

## **MSME POLICY 2016-17**

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### **Master Direction – Reserve Bank of India [Lending to Micro, Small & Medium Enterprises (MSME) Sector] - Directions, 2016**

In exercise of the powers conferred by Sections 21 and 35 A of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, hereby, issues the Directions hereinafter specified.

#### **CHAPTER – I**

#### **PRELIMINARY**

##### **1.1 Short Title and Commencement**

- (a) These Directions shall be called the Reserve Bank of India [Lending to Micro, Small & Medium Enterprises (MSME) Sector] Directions, 2016.
- (b) These Directions shall come into effect on the day they are placed on the official website of the Reserve Bank of India.

##### **1.2 Applicability**

The provisions of these Directions shall apply to every Scheduled Commercial Bank {excluding Regional Rural Banks (RRBs)} licensed to operate in India by the Reserve Bank of India.

##### **1.3 Definitions/ Clarifications**

In these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them as below:

- (a) The MSMED Act, 2006 means ‘Micro, Small and Medium Enterprises Development (MSMED) Act, 2006’ as notified by the Government of India on June 16, 2006 and the amendments, if any, carried out therein by the Government of India from time to time.
- (b) ‘Micro, Small and Medium Enterprises’ mean the enterprises as defined in the MSMED Act, 2006 and the amendments, if any, carried out therein by the Government of India from time to time.
- (c) ‘Manufacturing’ and ‘Service’ Enterprises mean the enterprises as defined in the MSMED Act, 2006 or as notified by the Government of India, Ministry of MSME under the MSMED Act, 2006 from time to time.
- (d) ‘Priority Sector’ means the sectors as defined in Master Direction - Reserve Bank of India (Priority Sector Lending –Targets and Classification) Directions, 2016 dated July 7, 2016 or as modified from time to time.
- (e) ‘Adjusted Net Bank Credit (ANBC)’ would mean Adjusted Net Bank Credit (ANBC) as defined in Master Direction - Reserve Bank of India (Priority Sector Lending –Targets and Classification) Directions, 2016 dated July 7, 2016 or as modified from time to time.

## CHAPTER-II

### 2. Micro, Small and Medium Enterprises, Development Act 2006

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and notified the same vide Gazette Notification dated June 16, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

#### 2.1. Definition of Micro, Small and Medium Enterprises – As per Micro, Small and Medium Enterprises, Development Act 2006

- I. Manufacturing Enterprises i.e.** Enterprises engaged in the **manufacture** or production of goods as specified below:
- (i) A **micro enterprise** is an enterprise where investment in plant and machinery **does not exceed Rs. 25 lakh;**
  - (ii) A **small enterprise** is an enterprise where the investment in plant and machinery is **more than Rs. 25 lakh but does not exceed Rs. 5 crore;**
  - (iii) A **medium enterprise** is an enterprise where the investment in plant and machinery is **more than Rs.5 crore but does not exceed Rs.10 crore.**

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 (Annexure-A).

- II. Service Enterprises i.e.** Enterprises engaged in providing or rendering of **services** and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below:-
- (i) A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh;**
  - (ii) A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore;** and
  - (iii) A **medium enterprise** is an enterprise where the investment in equipment is **more than Rs. 2 crore but does not exceed Rs. 5 crore.**

**Indicative List of activities considered as Services & Manufacturing is as per Annexure-B.**

## **2.2 Classification of MSME Priority Sector**

In terms of “Priority sector lending- Targets & Classification” guidelines, bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the following norms:

### **2.2.1 Manufacturing Enterprises**

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

### **2.2.2 Service Enterprises**

Bank loans upto Rs.5 crores per borrower/ unit to Micro and Small Enterprises and Rs.10 crores to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

## **2.3 Khadi and Village Industries Sector(KVI)**

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

**2.4** Bank loans to food and agro processing units will form part of agriculture.

## **2.5 Other Finance to MSMEs**

- (i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- (ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- (iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in the extant guidelines of Priority Sector Lending.
- (iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weavers’s Card etc in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- (v) Overdrafts extended by banks after April 8, 2015 upto Rs.5,000/- under Pradhan Mantri Jan Dhan Yojna (PMJDY) accounts provided the borrower’s household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non- rural areas. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.
- (vi) Outstanding deposits with SIDBI and Mudra Ltd. on account of priority sector shortfall.

- 2.6** To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.
- 2.7** Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium enterprises, the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI has been rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

## **CHAPTER- III**

### **3. Targets/ sub-targets for lending to Micro, Small and Medium Enterprises (MSME)**

- 3.1** Advances to Micro, Small and Medium Enterprises (MSME) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, as per the extant guidelines on priority sector lending.
- 3.2** Domestic Commercial Banks are required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises **by March 2017**.
- 3.3** Bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, shall **not** be reckoned in computing achievement under the overall Priority Sector targets as above. However, bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises would be taken into account while assessing the performance of the banks with regard to their achievement of targets prescribed by the Prime Minister's Task Force on MSMEs for lending to MSE sector.
- 3.4** In terms of the recommendations of the Prime Minister's Task Force on MSMEs, the bank has to achieve:
- (i) 20 per cent year-on-year growth in credit to micro and small enterprises, (ii) 10 per cent annual growth in the number of micro enterprise accounts and
  - (ii) 60% of total lending to MSE sector as on preceding March 31<sup>st</sup> to Micro enterprises

## CHAPTER-IV

### 4. Common guidelines/ instructions for lending to MSME Sector

#### 4.1 Disposal of Applications:

- All the loan applications received manually or online, by the MSME borrowers be acknowledged and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt.
- All loan applications for MSE units upto a credit limit upto **Rs. 5 lakh** should be disposed of within **2 weeks**; and for credit limit above **Rs.5 lakh and upto Rs.25 Lakh** within **3 weeks**; and for credit limit above **Rs.25 lakh** within **6 weeks** provided, the loan applications are complete in all respects and accompanied by a " check list".
- Loan applications rejection shall be maintained at branches wherein the date of receipt, sanction/rejection/disbursement with reasons thereof shall be recorded. In case of Micro & Small Enterprises Branch Managers may reject applications(except in case of SC/ST) provided the cases of rejection are verified subsequently by ZM. In case of proposals from SC/ST, rejection should be at a level higher than that of BM.
- If the borrower gets his account rated by outside rating agency the application should be disposed off within 20 days.

