisms will serve the purpose of reviewing and monitoring the following key activities:

1. processing of investor applications according to the defined checklist;
2. raising of queries within the legislatively defined time lines;
3. rejection or approval of application within the legislatively defined time lines;
4. deemed approval by the nodal agency, i.e., the DIC, for clearances that are not approved or rejected by the concerned department within the legislatively defined time lines;
5. parallel processing of clearances by concerned departments to expedite the processing of applications; and
6. time-bound redress of investor grievances.

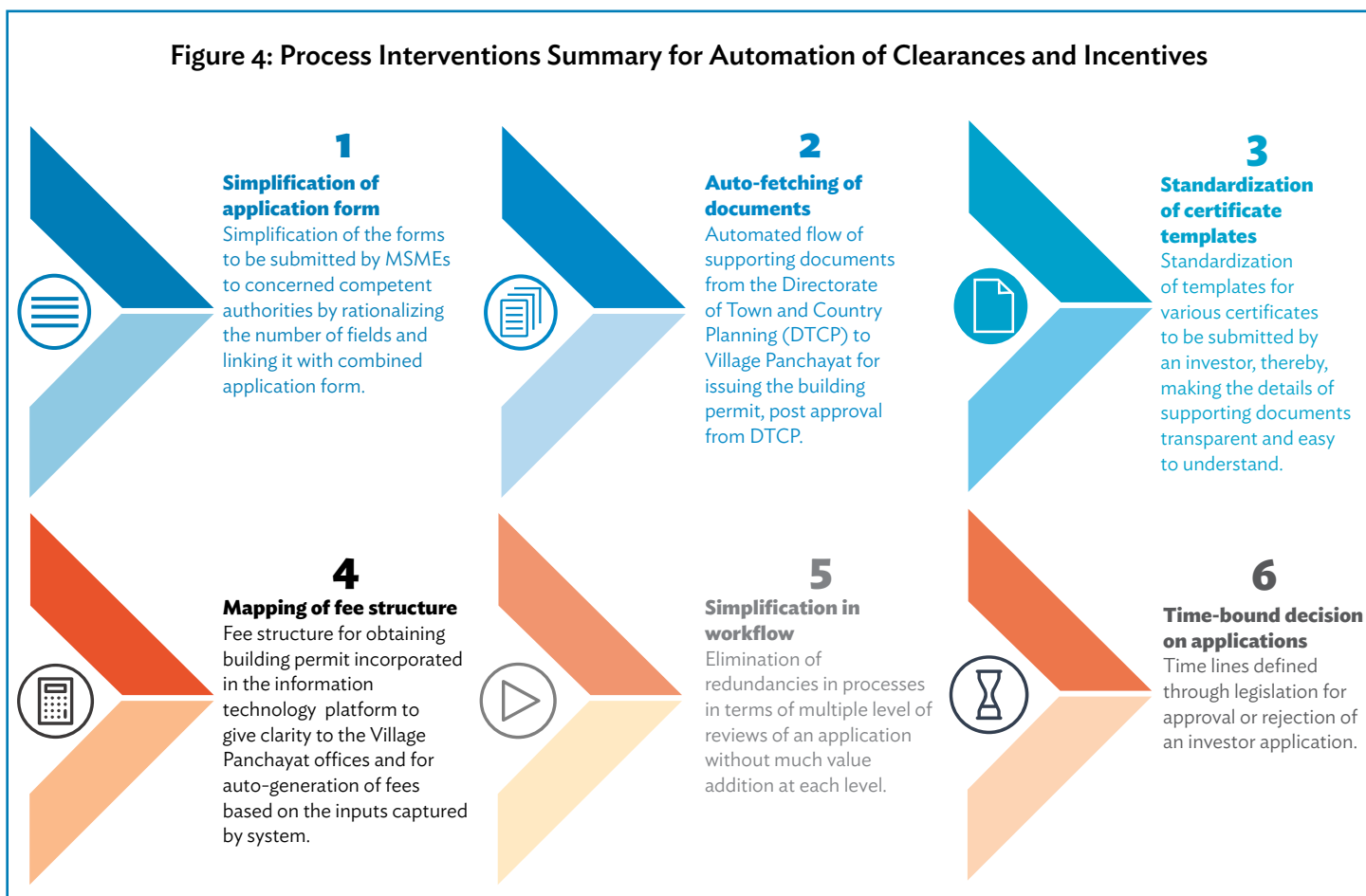
A three-tier institutional structure has been established to monitor the functioning of the single window mechanism (Table 4). It is to be noted that the MSME District Single Window Committee has representation from trade associations, chambers of commerce, and technical experts to promote greater transparency and a participative approach involving private stakeholders.

