

No.9/3/2006-FT(Coord)
Government of India
Ministry of Commerce and Industry
Department of Commerce

Udyog Bhawan, New Delhi
Dated the 2nd January 2007

OFFICE MEMORANDUM

Subject : Package for Promotion of Micro and Small Enterprises – reg.

The undersigned is directed to forward herewith a copy of D.O letter No. 2(4)(1)/2004-06 MSME Pol. dated 20th December, 2006 received from Shri Anupam Dasgupta, Secretary, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries along with a copy of the Package for Promotion of Micro and Small Enterprises finalized in accordance with the decision of the Cabinet Committee on Economic Affairs at its meeting held on 16th October 2006 for information, wide dissemination and further necessary action.



(Dr A R Goyal)

Deputy Secretary to the Government of India

Tel 23063642

Encl: As above

All Additional Secretaries and Joint Secretaries in the Department of Commerce
All Export Promotion Councils
FICCI/CII / ASSOCHAM

Copy to: PPS to CS – for kind information

Udyog Bhavan
New Delhi – 110011
Dated the 2006

**PACKAGE FOR PROMOTION OF MICRO AND SMALL
ENTERPRISES**

I. INTRODUCTION

1. Among the six basic principles of governance underlying the National Common Minimum Programme (NCMP) of the Government, sustained “economic growth in a manner that generates employment” has a pride of place. The NCMP also describes the small scale industries as “the most employment-intensive segment”.
2. This is indeed so. The small scale industries of India (including the tiny industries and small scale service and business entities) have a long history of promoting economic growth that is employment-oriented and spatially widespread, and hence inclusive. At the beginning of the X Plan (2002-03), the segment provided gainful employment to 24.9 million people in the rural and urban areas of the country through 10.5 million units, engaged in manufacturing and providing a wide range of goods and services. Over the next four years (end 2005-06), they have grown to 12.3 million units providing employment to 29.5 million persons. This represents an average annual growth rate of 4.33 per cent in the number of these units and, what is more important, that of 4.57 per cent in employment. If the units in the khadi, village industries and coir industries are also taken into account, the employment is well over 332 million. This is thus rightly called the segment which provides employment next only to agriculture. A simple analysis shows that the employment intensity of the segment (registered units) is 1 person for

every 1.49 lakh of rupees invested in fixed assets, as against 1 person per Rs. 5.56 lakh in the large organised sector. And, the rate of growth of employment in this segment is well above that of the population of India (1.5 per cent) or, that in the large industries segment (0.85 per cent).

3. The contribution of this segment to the economic sinews of the country is no less significant. Nearly 39 per cent of the gross manufacturing output and 34 per cent of the exports of India arise from these enterprises. During the last four years of the X Plan, the output of the segment has recorded a real growth rate of 8.87 per cent annually. Over six thousand products manufactured by these include several sophisticated items used in high technology areas like nuclear power, missile and space programmes, information technology, biotechnology, etc. The level of exports by this segment also testifies to its overall competitiveness in the global markets.

4. Yet, the segment does not constitute a homogeneous universe and a large majority of the units faces several challenges. In order to assist them in fully harnessing their potential by availing of the increasing opportunities generated by trade liberalisation, it is necessary to build not only an enabling policy environment but also supplement the former with a specific set of measures to address the continuing challenges. The NCMP declares, therefore, that a "major promotional package" will be announced for this segment to provide full support in the areas of credit, technological upgradation, marketing and infrastructural upgradation in major industrial infrastructure.

II. RECENT INITIATIVES

1. By enacting the Micro, Small and Medium Enterprises Development Act, 2006, the Government has recently fulfilled one of the

needs felt and articulated by this segment for long. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. Apart from clearer and more progressive classification of each category of enterprises, particularly the small, the Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and simplification of the process of closure of business by all three categories of enterprises are some of the other features of this legislation.