#### MSME Portal, Online filing and tracking of SME Loan Application of the Bank

- **SME Online Loan Application of the Bank**  
Bank has placed a system for online filing & tracking loan application for SME customers so that customers can be provided with quick, convenient & hassel free service of loans & Advances. All Branches are advised to acknowledge SME Loan applications submitted manually and online maintain loan application Receipt/Reject Register. No SME loan application should remain pending at branches for more than 30 days.
- **MSME Portal of the Bank**  
Bank has set up a MSME Portal on bank's website which displayed following relevant information and data pertaining to MSME customers:-
  - 1) MSME policy of the bank
  - 2) Presence in MSME cluster
  - 3) Specialized MSME branches in each state
  - 4) MSME campaigns held and number of borrowers given loans in the campaigns
  - 5) Training provided for the bank , staff on MSME needs and number of persons trained
  - 6) Online system of acknowledgement of loan application and loan tracking system
  - 7) Format of loan application form with check list
  - 8) Interest Rates on MSMEs/service charges
  - 9) OTS scheme of the bank
  - 10) Rehabilitation of sick MSMEs - data showing the progress

- 11) Number of people trained in RSETIs and of them those provided credit linkage
- 12) Branch level customer meets held
- 13) Grievance Redressal Mechanism for MSMEs
- 14) Name of the Nodal officer of the bank for MSME complaints and queries
- 15) Indicative List of activities considered as Services in MSME
- 16) PSB Products for Micro & Small Enterprises

Guidelines issued in terms of HO.PS Circulatory letter No.440/2012 dated 31.10.2012. Field functionaries to ensure that the benefits of the scheme are encashed for mobilizing business from the eligible enterprises.

- **Common Application Form:**

Bank has adopted the simplified loan application form along with checklist to be used for all categories of Micro & Small Enterprises borrowers irrespective of loan amount.

- **MSE Booklets- Loan Application, Appraisal and Documentation**

The following MSE booklets for applicant, appraisal and documentation of MSE Credit proposal have been compiled and can be downloaded from Bank's Intranet Site:

1. MSE loan application booklet along with checklist of documents to be submitted by the customer.
2. MSE loan appraisal booklets.
3. MSE loan documents booklet to be obtained from customers.
4. MSE loan documents booklet to be executed by the branch.

Guidelines regarding MSE booklets are issued in terms of HO.PS Circular No. 470 dated 01.04.2014.

#### **4.2 Collateral security:**

- Bank is mandated not to accept collateral security in the case of loans upto Rs.10 lakh extended to units in the MSE sector.
- Bank to extend collateral-free loans upto Rs. 10 lakh to all units financed under the Prime Minister Employment Generation Programme of KVIC.
- Emphasis be made on availment of Credit Guarantee Schemes.
- To encourage MSE lending under Credit Guarantee Scheme, Bank shall bear upfront guarantee fee/annual service fee for MSE loans upto Rs 5 lacs without passing the burden to the entrepreneurs.
- Cases not covered under CGTMSE would be dealt with as specified in the loan policy circulated in terms of H.O. Credit Monitoring & Policy Department Circular No.1680 dated 31.12.2013.

#### **4.3 Composite loan:**

A composite loan limit of Rs.1 crore can be sanctioned by bank to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

#### **4.4 Revised General Credit card (GCC) Scheme:**

In order to enhance the coverage of GCC scheme to ensure greater credit linkage for all productive activities within the overall Priority Sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activity, the GCC guidelines have been revised in terms of Circulatory letter No. 27/2014 dated 10.07.2014.

#### **4.5 Credit Linked Capital Subsidy Scheme:**

Govt. of India, Ministry of Micro, Small & Medium Enterprises had launched Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of Micro and Small Enterprises subject to the following terms & Conditions:

- (i) Ceiling on the loan under the scheme is Rs 1 crore.
- (ii) The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr No.(i) above.
- (iii) Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.
- (iv) SIDBI is implementing agency for the scheme
- (v) Application for availing subsidy under CLCSS to be submitted along with the application for Loan.
- (vi) The sanction letter sanctioning the Loan mentions that the case is eligible for sanction of Subsidy under CLCSS.
- (vii) Order for purchase of machinery by unit would be rendered as investment decision for purpose of CLCSS.

Guidelines issued in terms of HO:PS Circulatory letter No.17/2012 dated 30.03.2012. The online submission of application for subsidy has been initiated by SIDBI and all the applications shall route through Head Office only. The detailed guidelines and online performa circulated in terms of H.O:Priority Sector Circular No.446 dated 23.10.2013.

Field functionaries to ensure that the benefits of the scheme are encashed for mobilizing business from the eligible enterprises.

#### **4.6 Streamlining flow of credit to Micro & Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their Life Cycle:**

In order to provide timely financial support to Micro & Small Enterprises facing Financial difficulties during their Life Cycle, guidelines were issued in terms of H.O. PS Circulatory Letter No.33/2015 dated 16.11.2015 vide which following provision is incorporated in existing lending policies to MSE sector so as to facilitate timely and adequate availability of Credit to Viable MSE borrowers especially during the needs of funds in unforeseen circumstances:

- (i) To extend standby credit facility in case of term loans.
- (ii) Additional working capital to meet with emergent needs of MSE units.
- (iii) Mid-Term review of regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.
- (iv) Timelines for Credit Decisions.

#### **4.7 . Debt Restructuring Mechanism for MSMEs:**

Based on the RBI guidelines, detailed guidelines have been issued in terms of H.O. CMP Circular No.1703 dated 29.09.2016 to ensure restructuring of debt of all eligible Micro, Small & Medium Enterprises.

Based on the recommendation of working group on Rehabilitation of Sick MSEs (Chairman: D.C. Chakrabarty), bank has:

- Put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/ enterprises and non-discretionary One-Time settlement scheme for recovery of non- performing laons for MSE sector with the approval of the Board of Directors.
- Implemented recommendations with regard to timely and adequate flow of credit to the MSE sector.

In this regard, One-Time Settlement scheme has been placed on the Bank's website.

#### **4.8 Framework for Revival and rehabilitation of MSMEs:**

Based on the RBI guidelines, detailed guidelines have been issued in terms of H.O. CMP Circular No.1701 dated 29.06.2016 to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs.

The salient features of the framework are as under:

- i. Before a loan account of an MSME turns into Non Performing Asset (NPA), Banks or creditors should identify incipient stress in the account by creating three sub categories under the Special Mention Account (SMA) category as given in the Framework.
- ii. Any MSME borrower may also voluntarily initiate proceeding under this Framework.
- iii. Committee approach to be adopted for deciding corrective Action Plan.
- iv. Time lines have been fixed for taking various decisions under the Framework.