## CONCLUSION

The Government of Tamil Nadu along with the MSME Department has undertaken significant interventions with the support of the ADB study team to implement key changes relating to processes and institutional framework, specifically the online single window mechanism.

Some of the changes related to incentives are yet to be implemented as the portal is still not fully operational. Therefore, it is important that the MSME Department reviews and monitors the progress regularly. Equally important is the dissemination of

**Figure 4: Process Interventions Summary for Automation of Clearances and Incentives**



information to industry stakeholders after the new online single window system goes live.

To ensure the sustainability of the reforms implemented till date, it is imperative that the state government undertakes the following key activities:

1. establishing adequate information technology infrastructure at the DICs;
2. capacity building of staff at DICs and the competent authorities in districts, regarding the new online system;
3. seamless and user-friendly single window experience for an investor through:
  - i) provision in the online system for viewing forms and checklists of documents both in the local language (Tamil) and English;

- ii) upgrade of the single window portal in sync with the portal technologies deployed by other departments (so that seamless communication is possible); and
  - iii) automation of new MSME schemes.
4. automation of sector-specific clearances that may be required by MSMEs, and their integration with single window portal;
  5. regular monitoring to ensure that government departments and agencies adhere to processing time lines as defined in the Tamil Nadu Business Facilitation Act, 2018; and
  6. dissemination of information related to the new online single window system to industry stakeholders, by the DICs.