2. The Government has also announced a Policy Package for Stepping up Credit to Small and Medium Enterprises assuring, inter alia, a 20 per cent year-on-year growth in credit flow.

3. Significant improvements have also been made in the Credit Linked Capital Subsidy Scheme for Technological Upgradation, leading to a spurt in the number of units availing of its benefits.

III. PROMOTIONAL PACKAGE

In fulfillment of the assurance in the NCMP, the following Package is now announced.

1. LEGISLATION

1.1 With a view to facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises, the Micro, Small and Medium Enterprises Development Bill, 2006 has recently been passed. The Government will take up effective and expeditious implementation of this legislation in close collaboration with all stakeholders.

1.2 The Government will also soon enact a law on Limited Liability Partnerships covering, among others, micro, small and medium enterprises, with a view, inter alia, to facilitating infusion of equity and venture capital funding in these enterprises.

2. CREDIT SUPPORT

2.1 In line with the Policy Package for Stepping up Credit to Small and Medium Enterprises(SME), the Reserve Bank of India (RBI) has already issued guidelines to the public sector banks to ensure 20 per cent year-on-year growth in credit to the SME. Action has also been initiated to operationalise other elements of the said Policy Package. Implementation of these measures will be closely monitored by the RBI and the Government.

2.2 The Small Industries Development Bank of India (SIDBI) will scale up and strengthen its credit operations for micro enterprises and cover 50 lakh additional beneficiaries over five years beginning 2006-07.

3. FISCAL SUPPORT

3.1 Considering the new definition of small manufacturing enterprises under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the existing General Excise Exemption (GEE) limit and the existing ceiling on the turnover eligibility limit of GEE would be re-examined as part of budget 2007-08.

3.2 The existing time limit for payment of excise duty by micro and small enterprises would be reviewed.

3.3 To facilitate graduation of small enterprises to medium enterprises, the issue of extending GEE benefits to graduating small enterprises for an initial period would similarly be examined.

4. SUPPORT FOR CLUSTER BASED DEVELOPMENT

For comprehensive and speedier development of clusters of micro and small enterprises, the existing guidelines of the Small Industries Cluster Development Programme (SICDP, to be renamed as "Micro and Small Enterprises Cluster Development Programme" - MSECDP) will be reviewed during 2006-07 to accelerate holistic development of clusters, including provision of Common Facility Centres, developed sites for new enterprises, upgradation of existing industrial infrastructure and provision of Exhibition Grounds/Halls and also for creation and management of infrastructure-related assets in the public-private partnership mode. The ceiling on project cost will be raised to Rs.10 crore.

5. TECHNOLOGIES AND QUALITY UPGRADATION SUPPORT

5.1 Four Training-cum-Product Development Centres (TPDCs) for agro & food processing industries would be set up at identified existing Small Industries Service Institutes (SISIs) to facilitate promotion and

development of micro and small enterprises in the food processing sector.

5.2 The two existing Central Footwear Training Institutes (CFTIs) (at Chennai and Agra) will be further strengthened to expand their outreach and assist the MSE in upgrading their technology.

5.3 Vertical Shaft Brick Kiln (VSBK) Technology would be promoted for adoption by MSEs engaged in manufacturing bricks to make them energy efficient and eco-friendly. For this, one-time capital subsidy (limited to 30 per cent of the cost or Rs.2 lakh, whichever is less) will be provided to micro and small brick manufacturing enterprises.

5.4 With a view to promoting energy efficiency in electrical pumps and motors manufactured by MSEs, a special programme of assistance will be launched after a detailed technical study.

5.5 The existing scheme of assisting the attainment of ISO 9000 and 14001 standards will be operated as a continuing scheme during the 11th Five Year Plan.

5.6 The scope of the above-mentioned scheme will be expanded to cover "Hazard Analysis and Critical Control Points" (HACCP) Certification obtained by MSE.

