

S.No.	Parameters	Description
13	Motivational campaigns	To improve the success rate of eligible applicants, States/UTs will be allowed reimbursement of cost of counseling and guiding the applicants @ Rs. 200/- per applicant, for 125 per cent of the allocated target of cases.
14	Publicity	<p>i) Seminars to be conducted in each district for creating awareness of PMRY in the area in the form of pre-selection motivational campaigns. A resolution may be adopted by each Gram Panchayat for giving wide publicity and awareness about PMRY in their respective jurisdictions.</p> <p>ii) To reduce the level of Sickness/ Closure of PMRY units, the District Level Selection Committee/Task Force Committee be made responsible for the proper scrutiny of applications and selection of viable projects.</p>
	Implementing Agency	The District Industry Centres and the Directorates of Industries are mainly responsible for implementation of the scheme along with banks.

## 7.8 POLICY INITIATIVES IN MICRO AND SMALL ENTERPRISES (MSES) SECTOR DURING 2006-07

7.8.1 Several policy initiatives and measures have accordingly been taken by the Government during the year to enable the micro and small enterprises (MSEs) enhance their competitive strength, address the challenges of competition and avail of the benefits of the global market. Some of these are as under:

- To provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises, the 'Micro, Small and Medium Enterprises Development Act, 2006' has been enacted. The Act has come into force from 2<sup>nd</sup> October, 2006. The salient features of the Act are given in [Box 1](#).
- The Khadi and Village Industries Commission Act, 1956 has also been comprehensively amended, introducing several new features to facilitate professionalism in the operations of the Commission as well as field-level formal and structured consultations with all segments of stakeholders. The new Commission has been constituted.
- A 'Package for Promotion of Micro and Small Enterprises' has been approved recently. The Package includes measures to address most of the concerns in the areas of credit, cluster-based development, infrastructure, technology, marketing, etc. Capacity building of MSEs and support to women entrepreneurs are the other important features of this Package.
- With the aim of improving manufacturing competitiveness of the segment, the launching of a National Manufacturing Competitiveness Programme (NMCP) has been announced. The Planning Commission has given in-principle approval for implementation of the NMCP during the 11<sup>th</sup> Plan. The schemes under the Programme will be implemented mainly in the Public-Private Partnership mode.

- An Empowered Group of Ministers (EGoM) under the chairmanship of the External Affairs Minister has recently been constituted to lay down the comprehensive policy for cluster development and oversee its implementation. The Ministry of Small Scale Industries will service the EGoM.
- Under the Credit Guarantee Scheme, life insurance cover for Chief Promoters of units provided guarantee cover by the Credit Guarantee Fund Trust for Small Industries (CGTSI) has been introduced. Further, the one-time guarantee fee under the scheme has been reduced from 2.5 per cent to 1.5 per cent w.e.f. 1<sup>st</sup> April, 2006.
- After due consultation with the stakeholders, 180 items reserved for exclusive manufacture in micro and small enterprises sector have been de-reserved on 16<sup>th</sup> May 2006, 87 items on 22<sup>nd</sup> January 2007 and 125 items on 13<sup>th</sup> March 2007. The total number of reserved items now stands at 114.

### BOX 1

#### Salient Features of the Micro, Small and Medium Enterprises Development Act, 2006

- 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.
- Under the Act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/rendering of services. Both categories have been further classified into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services) as under:
  - Manufacturing enterprises:
    - Micro Enterprises - investment up to Rs. 25 lakh.
    - Small Enterprises - investment above Rs. 25 lakh & up to Rs. 5 crore.
    - Medium Enterprises - investment above Rs. 5 crore & up to Rs. 10 crore.
  - Service enterprises:
    - Micro Enterprises - investment up to Rs. 10 lakh.
    - Small Enterprises - investment above Rs. 10 lakh & up to Rs. 2 crore.
    - Medium Enterprises - investment above Rs. 2 crore & up to Rs. 5 crore.
- 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, and an Advisory Committee to assist the Board and the Central/State Governments.
- The other features include (i) establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, (ii) notification of schemes/programmes for this purpose, (iii) progressive credit policies and practices, (iv) preference in Government procurements to products and services of the micro and small enterprises, (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and (vi) simplification of the process of closure of business by all three categories of enterprises.