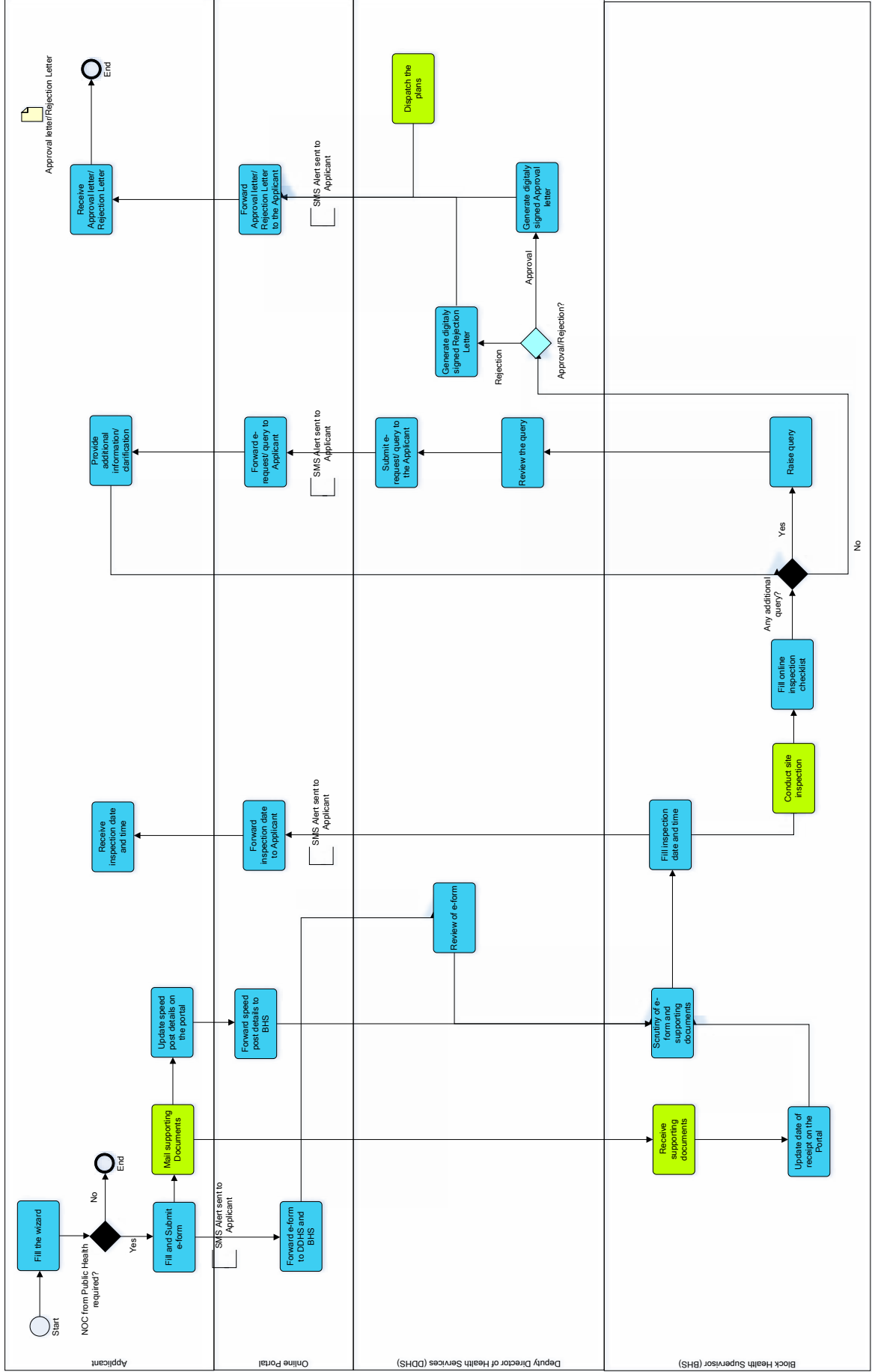
**Table 4: Three-Tier Institutional Structure to Support Single Window Mechanism**

Tier	Institution	Members	Functions
I	MSME Investment Promotion and Monitoring Board	Minister, Rural Industries Chief Secretary	<ul style="list-style-type: none"> <li>• Review and monitor the disposal of applications by the MSME State Single Window Committee and the competent authorities</li> <li>• Provide strategic direction and oversee the functioning of the MSME District Single Window Committee and MSME State Single Window Committee</li> <li>• Meet once every quarter of the year</li> </ul>
II	MSME State Single Window Committee	Industries Commissioner and Director of Industries Heads of Departments	<ul style="list-style-type: none"> <li>• Review and monitor the processing of applications by the competent authorities and address associated investor grievances</li> <li>• Meet once every two calendar weeks</li> </ul>
III	MSME District Single Window Committee	District Collector District level officers of Departments Representatives from Trade Association/ Chamber of Commerce	<ul style="list-style-type: none"> <li>• Monitor and review processing of applications pertaining to MSMEs</li> <li>• Take decisions on cases that are eligible for deemed approval</li> <li>• Meet once every two calendar weeks</li> </ul>