#### **4.9 Structured Mechanism for Monitoring the Credit growth to the MSE Sector:**

In view of the concerns emerging from the deceleration in credit growth to the MSE sector, an Indian banking Association (IBA)-led Sub-Committee (Chairman: Sh. K.R. Kamath ) was set up to suggest a structured mechanism to be put in place by banks to monitor the entire gamut of credit related issues pertaining to the sector. Based on the recommendations of the Committee, banks have been advised to:

- Strengthen their existing systems of monitoring credit growth to the sector and put in place a system-driven comprehensive performance managed information system critically evaluated on a regular basis;
- Put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks, giving branch-wise, region-wise, zone –wise and state-wise positions. The position in this regard is to be displayed by banks on their websites; and

- Monitor timely rehabilitation of sick MSE units. The progress in rehabilitation of sick MSE units is to be made available on the website of banks.

Bank has placed a system for online filing & tracking loan application for SME customers so that customers can be provided with quick, convenient & hassle free service of loans & Advances. All Branches are advised to acknowledge SME Loan applications submitted manually and online maintain loan application Receipt/Reject Register. No SME loan application should remain pending at branches for more than 30 days.

Guidelines issued in terms of HO.PS Circulatory letter No.440/2012 dated 31.10.2012. Field functionaries to ensure that the benefits of the scheme are encashed for mobilizing business from the eligible enterprises.

## **CHAPTER-V**

### **5. Institutional Arrangements**

#### **5.1. Specialised MSME branches:**

Bank has categorized 108 general banking branches into MSME Specialized Branches as per Annexure-II (a).

The discretionary lending power of these Branches is one scale higher than the existing Scale.

Bank shall endeavor to categorize more of its general branches having 60% or more of their advances to MSME sector as MSME branches for providing better service to this sector as a whole. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers. Bank shall ensure opening of MSME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.

#### **5.2 State level inter Institutional Committee**

In order to deal with the problem of co-ordination for rehabilitation of sick micro and small units, State Level Inter-Institutional Committee (SLIICs) was set up in the states. However, the matter of continuation or otherwise, of the SLIIC forum has been left to the individuals States/Union Territory. The meetings of these Committees are convened by regional Offices of RBI and preside over by the Secretary, Industry of the concerned State Government. It provides a useful forum for adequate interfacing between the state Government officials and State Level Institutions on the one side and the term lending institutions and banks on the other. It closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special scheme such as Margin Money Scheme of State Government and reviews general problems faced by industries and sickness in MSE sector based on the data furnished by Banks. Among others, the representatives of the local state level MSE associations are invited to the meetings of SLIIC which are held quarterly.

### **5.3 Empowered Committee on MSMEs**

As part of the announcement made by the Union Finance Minister, at the Regional Offices of Reserve bank of India, Empowered Committees on MSMEs have been constituted under the Chairmanship of the Regional Directors with the representatives of SLBC convener, senior level officers from two banks having predominant share in MSME financing in the state representative of SIDBI Regional Offices, the director of industries of the State Government, one or two senior level representatives from the MSME/SSI Associations in the state, and a senior level officer from SFC/SIDC as members. The committee will meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It will also coordinate with other banks/ financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The committee may decide the need to have similar committees at cluster/district levels.

### **5.4 Banking Codes and standard Board of India (BCSBI):**

The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to day operations and in times of financial difficulty.

The code also mentions, inter alia, that the banks are expected to dispose of MSE loan application for a credit limit or enhancement in the existing credit limit up to Rs.5 lakh within two weeks; and for credit limit above Rs.5 Lakh and upto Rs.25 Lakh within 3 weeks; and for credit limit above Rs.25 Lakh within 6 weeks from the date of receipt. Provided the application is complete in all respects and is accompanied by documents as per checklist provided.

While bank may voluntarily adhere to such time limits in the code, every effort should be taken to reduce further the time taken to process and dispose of MSE loan application.

The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions/directions issued by the RBI from time to time.

#### **5.4.1 Objectives of the BCSBI Code**

The code has been developed to

- a) Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
- b) Promote good and fair banking practices by setting minimum standards in dealing with MSE.
- c) Increase transparency so that a better understanding of what can reasonably expected of the services.
- d) Improve understanding of business through effective communication.

- e) Encourage market forces, through competition, to achieve higher operating standards.
- f) Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.
- g) Foster confidence in the banking systems.

The complete text of the code is circulated vide H.O. PS circular No. 491 dated 04.10.2015.

### **5.5 Micro and Small Enterprises Sector- The Imperative of Financial Literacy and Consultancy Support:**

Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative for banks that the excluded units are brought within the fold of the formal banking sector. The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represents formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. Moreover, MSE enterprises are further handicapped in this regard by absence of scale and size. To effectively and decisively address these handicaps, scheduled commercial banks have been advised that the banks could either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centers (FLCs) set up by them, as per their comparative advantage. The banks staff should also be trained through customized training programs to meet the specific needs of the sector.

### **5.6 Cluster Approach:**

All Banks are advised to incorporate the Credit requirement in the clusters identified by Ministry of Micro, Small and Medium Enterprises, Govt of India in their Annual Credit Plans. Banks are also encouraged to extend banking services in such clusters/ agglomerations which have come up and identified subsequently by SLBC/DCC members.

- i. Bank to adopt full- service approach to cater to the diverse needs of the MSE Sector that may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely Customer Focus, Cost Control, Cross Sell and Contain risk. A cluster based approach to lending may be more beneficial:
  - a) in dealing with well-defined and recognized groups;
  - b) availability of appropriate information for risk assessment and
  - c) monitoring by the Bank.
- ii. Special emphasis is laid to adopt Cluster approach in MSME lending in 388 clusters identified by UNIDO spread over 21 states in various parts of the country in order to have better proximity and intensive lending in particular area where required infrastructure facilities are available (Annexure-C).
- iii. The Ministry of Micro, Small and Medium Enterprises has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority

Concentration Districts. Accordingly, appropriate measures have been taken to improve the credit flow to the identified clusters of micro and small entrepreneurs from the Minority Communities residing in the minority concentrated districts of the country.

- iv. In terms of recommendations of the Prime Minister's Task Force on MSMEs banks should open more MSE focused branch offices at different MSE clusters which can also act as CounsellingCentres for MSEs. Each lead bank of a district may adopt at least one MSE cluster.