### 7.9.1 CREDIT TO MSE SECTOR

The quantum of advances from the PSBs to the MSEs has increased over the years in absolute terms from Rs. 48,400 crore in March 2001 to Rs. 1,04,900 crore in March 2007. However, the share of the credit to MSE sector in the NBC has declined from 14.6 per cent as at the end of March 2000 to 8.00 per cent as at the end of March 2007. Thus, the flow of credit from these banks to the sector has not kept pace with the growth in the net bank credit. This is a cause for serious concern and the trend needs to be reversed.

### 7.9.2 PERFORMANCE AND CREDIT RATING SCHEME:

To sensitize the MSE sector on the need for credit rating and encourage the MSEs to maintain good financial track record enabling them to earn higher rating for their credit requirements, the 'Performance and Credit Rating Scheme' was launched by the Government in April 2005. The implementation of the scheme is through National Small Industries Corporation (NSIC). Reputed Rating Agencies have been empanelled by NSIC from which the MSEs can select the one to be engaged by it for obtaining the rating. The Ministry of MSME subsidises the cost of rating by sharing 75% of the fee charged by the Rating Agency, subject to a ceiling of Rs. 4,000. The balance amount towards the fee is borne by the MSEs.

### 7.9.3 SCHEME OF SMALL ENTERPRISES FINANCIAL CENTERS (SEFCs):

As announced in the Annual Policy Statement for 2005-06, the Reserve Bank of India (RBI) has formulated a scheme for strategic alliance between branches of the Commercial banks and SIDBI in selected MSME clusters viz., Scheme of Small Enterprises Financial Centers (SEFCs). This scheme is important in the context of expanding the outreach of banks and improving credit flow to the MSME sector. SIDBI has been made the nodal agency for implementing the scheme in alliance with the commercial banks.

### 7.9.4 SME RATING AGENCY OF INDIA LTD. (SMERA)

The SME Rating Agency of India Ltd. (SMERA) has been set up by the Small Industries Development Bank of India (SIDBI) in association with major public sector, private sector and foreign banks, Dun & Bradstreet India and Consumer Information Bureau of India Ltd. (CIBIL) for the purpose of according third party transparent rating to SME units. The setting up of SMERA would help in enhancing the flow of information in the SME sector thereby improving the credit flow to the sector and ensuring overall development of the SME sector. SIDBI, as one of the promoters, has taken the initiative of offering interest rate reduction of 0.5% and 1 per cent per annum to the units, depending on the rating accorded by SMERA.

### 7.9.5 POLICY PACKAGE FOR STEPPING UP CREDIT FLOW:

The Government announced a 'Policy Package for Stepping Credit to Small and Medium Enterprises (SMEs)' on 10 August 2005, with the objective of doubling the credit flow to the sector within a period of five years. The measures in the Policy Package to increase the quantum of credit to SMEs (including Micro and Small Enterprises-MSEs) include:

- (i) Public sector banks to fix their own targets for funding SMEs in order to achieve a minimum 20 percent year-on-year growth in credit to the SMEs sector.
- (ii) Public sector banks to follow a transparent rating system with cost of credit linked to the credit rating of the enterprises.
- (iii) Commercial banks to make concerted efforts to provide credit cover on an average to at least 5 new tiny, small and Medium Enterprises at each of their semi-urban/urban branches per year.
- (iv) The Reserve Bank of India (RBI) to issue detailed guidelines relating to debt restructuring mechanism so as to ensure restructuring of debt of all eligible Small & Medium Enterprises.