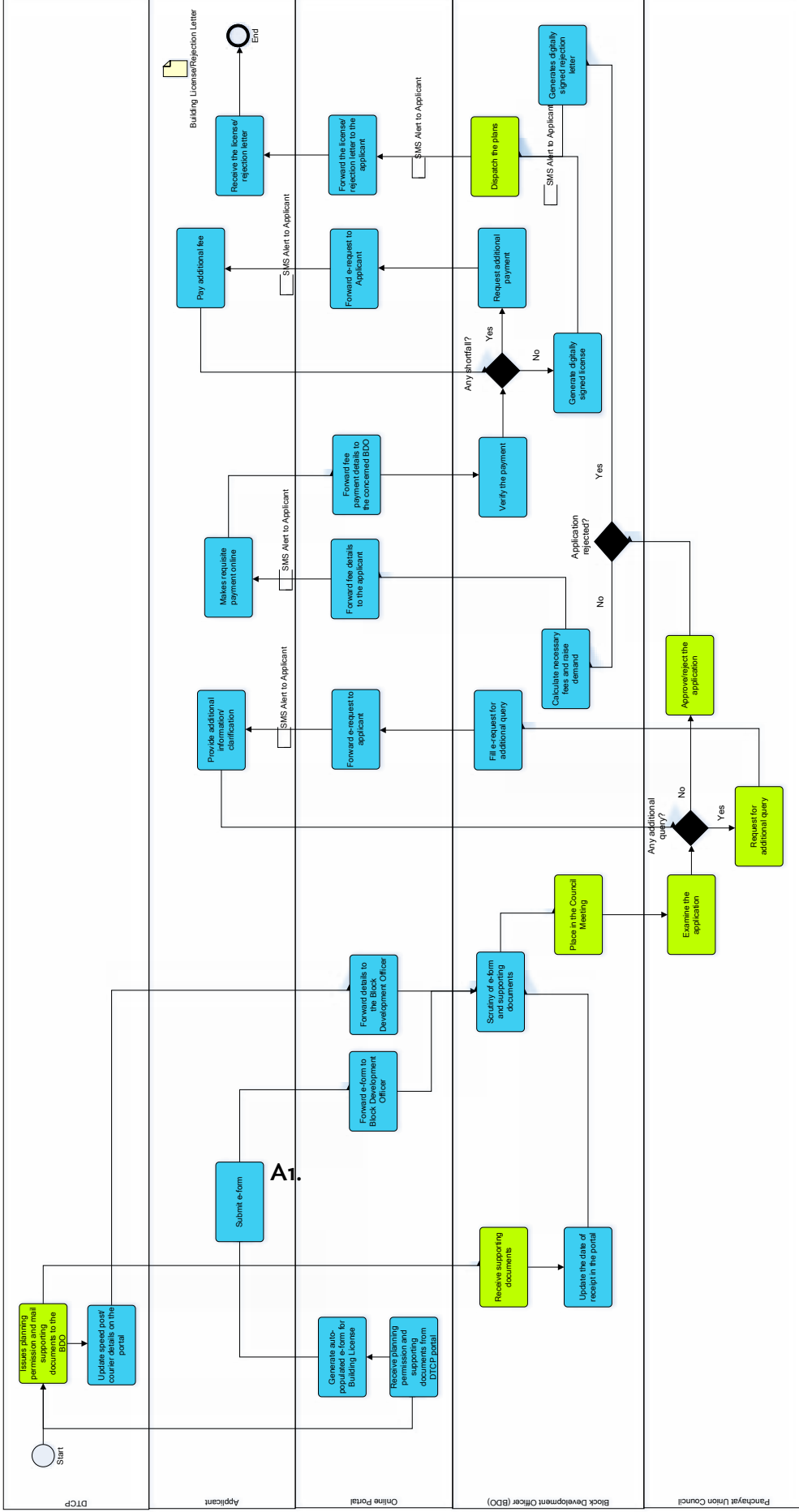
Note: MSMEs = Micro, small, and medium enterprises.

State and district committees shall meet “once every two calendar weeks” (i.e., not overlapping weeks) to ensure that decisions taken by districts are reviewed by the state committees.