Presently, Bank is having 857 branches in 388 clusters identified by UNIDO. Lead Bank at Moga, Ludhiana & Faridkot districts to adopt at least one MSE cluster and explore opening more MSE focused branches at different MSE clusters which can act as counseling centers for MSEs.

### **5.7 Delayed Payments:**

In the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the existing provisions of the interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial undertaking, have been strengthened as under:

- i. The buyer has to make payment to the supplier on or before the date agreed upon between him and the supplier in writing or, in case of no agreement, before the appointed day. The period agreed upon between supplier and the buyer shall not exceed forty five days from the date of acceptance or the day of deemed acceptance.
- ii. In case the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the bank rate notified by reserve Bank.
- iii. For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- iv. In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

Branches have been advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs.

## **CHAPTER-VI**

### **6 Committees on flow of Credit to MSE sector**

#### **6.1 Report of the High Level Committee on Credit to SSI (now MSE) (Kapur Committee)**

Reserve Bank of India had appointed a one-man High Level Committee (June 30, 1998) headed by Shri S L Kapur, (IAS, Retd.), Former Secretary, Government of India, Ministry of Industry to suggest measures for improving the delivery system and simplification of procedures for credit to SSI sector. The Committee made 126 recommendations covering wide range of areas pertaining to financing of SSI sector. These recommendations were examined by the RBI and it was decided to accept 88 recommendations which include the following important recommendations:

- (i) Delegation of more powers to branch managers to grant ad-hoc limits;
- (ii) Simplification of application forms;
- (iii) Freedom to banks to decide their own norms for assessment of credit requirements;
- (iv) Opening of more specialised SSI branches;
- (v) Enhancement in the limit for composite loans to Rs. 5 lakh. (*since enhanced to Rs.1 crore*);
- (vi) Banks to pay more attention to the backward states;
- (vii) Special programmes for training branch managers for appraising small projects;
- (viii) Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

Banks were advised vide RBI circular No. RPCD.No.PLNFS.BC.22 /06.02.31/98-99 dated August 28, 1998 to implement the Kapur Committee Recommendations.

### **6.2 Report of the Committee to Examine the Adequacy of Institutional Credit to SSI Sector (now MSE) and Related Aspects (Nayak Committee)**

The Committee was constituted by Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the issues confronting SSIs (now MSE) in the matter of obtaining finance. The Committee submitted its report in 1992. All the major recommendations of the Committee have been accepted and the banks have been, inter-alia, advised to:

- (i) give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;
- (ii) grant working capital credit limits to SSI (now MSE) units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs.2 crore [ since raised to Rs.5 crore ];
- (iii) ensure that there should not be any delay in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;
- (iv) not to insist on compulsory deposit as a 'quid pro-quo' for sanctioning the credit;
- (v) open specialised SSI (now MSE) bank branches or convert those branches which have a fairly large number of SSI (now MSE) borrowal accounts, into specialised SSI (now MSE) branches;
- (vi) standardise loan application forms for SSI (now MSE) borrowers; and
- (vii) impart training to staff working at specialised branches to bring about attitudinal change in them.

All scheduled commercial banks were advised vide RBI circular No.RPCD.PLNFS/BC.No. 61/06.0262/2000-01 dated March 2, 2001 to implement the Nayak Committee Recommendations.

### **6.3 Report of the Working Group on Flow of Credit to SSI (now MSE) Sector (Ganguly Committee)**

As per the announcement made by the Governor, Reserve Bank of India, in the Mid-Term Review of the Monetary and Credit Policy 2003-2004, a "Working Group on Flow of Credit to SSI sector" was constituted under the Chairmanship of Dr. A S Ganguly.

The Committee made 31 recommendations covering wide range of areas pertaining to financing of SSI sector. The recommendations pertaining to RBI and banks have been examined and RBI has accepted 8

recommendations so far and communicated to banks for implementation vide RBI circular No. RPCD.PLNFS.BC.28/06.02.31(WG)/2004-05 dated September 4, 2004 which are as under:

- (i) adoption of cluster based approach for financing MSME sector;
- (ii) sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;
- (iii) sanctioning of higher working capital limits by banks operating in the North East region to SSIs (now MSE) , based on their commercial judgment due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;
- (iv) exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs

#### **6.4 Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C. Chakrabarty)**

In the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K.C. Chakrabarty, the then CMD of Punjab National Bank), all commercial banks were advised vide RBI circular No. RPCD. SME & NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009 to:

- a) put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises and non- discretionary One Time Settlement scheme for recovery of non-performing loans for the MSE sector, with the approval of the Board of Directors and
- b) implement the recommendations with regard to timely and adequate flow of credit to the MSE sector as detailed in the aforesaid circular.

Banks were also advised vide above circular dated May 4, 2009 to consider implementation of the recommendations, inter alia, that lending in case of all advances upto Rs 2 crores may be done on the basis of scoring model. Banks have further been advised vide circular DBOD. Dir. BC.No.106/13.03.00/2013-14 dated April 15, 2014 to undertake a review of their loan policy governing extension of credit facilities to the MSE sector, with a view to using Board approved credit scoring models in their evaluation of the loan proposals of MSE borrowers.

#### **6.5 Prime Minister's Task Force on Micro, Small and Medium Enterprises**

A High Level Task Force was constituted by the Government of India (Chairman: Shri T K A Nair), in January 2010, to consider various issues raised by Micro, Small and Medium Enterprises (MSMEs). The Task Force recommended several measures having a bearing on the functioning of MSMEs, viz., credit, marketing, labour, exit policy, infrastructure/technology/skill development and taxation. The comprehensive recommendations cover measures that need immediate action as well as medium term institutional measures along with legal and regulatory structures and recommendations for North-Eastern States and Jammu & Kashmir.

Banks are urged to keep in view the recommendations made by the Task Force and take effective steps to increase the flow of credit to the MSE sector, particularly to the micro enterprises.

A circular was issued by RBI to all scheduled commercial banks vide RPCD.SME&NFS BC.No. 90/06.02.31/2009-10 dated June 29, 2010 advising implementation of the recommendations of the Prime Minister's task Force on MSMEs.

## **6.6 Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises**

A Working Group was constituted by the Reserve Bank of India under the Chairmanship of Shri V.K. Sharma, Executive Director, to review the working of the Credit Guarantee Scheme (CGS) of CGTMSE and suggest measures to enhance its usage and facilitate increased flow of collateral free loans to MSEs.