5.7 A Technology Mission will be established with a view to assisting micro, small and medium enterprises (MSMEs) in technology upgradation, energy conservation and pollution mitigation.

6. MARKETING SUPPORT

The National Manufacturing Competitiveness Programme (NMCP) announced in the Budget Speech of 2006-07 will include components

relating to marketing support to MSE. Implementation of the NMCP will be taken up soon.

7. SUPPORTS FOR ENTREPRENEURIAL AND MANAGERIAL DEVELOPMENT

7.1 20 per cent of the entrepreneurship development programmes (EDP) will be organised for SC/ST, women and physically challenged persons with a stipend of Rs.500 per capita per month for the duration of the training.

7.2 50,000 entrepreneurs will be trained in information technology, catering, agro and food processing, pharmaceuticals, biotechnology, etc., through specialised courses run by SISIs, over the period co-terminus with the XI Plan.

7.3 A new scheme will be formulated to provide financial assistance to select management/business schools and technical institutes, to conduct tailor-made courses for new as well as existing micro and small entrepreneurs.

7.4 A new scheme will also be formulated to provide financial assistance to 5 select universities/ colleges to run 1200 entrepreneurial clubs.

7.5 A new scheme will be launched for capacity building, strengthening of database and advocacy by Industry/ Enterprise Associations, after consultation with the Associations and States.

7.6 A comprehensive study will be conducted to assess the needs and scope of Government intervention required for enhancing the competitiveness of micro and small enterprises in the service/ business sector.

8. EMPOWERMENT OF WOMEN OWNED ENTERPRISES

8.1 Under the Credit Guarantee Fund Scheme, 80 per cent guarantee cover will be provided to micro and small enterprises operated and/or owned by women.

8.2 Under the SICDP/MSECDP financial assistance of up to 90 per cent of the cost, subject to ceiling of Rs. 9 crore, will be provided for clusters developed exclusively for micro and small enterprises operated and/or owned by women.

8.3 Associations of women entrepreneurs will be assisted under the SICDP/MSECDP in establishing exhibition centres at central places for display and sale of products of women- owned micro and small enterprises.

8.4 To encourage entrepreneurship among women, 50 per cent concession in fees would be given to women candidates in entrepreneurship/ management development programmes conducted by SISIs.

8.5 To facilitate export by women entrepreneurs, the National Small Industries Corporation Ltd. (NSIC) will assist them to participate in 25 exhibitions over the period co-terminus with the XI Plan.

9. STRENGTHENING OF PRIME MINISTER'S ROZGAR YOJANA (PMRY)

9.1 The Prime Minister's Rozgar Yojana (PMRY), introduced in 1993, has been one of the important credit-linked subsidy schemes to generate self-employment opportunities for the educated youth by assisting them in setting up viable micro enterprises. By the end of 2005-06, it is estimated to have provided self-employment opportunities to 38.09 lakh

persons. A recent review has, however, established the need to improve its effectiveness as a measure for self-employment through this route.

9.2 The design parameters of the PMRY, in terms of family income limits for eligibility, project cost ceilings, corresponding ceilings of subsidy, rates of assistance to States towards training of beneficiaries before and after selection, etc., will be improved with effect from 2007-08, keeping in view the findings of the review.

10. STRENGTHENING OF DATA BASE FOR MSME SECTOR

10.1 To strengthen the data base for the MSME sector, statistics and information will be collected in respect of number of units, employment, rate of growth, share of GDP, value of production, extent of sickness/closure and all other relevant parameters of micro, small and medium enterprises, including khadi and village industry units set up under Rural Employment Generation Programme and Prime Minister's Rozgar Yojana as well as coir units, through annual sample surveys and quinquennial census.

10.2 The quinquennial census and annual sample surveys of MSMEs will also collect data on women-owned and/or managed enterprises.

10.3 A scheme will also be formulated and implemented to regularly collect data on exports of products/services manufactured/provided by micro, small and medium enterprises, including khadi and village industries.