- (v) Introduction of one-time settlement scheme to apply to MSE Non-Performing Asset (NPA) accounts in the books of the banks as on March 31, 2004.
- (vi) Taking the exiting RBI guidelines as indicative minimum, banks to formulate a comprehensive and more liberal policy relating to advances to the SME sector.
- (vii) Banks to adopt cluster based approach for SME financing.
- (viii) The RBI to constitute empowered committees with the Regional Director of RBI as the chairman to review the progress in SME financing and rehabilitation of sick Small & Medium Enterprises.
- (ix) Boards of Banks to review the progress in achieving the self-set targets as also rehabilitation and restructuring of SME accounts on a quarterly basis.

The RBI issued circular dated 19<sup>th</sup> August 2005 to all the public sector banks and 25<sup>th</sup> August 2005 to all private banks/foreign banks/ RRBs, advising them to implement the measures announced in the Policy Package. The RBI has also circulated the guideline on One-Time Settlement (OTS) Scheme for SME accounts of public sector banks on 3<sup>rd</sup> September 2005 and the detailed guidelines on debt restructuring mechanism for SME to all the commercial banks on 8<sup>th</sup> September 2005. Further, the RBI has constituted empowered Committees with the Regional Director of the RBI as the chairman to review the progress in SME financing and coordinate with other banks/financial institutions and the State Government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector.

#### 7.9.6 CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES

Government launched the Credit Guarantee Fund Scheme for Micro & Small Enterprises in August 2000, with the objective of making available credit to MSEs, particularly Micro Enterprises, for loans extended without collateral/third party guarantees. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and SIDBI.

The scheme covers collateral-free credit facility (term loan and/or working capital including non fund based working capital) extended by eligible lending institutions to new and existing Micro and Small Enterprises up to Rs. 50 lakh per borrowing unit. The guarantee cover is up to 75 per cent of the credit sanctioned subject to maximum guarantee limit of Rs. 37.50 lakh. The guarantee cover is up to 80 per cent for (i) loans up to Rs. 5 lakh extended to Micro Enterprises; and (ii) Micro and Small Enterprises operated and/or owned by women. The MLIs availing guarantee from the Trust have to pay one time Guarantee Fee of 1.5 per cent and Service Fee of 0.75 per cent per annum of the credit facility sanctioned by the lending institution to the borrower.

The corpus of CGTMSE is being contributed by the Government and SIDBI in the proportion of 4:1 respectively and have contributed Rs. 1346.54 crore to the corpus of the Trust up to June 30, 2007. Based on the future requirement, the corpus is likely to be raised to Rs. 2500 crore.

As on Jun 30, 2007, 62 eligible institutions comprising 28 Public Sector Banks, 13 Private Sector Banks, 18 Regional Rural Banks (RRBs), National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFi) and Small Industries Development Bank of India (SIDBI) have become Member Lending Institutions (MLIs) of CGTMSE for participating under the Credit Guarantee Scheme. Under the scheme, 73431 proposals amounting to Rs. 1971.33 crore have been approved for guarantee cover up to 30<sup>th</sup> June, 2007.

### 7.9.7 MICRO FINANCE PROGRAMME

Government has launched a Scheme under the Micro Finance Programme of SIDBI in March 2004. Government provides fund for Micro Finance Programme to SIDBI under a 'Portfolio Risk Fund' (PRF), which is used for security deposit requirement of the loan amount from the MFIs/NGIs. At present, SIDBI takes fixed deposit equal to 10 per cent of the loan amount. Under PRF, the share of MFIs/NGOs is 2.5 per cent of the loan amount (i.e. 25 per cent of security deposit) is adjusted from the funds provided by the Government under the scheme.

As on 31<sup>st</sup> March 2007, Government has released an amount of Rs. 15 crore towards 'Portfolio Risk Fund' (PRF). As on 31<sup>st</sup> March 2007, cumulative loan amount of Rs. 142.17 crore has been provided to MFIs/NGOs under the scheme, thereby benefiting 3.94 persons.