The recommendations of the Working Group included, inter alia, mandatory doubling of the limit for collateral free loans to micro and small enterprises (MSEs) sector from Rs.5 lakh to Rs.10 lakh and enjoining upon the Chief Executive Officers of banks to strongly encourage the branch level functionaries to avail of the CGS cover and making performance in this regard a criterion in the evaluation of their field staff, etc. have been advised to all banks.

A circular was issued by RBI to all scheduled commercial banks vide RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010 mandating them not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector and advising them to strongly encourage their branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff. The same is circulated to Branches/ controlling Offices from time to time.

## **CHAPTER-VII**

### **7. Other Financial Parameters**

#### **7.1 Risk Weight & Exposure Cap:**

The detailed guidelines on Credit Risk Rating Framework and model is circulated vide HO. RMD Circular No. 296 dated 23.05.2015.

All exposures of less than or one year would be considered as short term exposures. The exposure caps as defined for individual and groups would be governed by RMD Circular No.326 dated 06.07.2016.

#### **7.2 Margins:**

As defined in Bank's guidelines presently invoked in ID Circular No.1657 dated 29.05.2012 and Circulatory letter No.43/ 2013-14 dated 30.12.2013 & amendments from time to time.

#### **7.3 Management Information System:**

The following returns are to be submitted to Head Office:Priority Sector Department with regard to MSME sector for furnishing information to Regulatory authorities:-

- 1) Statement of Credit Flow to MSME sector(Quarterly)
- 2) Flow of Credit to MSME – Statement relating to collateral free loans and composite loans(Quarterly)
- 3) Statement on Specialised SME Branches Return (Yearly).
- 4) Statement of Advances in Clusters as per Cluster Approach- Half Yearly.
- 5) Progress of MSME Sector (Monthly).

All branches are advised to enter correct codes in the CBS System, so that the correct information with regard to Monthly/Quarterly/Half Yearly progress in MSME sector may be derived.

#### **7.4 Sanctioning Authority:**

The Sanctioning Authority would remain in terms of the circular on discretionary powers ID Circular No.1657 dated 29.05.2012, Circulatory letter No.33/2013-14 dated 24.10.2013 and **Circulatory Letter No.15/2016 dated 05.09.2016.**

#### **7.5. Rate of Interest:**

Rate of Interest on MSME loans shall be levied in terms of guidelines issued vide I.D. Circular No. 1647 dated 26.09.2011, H.O. PS Circulatory Letter No.9/2014 dated 08.03.2014 and H.O. RMD Circular No.321 dated 01.04.2016 and amendments from time to time.

Further, concessions are permitted in terms of H.O. PS Circulatory Letter No.9/2014 dated 08.03.2014 and H.O. CMP Circulatory Letter No.15/2016 dated 05.09.2016. Additional concession of 1% for Overdraft Against Property (ODP)/ Loan Against Property (LAP)/ Advance against Rent Receivable cases, where margin available is 50% and above by way of property (i.e. 200% and above coverage), under Priority Sector (including MSME if covered under Priority sector) is permitted. Further concession of 0.25% in ROI for cases where external credit rating is 1 to 4 by SMERA, ICRA, ONICRA or CRISIL shall be given. The maximum concession in these cases should not exceed 1.25% vide **H.O. CMP Circulatory Letter No.15/2016 dated 05.09.2016.**

#### **7.6 Processing/ Reviewal Charges:**

Charges/Fees on MSME loans shall be levied in terms of guidelines issued in terms of ID Circular No.1657 dated 29.05.2016, Circulatory Letter No. 44/2013 dated 30.12.2013 & Circulatory Letter No.15/2016 dated 05.09.2016.

#### **7.7 Other avenues for financing MSMEs:**

- a) Professionals, Traders, Micro & Small Enterprises financing through Micro Financing Institutions (MFIs) which lend to the MSE. ZMs shall be advised to identify such MFIs and take such borrowers in their fold.
- b) Extending credit to activities such as Hotels, Motels, Hospitals, Educational Institutions, Canteens, restaurants, retail Trade etc. which are now considered as SMEs.
- c) Industry Linked MSMEs
- d) All ZMs are advised to contact their large borrowers, which have business relationship with MSME borrowers, and to prepare the list of such MSMEs in their zones and follow up the branches regularly in this regard.
- g) MSME Branches and other branches shall explore the possibility of giving structured and customised financial solutions to MSMEs. Branches needing help in formulating these complete solutions shall approach their respective Zonal Managers.

#### **7.8 Computation of Working Capital:**

The working capital requirements be worked out on the basis of Nayak Committee recommendations for working capital limits upto Rs.5 crores, from the banking system, on the basis of a minimum of 20 % of their projected annual turnover for new as well as existing units, beyond which working capital be computed on the basis of the working capital cycle, after fixing proper margins as stipulated in ID Circular No.1680 dated 31.12.2013.

### 7.9 Guidelines on takeover of borrowal accounts:

The extant guidelines circulated vide ID Circular No.1659 dated 22.06.2012 and amendments from time to time. Further, H.O:Vigilance Deptt. Circular No.463 dated 23.05.2011 shall be scrupulously complied with while taking over accounts from other banks.

### 7.10 Capacity Building of Staff:

Complying with the recommendations of task force on MSME, Bank has decided to reimburse full course fee to officers for acquiring specialized courses run by Indian Institute of Banking and Finance on the subject of SME finance.

### 7.11 Pradhan Mantri Mudra Yojana

Micro Units Development & Refinance Agency Ltd (MUDRA) was launched by Hon'ble Prime Minister on April 8, 2015 as new financial entity for developing and refinancing last mile financial intermediaries like Banks, NBFCs, MFIs etc. This segment mainly consists of enterprises in manufacturing, trading, services & whose credit needs are upto Rs 10 lakh. The overdraft amount of Rs 5000/- sanctioned under PMJDY is also classified as MUDRA loans.

PMMY loans are classified into 3 categories as:-

- **Shishu** : loans upto 50,000/-
- **Kishore**: loans above 50,000/- and upto 5 lakh
- **Tarun** : loans above 5 lakh to 10 lakh

**Eligibility:** Any Indian Citizen who has a business plan for a income generating activity such as manufacturing, trading, service sector & allied agriculture activities whose credit need is less than 10 lakh can approach the Bank, for availing of MUDRA loans under PMMY.