A1. Process Flow for Obtaining No Objection Certificate from Deputy Director of Health Services

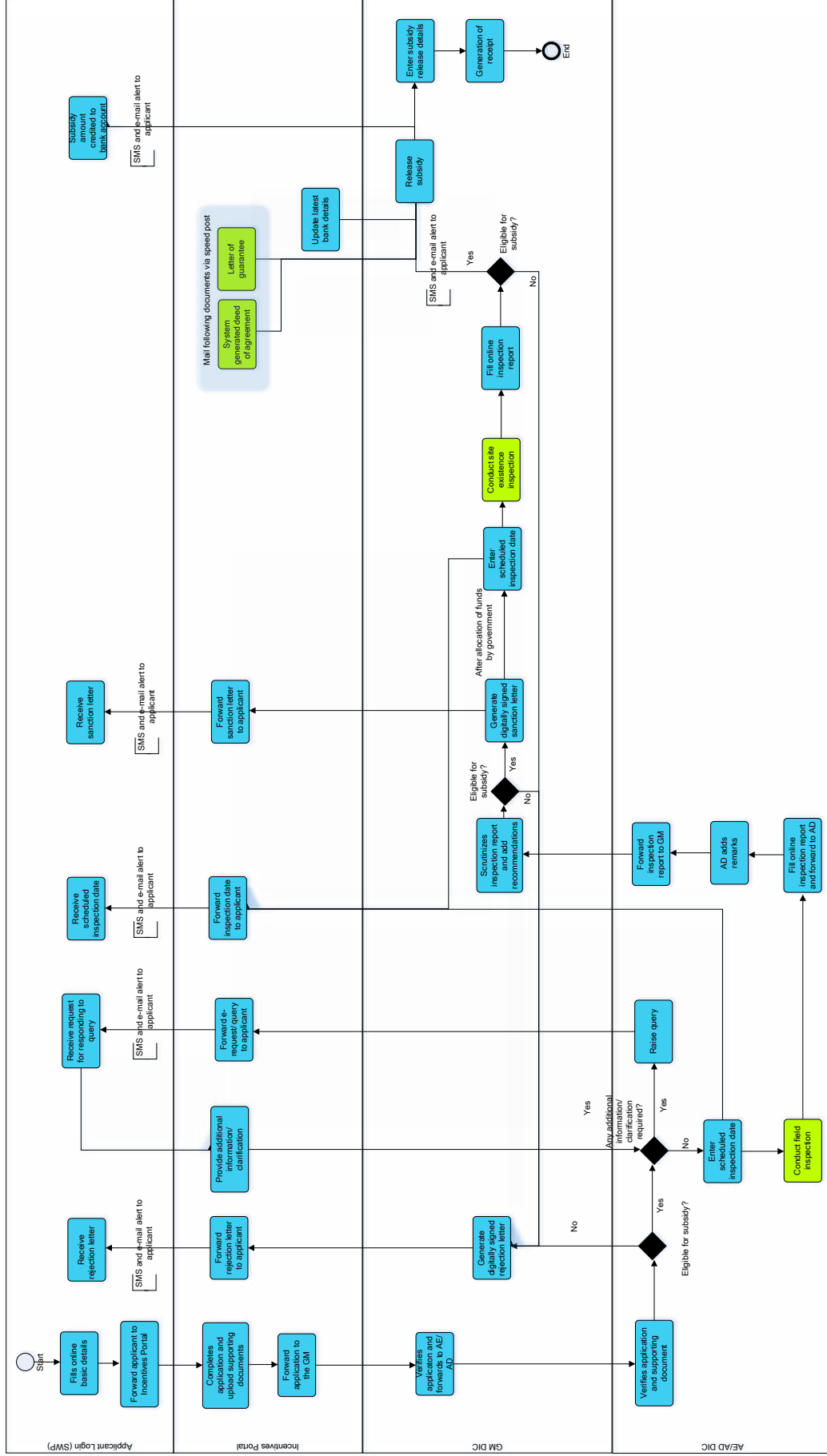


## A2. Process Flow for Obtaining Building Permit from Block Development Officer, Village Panchayat





### A3. Process Flow for Obtaining Capital Subsidy from District Industries Centers



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Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444

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