### 7.9.8 SICKNESS IN MSE SECTOR

As per the data compiled by the RBI from the scheduled Commercial banks, the sickness in the MSE sector has decreased in the recent years. The number of sick units as at the end of March, 2000 to March, 2008 is given below:

**TABLE 7.8**  
**SICKNESS IN MSE SECTOR**

As at the end of March	Total sick units		Potentially viable	
	Number*	Amount outstanding (Rs. crore)	Number*	Amount outstanding (Rs. crore)
2000	3,04,235	4,608.43	14,373	369.45
2001	2,49,630	4,505.54	13,076	399.17
2002	1,77,336	4,818.95	4,493	416.41
2003	1,67,980	5,706.35	3,626	624.71
2004	1,38,811	5,284.54	2,385	421.18
2005	1,38,041	5,380.13	3,922	434.67
2006	1,26,824	4,981.13	4,594	498.16
2007	114132	5266.65	4,287	427.46
2008 (Provisional)	85,187	13849.10	4,210	246.88

\* These units include village industries as well

The Ministry of Micro, Small and Medium Enterprises do not provide any direct financial assistance for rehabilitation of sick MSEs. However, financial assistance, by way of debt restructuring including fresh loans, for the rehabilitation of sick MSE is provided by the primary lending institutions (PLI) including commercial banks, which provide credit to the MSEs. For this purpose, the Reserve Bank of India (RBI) has issued detailed guidelines to banks in January 2002 on detection of sickness in MSEs at an early stage and taking remedial measures and for rehabilitation of sick MSEs identified as potentially viable. Further, RBI has issued guidelines on 8<sup>th</sup> September 2005, based on the "Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)" announced by the Central Government on 10<sup>th</sup> August, 2005. These guidelines relate, inter alia, to viability criteria, prudential norms for restructured accounts, provision of additional finance and time frame for working out the restructuring package and its implementation.

### 7.9.9 GENERAL EXCISE EXEMPTION SCHEME

Under the general Excise Exemption Scheme, units having annual turnover of up to Rs. 4 crore, full excise exemption up to turnover of Rs. 150 lakh per annum is provided.

### 7.9.10 SPECIFIC MEASURES ANNOUNCED IN BUDGET 2007-08.

- Enhancing the excise exemption limit for MSE sector from Es. 1 crore to Rs.1.5 crore.
- Zero Excise Duty on biscuits whose retail sale price does not exceed Rs. 50 per kilogram
- Zero Excise Duty on all kinds of Food Mixes including instant mixes.
- Excise Duty on Umbrellas and parts of footwear reduced from 16 per cent to 8 per cent.
- Excise Duty on Plywood reduced from 16 per cent to 8 per cent.
- Exemption limit for Small Service providers enhanced from Rs. 4 lakh to Rs. 8 lakh.
- Service Tax exempted for all services provided by Technology Business Incubators. Similarly, their incubates whose annual business turnover does not exceed Rs. 50 lakhs will be exempt from Service Tax for the first 3 years.
- In order to encourage Small & Medium Enterprises (SMEs) to invest and grow, the surcharge on all firms and companies with a taxable income of Rs. one crore or less has been removed.
- While encouraging banks to lend more SME sector, banks have been advised to have regard to the credit rating acquired by a SME while fixing the interest rate.
- Under the Differential Rate of Interest (DRI) scheme, the limit of the loan has been raised from Rs. 6,500 to Rs. 15,000 per beneficiary.
- A scheme for modernization and technology up gradation of the coir industry with special emphasis to major coir producing States such as Kerala, Karanataka, Tamil Nadu, Andhra Pradesh and Orissa has been announced.
- 1,396 it is will be upgraded in to centers of excellence in specific trades and skills under public –private partnership.