**Loan Application Forms:** In respect of Shishu category, IBA approved one page application & for Kishore and Tarun categories, 4 page application form are available on the Bank's Website.

**MUDRA Card:** It will provide a facility of working capital arrangement in the form of CC/OD to the borrower. Since MUDRA Card will be RuPay debit card, it can be used for drawing cash from ATM or Business Correspondent or make purchase using Point of Sale (POS) machine.

**Collateral Security:** Branches have been mandated not to insist for collateral security & guarantee in the case of loans under Pradhan Mantri Mudra Yojana.

**Interest Rate:** Currently Punjab & Sind Bank is charging the following rates for MUDRA loans:-

Quantum of Loan	Rate of Interest
Upto Rs. 2.00 Lac	MCLR i.e. 9.55%
Above Rs.2.00 lac upto Rs. 5.00 Lac	MCLR + 1.00 i.e. 10.55%
Above Rs.5.00 Lac upto Rs.10.00 Lac	MCLR + 1.50 i.e. 11.05%

**Margin for MUDRA loans:** Margin for loans under Shishu category (loans upto Rs. 50,000/-) is 10%. For loans under Kishore & Tarun category, minimum margin is 25%.

**Classification of MUDRA loans in Finacle:** For classifying accounts under PMMY in Finacle, Scheme code is to be entered as “1228- Pradhan Mantri Mudra Yojana” in TIPS1 menu.

**Guarantee Cover:** The bank has signed an agreement with NCGTC for providing cover for PMMY loans under the “Credit Guarantee Fund for Micro Units”. Bank will continue to bear the Upfront Guarantee Fee/ Annual Guarantee Fee for credit limit upto Rs.5 Lacs in line with extant guidelines on CGTMSE.

### 7.12 Stand up India Scheme

A flagship programme of Govt. of India launched on 5th April, 2016 for facilitating credit to SC/ST and Women entrepreneurs. The objective of Stand-Up India scheme is to facilitate bank loans between 10 lakh and 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

**Nature of Loan -** Composite loan (inclusive of term loan and working capital) between 10.00 lac and upto 100.00 lacs upto 75% of the project cost would be eligible under the scheme.

**Rate of Interest-** The rate of interest for loans under Stand Up India not to exceed MCLR + 3%.

**Security-** In addition to mortgage/hypothecation of Primary Asset acquired out of loan, the loan may also be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL)

**Classification in Finacle -** For classifying accounts under Stand Up India in Finacle, Scheme code is to be entered as “1229- Stand Up India” in TIPS1 menu.

**Benefits of the Scheme-** Apart from linking prospective borrowers to banks for loans, the web portal ([www.standupmitra.in](http://www.standupmitra.in)) designed by SIDBI for Stand- Up India Scheme also provides handholding support through a network of agencies engaged in training, skill development, mentoring, project report preparation, application filling, work shed/utility support services, subsidy schemes etc.

**Guarantee Cover:** The bank has signed an agreement with NCGTC for providing cover for Stand Up India loans under the “Credit Guarantee Scheme for Stand Up India”.

### 7.13 Technology Upgradation Fund Scheme-Textile Sector:

The Government of India (GoI), Ministry of Textiles (MoT), introduced Technology Upgradation Fund Scheme (TUFS) for Textile and Jute Industries on April 1, 1999, for a period of 5 years, subsequently extended by 3 years to cover sanctions up to March 31, 2007. The Scheme has been modified w.e.f. April 1, 2007, for a period of 5 years i.e. to last till FY 2011-12. However, the Scheme was discontinued from June 29, 2010 till April 27, 2011 and loans sanctioned during the said period to the textile units were not covered under the Scheme. The Scheme was re-launched w.e.f. April 28, 2011 as Restructured-TUFS (i.e. R-TUFS) initially for the period upto March 31, 2012, which was further, continued till March 31, 2013. Taking note that the scheme in its R-TUFS form was extended for the first year of the 12th plan i.e. upto 31.03.2013, GoI continued the TUFS as Revised Restructured Technology Upgradation Fund Scheme (RR-TUFS) w.e.f April 1, 2013 to March 31, 2017. Ministry of Textiles vide Order no. 6/5/2016-TUFS has introduced the Amended Technology Upgradation Fund Scheme

(ATUFS). Financial and operational parameters and implementation mechanism for ATUFS during its implementation period from 13.01.2016 to 31.03.2022.

**Objective:-**In order to promote ease of doing business in the country and achieve the vision of generating employment and promoting exports through “make in india” with “Zero effect and Zero defect” in manufacturing, it has been decided that the Government would provide Credit Linked Capital Investment Subsidy (CIS) under Amended Technology Upgradation Fund Scheme (ATUFS). The scheme would facilitate augmenting of investment, productivity, quality, employment; exports along with import substitution in the textile industry. It will also indirectly promote investment in textile machinery (having benchmarked technology) manufacturing.

**i.) Scope of the Scheme: -** ATUFS benefit is available for the benchmarked machinery under the scheme covering the following activities:-

- (a) Weaving, Weaving Preparatory Knitting.
- (b) Processing of fibres, yarns, fabrics, garments and made ups
- (c) Technical Textiles
- (d) Garment/made-up manufacturing
- (e) Handloom sector
- (f) Silk sector
- (g) Jute Sector

**ii.) Amended Technology Up-Gradation Fund Scheme(A-TUFS) features:-** Every eligible individual entity will be paid capital Investment Subsidy(CIS) only under ATUF Scheme, on the eligible investment, as per the rates and the overall subsidy cap as under:-

- (i) Garment, Technical Textiles-15% on eligible machineries with maximum of Rs.30 Crore.
- (ii) Weaving for brand new Shuttle-less Looms (including weaving preparatory and knitting), processing, Jute, Silk and Handloom-15% on eligible machineries with maximum of Rs.20 Crore
- (iii) Composite unit/Multiple Segments-If the eligible capital investment in respect of Garmenting and Technical Textiles category is more than 50% of the eligible project cost-15% on eligible Machines with maximum of Rs.30 Crore
- (iv) Composite unit/Multiple Segments-If the eligible capital investment in respect of Garmenting and Technical Textiles category is less than 50% of the eligible project cost-10% on eligible Machines with maximum of Rs.20 Crore

In case the applicant had availed subsidy earlier under RR-TUFS, he will be eligible for only the balance amount within the overall ceiling fixed for an individual entity. The maximum subsidy for overall investment by an individual entity under ATUFS will be restricted as indicated above for respective segment.

**Processing of Application:-** Beneficiary can apply the application online through “i-TUFS” software and submit the application to the respective branch. The Branch forward the application online to their respective Regional office of Textile Commissioner after verification of documents submitted by beneficiary.

**Subsidy Norms:-** The capital investment under ATUFS will be released in full in one go on eligible investment, only after satisfactory installation/commissioning and commencement of production.

Benefits under the scheme shall be available only if the eligible benchmarked machinery is purchased by availing term loan from a notified lending agency.

Subsidy will be provided only in case of investment made with institutional finance. Investment made by availing Buyers Credit, Usance Credit and Sellers Credit will not be eligible for availing benefits under the scheme unless the entire amount is paid up by the beneficiary before claiming the subsidy and concrete documentary proof is produced for the same at the time of Joint Inspection Team(JIT)verification within the prescribed timelines defined in the scheme.

**iii.) Monitoring Process:** The scheme would be executed/implemented by the Textile Commissioner through its Regional/State Offices. A state/regional level office of the office of Textile Commissioner is being set up in each state which will implement and monitor ATUFS.

The scheme will be administered with a two stage monitoring mechanism i.e by Technical Advisory-cum-Monitoring Committee (TAMC) and Inter-Ministerial Steering Committee (IMSC).

**Technical Advisory-Cum Monitoring Committee (TAMC):** A Technical Advisory-cum-Monitoring Committee(TAMC) under the Chairpersonship of Textile Commissioner will be constituted with technical experts from the Government and the industry covering the different segments, as members.

**Inter-Ministerial Steering Committee (IMSC):** An IMSC will be constituted under the Chairpersonship of Minister of Textiles with the representatives of the Ministry of Finance (Deptt. Of Expenditure and Deptt. Of Financial Services), Deptt. of Heavy Industry, Deptt. Of Commerce, Deptt. Of Industrial Policy & Promotion, NITI Aayog, selected lending agencies, Textile Industry Associations etc. IMSC would be responsible for monitoring and formulation of guidelines for effective implementation of the scheme in accordance with the Cabinet Committee on Economic Affairs (CCEA)'s approval.

#### **7.14 Miscellaneous:**

- a) To help MSME sector overcome their financial crisis the sanctioning authorities while appraising/ sanctioning the proposals of large corporates should persuade them to expedite payment of dues, if any, to MSME sector
- b) Bank has established Rural Development & Self Employment Training Institutes (RSETIs) in 3 lead districts in Punjab namely Ludhiana, Moga and Faridkot to achieve the following objectives:
  - i) To Identify, orient, motivate as well as train and assist the unemployed youth to take up self employed ventures, take care of research and development activities in entrepreneurship and rural development, provide counseling and project counseling activities of different MSME clusters
  - ii) In line with the RBI's policy of 'Financial Inclusion', micro –finance (SHG-Bank Linkage Programme) has been identified as one of the thrust area for lending.
  - iii) Bank's Recovery Management Policy and guidelines for settlement/write off in borrower accounts duly approved by Board of Directors is being implemented in terms of HO:Law & Recovery Deptt. Circular No.258 dated 01.10.2016.

**MINISTRY OF SMALL SCALE INDUSTRIES NOTIFICATION New Delhi, No.SO.1722 (E)**  
**Dated 5<sup>th</sup> October 2006**

S.O. 1722(E) – In exercise of the powers conferred by sub-section (1) of 2006) herein referred to as the said Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in Section 7(1)(a) of the said Act, namely:

- (i) Equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumable stores;
- (ii) Installation of plant and machinery;
- (iii) Research and development equipment and pollution control equipment.
- (iv) Power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
- (v) Bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
- (vi) Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
- (vii) Gas producer plants;
- (viii) Transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of the manufacture to the site of the enterprise;
- (ix) Charges paid for technical know-how for erection of plant and machinery;
- (x) Such storage tanks which store raw material and finished products and are not linked with the manufacturing process; and
- (xi) Firefighting equipment.

While calculating the investment in plant and machinery referred to in paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

- (i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
- (ii) Shipping charges;
- (iii) Customs clearance charges; and
- (iv) Sales tax or value added tax.

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(F.No.4 (1)/2006-MSME- Policy)  
 JAWHAR SIRCAR, Addl. Secy.

**Indicative List of activities considered as Services:**

1. Small road & water transport operators
2. Small business
3. Professional & Self-employed persons
4. Consultancy Services including Management Services
5. Renting of Agricultural machinery
6. Composite Broker Services in Risk & Insurance Management
7. Third party administration (TPA) Services for medical insurance claims of policy holders
8. Seed Grading Services
9. Training –cum-Incubator centre
10. Educational Institutions
11. Training Institutes
12. Retail Trade
13. Practice of Law i.e. legal Services
14. Training in medical instruments (brand new)
15. Placement and management consultancy services
16. Advertising agency and Training centers
17. Sanitation Services (Hiring of Septic Tank Cleaner)
18. Clinical / Pathological Laboratories and scanning, MRI Tests
19. Hospitals
20. Agri Clinic and Agri Business
21. Restaurants with Bar
22. Canteens
23. Hotels
24. Motel Industry
25. Development of Software and providing Software Services.
26. Publishing
27. Advertising Agencies
28. Marketing Consultancy
29. Industrial Consultancy
30. Equipment Rental & Leasing
31. Typing Centres
32. Photocopying centres (Xeroxing)
33. Industrial Photography
34. Industrial R&D Labs
35. Industrial Testing Labs
36. Desk Top Publishing
37. Internet Browsing/ Setting up of Cyber Cafes
38. Auto Repair, Services and Garages
39. Documentary Films on themes like family planning, social forestry, energy conservation and commercial
40. advertising
41. Laboratories engaged in testing of raw materials, finished products
42. ‘Servicing Industry’ Undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles & machinery of any description including electronic/electrical equipment/instruments, i.e., measuring/control instruments, televisions, tape recorders, VCRs, radios, transformers, motors, watches, etc.
43. Laundry & Dry-cleaning
44. X-Ray Clinic
45. Tailoring

46. Servicing of Agricultural Farm equipment, e.g., Tractor, Pump, Rig, Boring Machines, etc.
47. Weigh Bridge
48. Photographic Lab
49. Blue printing and enlargement of drawing/designs facilities
50. ISD/STD Booths
51. Teleprinter/FAX services
52. Sub-contracting Exchanges (SCXs) established by Industry Associations
53. EDP Institutes established by Voluntary Associations/ Non-Government Organisations
54. Coloured, and Black and White Studios equipped with processing laboratory
55. Ropeways in hilly areas
56. Installation and operation of Cable TV Network
57. Operating EPABX under franchises
58. Beauty Parlours and Creches
59. Nursing Home / clinics
60. Courier Services
61. Architecture designers
62. Events Management
63. Catering
64. Gems & Jewellery designing.
65. Retreading of Tyre
66. Infrastructure & Real Estate Activites
67. Power (Electrical) Distribution Service
68. Warehouse, Godown and cold storage Services.