#### 7.10.1 The following Schemes of Micro, Small & Medium Enterprises has been subsumed:

Sl. No	Name of the existing Scheme	Name of the Scheme/Program in which to be subsumed
1.	Infrastructural Development of SSI in Rural Areas	Micro and Small Enterprises Cluster Development Programme(after renaming the SICDP)
2.	“Mini Tool Rooms & Training Centers” (for States) component of the Scheme for Tool Rooms	Proposal of Mini Tool Rooms in the PPP mode under the National Manufacturing Competitiveness Programme
3.	National Programme for Rural Industrialization (NPRI)	Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

### 7.10.2 INTEGRATED INFRASTRUCTURAL DEVELOPMENT (IID) SCHEME

Lack of infrastructure is often cited as one of the major problems for setting up of new MSEs. In order to overcome this problem and establish MSEs, IID Scheme was launched in 1994. The Scheme aims at to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services etc. for Micro and Small Enterprises. The Scheme covers districts which are not covered under Growth Centres Scheme. The Scheme covers rural as well as urban areas with a provision of 50% reservation for

rural areas and 50% industrial plots for tiny sector. The Scheme also provide for upgrading/ strengthening of the infrastructural facilities in the existing old industrial estates. The estimated cost to set up an IID centre is Rs. 5.00 crore (excluding cost of land). Central Government provides 40% (up to a maximum of Rs. 2.00 crore) in case of general category states and 80% (up to a maximum of Rs. 4.00 crore) for North-East Region (including Sikkim), J&K, H.P. and Uttarakhand as grant and remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State funds.

The Cluster Development is one of the thrust areas of the Ministry for the 11th Plan. As per the Promotional Package announced recently for the Micro and Small Enterprises, the IID Scheme stands subsumed in Cluster Development Programme. All the features of the IID Scheme have been retained and will be covered as "New Cluster" under the SICDP.

7.10.3 Testing Centers & Sub-contracting Exchanges: Setting up of Testing Centers & Sub-contracting Exchanges by Industry Associations/NGOs is proposed to be weeded out with effect from 1<sup>st</sup> April 2007 as per EFC Package submitted by MSME Board.

## 7.11 WORLD TRADE ORGANIZATION(WTO)

7.11.1 Details of action initiated by the Government to counter the impact of WTO Agreements and Liberalization /Globalization of the economy include:

- Globalisation and removal of Quantitative Restrictions (QRs) have exposed the MSEs to a greater competition, yet the Micro, Small & Medium Enterprises (MSMEs) has continued to grow. However, even after the removal of QRs, protection to enterprises is available in the form of raising custom duties up to the bound levels, imposing anti-dumping duties, taking safeguards measures in case of surge in imports, etc.
- The Government implements various schemes and programmes to enable micro and small enterprises (MSE, formerly known as SS) to enable them to compete in the glbal market and strengthen their export competitiveness. Such programmes and schemes, inter alia include assistance for participation in international exhibitions/fairs, reimbursements for obtaining bar-code certification, etc. under its Market Development Assistance (MDA) Scheme. In addition, other support measures such as organizing training programmes on packaging for exports, assistance for technology up gradation under Credit Linked Capital Subsidy (CLCSS), incentives for obtaining ISO/9000-14001, etc. are included to promote export competitiveness.
- During the year 2005-06, Indian MSE sector accounted for approximately 33% of the total exports from the country.
- A growth rate of 12% has been envisaged for the MSE sector during the Eleventh Five Year Plan (2007-12)
- Promotion and development of micro and small enterprises is primarily the responsibility of the respective state Governments/UT administrations. The Government of India, however, supplements their efforts by providing supportive measures for enhancing their competitiveness through specific measures ,such as, easy availability of credit, comprehensive need based development of MSE clusters including development of infrastructure, assistance for technological up gradation, training and capacity building of entrepreneurs ,etc. The Government, with a view to further enhancing their competitiveness has also announced:
  - (i) Package for Promotion of MSE,
  - (ii) Implementation of National Manufacturing Competitiveness Programme, besides operationalising the Micro, Small and Medium Enterprises Development (MSMED)Act,2006,from 2<sup>nd</sup> October 2006.