**NOTE:**

Piggery Farm without Bacon processing shall not be classified either as manufacturing or as service enterprise because this is a farming activity.

### **Indicative List of activities considered as Manufacturing:**

1. Manufacture of confectionery product, bakery products, biscuits, cakes, pastries, confectionery products and other bakery products
2. Manufacture And Refining Of Sugar
3. Manufacture Of Indigenous Sugar
4. Manufacture Of Cocoa, Chocolate And Sugar confectionery
5. Manufacture Of Semi-Processed And Ready to Eat Food items
6. Manufacture Of All Other Food Products
7. Manufacture Of Soft Drinks (Aerated Drinks)
8. Manufacture Of Chewing Items Like Pan Masala etc.
9. Manufacture Of Made Up Textile Articles
10. Manufacture of jute, mesta, hemp and other vegetable fibre products such as ropes, cordage, twine, etc.(excluding coir)
11. Manufacture Of Shawls, Blankets, Carpets
12. Manufacture Of Wearing Apparel Readymade
13. Manufacture Of Khadi Garments
14. Dressing And Dyeing Of Fur, Manufacture
15. Manufacture Of Leather Footwear
16. Manufacture Of All Other Types Of Footwears
17. Manufacture Of Plup, Paper And Paper Boards
18. Manufacture Of Newsprint
19. Manufacture Of Corrugated Paper And Paper Board
20. Manufacture Of Coke Or Coke Oven Product
21. Manufacture Of Refined Petroleum Product
22. Manufacture Of Basic Chemicals except fertilizers and nitrogen compounds
23. Manufacture Of Turpentine And Resins Of vegetable origins
24. Manufacture Of Fertilizers And Nitrogen Compounds
25. Manufacture Of Plastic In Primary Form of synthetic Rubber
26. Manufacture Of Pesticides And Other Agro Chemical Products
27. Manufacture Of Paints, Varnishes And similar coatings, printing ink and mastics
28. Manufacture Of All Types Of Pharmaceuticals
29. Manufacture of soaps of all type, waxes & polishes, organic surface active agents (surfactants)
30. Manufacture Of Matches And Fireworks, Explosives, Ammunitions
31. Non-Edible Oils: Manufacture Of Essential Oils
32. Manufacture Of Photochemical, Sensitised Films and Papers
33. Manufacture Of Gelatin And Its Derivatives
34. Manufacture Of Man-Made Fibres
35. Manufacture Of Rubber Tyres, Tubes,
36. Manufacture Of Other Rubber Products
37. Manufacture Of Plastic Products
38. Manufacture Of Fibre Glass And Products
39. Manufacture Of Glass And Glass Products
40. Manufacture Of Non Structural Non-Refractory Ceramic Ware
41. Manufacture Of Cement, Lime And Plaster

42. Manufacture Of Articles Of Concrete, Cement and Plaster
43. Manufacture Of Mica And Mica Products
44. Manufacture Of Basic Iron And Steel
45. Manufacture Of Basic Precious And Non-Ferrous Metals
46. Manufacture Of Structural Metal Products
47. Manufacture Of Refrigerators Or Freezing Equipments
48. Manufacture of tractors, harvesters and other heavy machinery for use in agricultural and forestry
49. Manufacture Of Machine Tools
50. Manufacture of machinery (and parts) for mining, quarrying and construction
51. Manufacture Of Machinery For Food
52. Manufacture of machinery for textile, apparel and leather production
53. Manufacture of light agricultural and forestry machinery and equipment including forage press: ploughs, harrows, weeders, hoes
54. Manufacture Of Machinery For Metallurgy
55. Manufacture Of Weapons And Ammunition
56. Manufacture Of Other Special Purpose Machinery
57. Manufacture Of All Type Of Domestic Appliances
58. Manufacture Of Computer, Printers And Other Computer Peripherals
59. Manufacture Of Office, Accounting And Computing Machinery
60. Manufacture Of Electric Motors, Generators and transformers
61. Manufacture Of Electricity Distribution and control Apparatus
62. Manufacture Of Insulated Wire And Cable
63. Manufacture Of Accumulators, Primary Cells and Primary batteries
64. Manufacture Of Electric Lamps And Lighting Equipment
65. Manufacture Of Other Electrical Equipements
66. Manufacture Of Electronic Valves And Tubes
67. Manufacture Of Medical And Surgical Equipments
68. Manufacture Of Optical Instruments And Photographic Equipments
69. Manufacture Of Watches And Clocks
70. Manufacture Of Bodies For Motor Vehicles
71. Manufacture Of Parts And Accessories For Motor vehicles
72. Manufacture Of Railway And Tramway Locomotives
73. Manufacture Of Aircraft And Spacecraft
74. Manufacture Of Motorcycles, Mopeds, Scooters
75. Manufacture Of Bicycles, Cycle Rickshaws
76. Manufacture of furniture & fixtures made of wood, cane , reed metal, plastic etc.
77. Manufacture Of Jewellery And Related Art
78. Manufacture Of Musical Instruments
79. Manufacture Of Sports And Athletic Goods
80. Manufacture Of Games And Toys
81. Manufacture Of Stationery Articles
82. Manufacture of imitation jewellery, brooms and brushes; floorsweepers, mops; feather dusters; paint pads and rollers etc.; umbrellas, sun umbrellas, walking sticks, seat sticks, whips, riding crops, buttons, press fasteners, snap fasteners, press studs and slide fasteners; articles of personal use: smoking pipes; combs, hair slides and similar articles; cigarette lighters; vacuum flasks and other vacuum vessels for household use; articles of human hair and other articles of personal use.

- 83. Manufacture Of Linoleum And Hard Surface Floor Coovering
- 84. Manufacture Of Gas Distribution Of Gaseous Fuels through Mains
- 85. Cotton Ginning
- 86. Power Generation by conventional as well as by non- conventional processes.