- The Government is constantly assessing and monitoring the impact of globalization/liberalized imports under WTO regime on the growth and development of economy including Micro, Small & Medium Enterprises (MSMEs) in the country. Some of the incentives & measures provided by the Government to enable the MSMEs to compete in the globalize and liberalized regime include assistance in up gradation of technology, obtaining quality certification and testing of products, export promotion by way of participation in international trade fairs and holding catalogue exhibitions, financial assistance for printing of publicity material, obtaining bar coding of products and assistance to MSEs Associations for export market studies, Contesting anti-dumping investigations, dissemination of information on international tenders, and exchange of business delegations etc.
- With a view to create awareness among the MSEs, their Associations, etc. on WTO agreements and implication for them, a programme for organizing WTO Awareness workshops/Seminars, all over the country was initiated during 2000. Since then, a large number of product specific/sector specific WTO Seminars and workshops on Intellectual Property Rights (IPRs), Anti Dumping Procedures, Geographical indications, etc. were organized. During 2007-08, 11 such one day workshops on various aspects of WTO were organized. These awareness workshops/ seminars will be continued during 2008-09.
- WTO cell of the Ministry is maintaining a close liaison with other concerned Ministries and Departments like Ministry of Commerce & Industry, Director General of foreign Trade, Director General of Anti-Dumping & Allied Duties, Director General ( Safeguards),etc. so as to keep updated with regard to WTO agreements and to provide then the requisite feed back in connection with WTO Ministerial Conferences, Regional Trade Agreements (RTAs), Free Trade Agreements (FTAs) Comprehensive Economic Cooperation Agreements (CECA) etc.
- The WTO Agreements contain a number of provisions and Annexes that have an impact on the Industry. Industry units are encouraged to bring to notice of Office of the Development Commissioner ( Micro, Small & Medium Enterprises) either at their own or through their Associations, the aspects of WTO agreement that are not found suitable to them so that the same could be brought to the notice of Ministry of Commerce & Industry to take appropriate action in the matter.

**TABLE 7. 9**  
**PRODUCTION OF KHADI AND VILLAGE INDUSTRIES SINCE 1960-61**  
**(Quantity in Lakh Square Meters)**

Year	Khadi Quantity	(Value in Rs. Lakh) Value	Vill Industries Value only	Total Khadi & Village Industries Value
1	2	3	4	5
1960-61	537.7	1423	3316	4739
1965-66	848.5	2631	5587	8268
1970-71	567.4	2585	8560	11145
1975-76	561.1	4673	14848	19522
1980-81	910.1	10685	45124	55809
1981-82	964.3	12340	54237	66577
1985-86	1049.4	19501	92903	112404
1990-91	1088.8	28595	199407	228002
1991-92	1091.1	32863	226416	259279
1992-93	1052.6	35349	252345	287694
1993-94	984.3	35728	287658	323386
1994-95	908.4	3871	323435	362406
1995-96	1051.0	52223	350423	402646
1996-97	1114.9	62640	388986	451626
1997-98	1042.0	62410	389521	451931
1998-99	982.0	63589	447648	511237
1999-00	843.2	55194	561341	616535
2000-01	693.9	43157	649169	692326
2001-02	589.0	41669	714052	755721
2002-03	620.3	44307	812630	856937
2003-04	686.9	45193	922827	968020
2004-05	698.9	46154	1045889	1092043
2005-06	699.4	46830	1191554	1238384
2006-07	718.8	49152	1353719	1402871
2007-08	762.5	54339	1613432	1667771

Source : KVIC Annual Report 2007-08

