

## Report of the Expert Committee on Micro, Small and Medium Enterprises

The Reserve Bank of India had constituted an 'Expert Committee on Micro, Small and Medium Enterprises' under the Chairmanship of Shri U K Sinha in January 2019 to suggest long-term measures for the economic and financial sustainability of the MSME sector. The committee has submitted its report to the RBI. The key highlights of the report are as under:

- Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important sector of the Indian economy, contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. The Committee noted that a thriving entrepreneurial eco-system is a policy imperative for realizing the potential of the sector and ensuring sustainable growth of the sector
- Global trends in classifying the MSMEs show that it widely differs across jurisdictions and depends upon the government policies of the country. Though, a comparison of some of the countries revealed that most of them are using number of employees as a variable to define MSMEs, in India, MSMEs are presently defined based on investment in plant and machinery / equipment. To facilitate ease of doing business, the Government has proposed turnover based definition by replacing the current investment-based definition of MSMEs. The Committee deliberated upon the proposed definition and found it rational, transparent, progressive and easier to implement with the introduction and operationalization of Goods and Services Tax (GST). Further, the registration under GST has also led to formalization of the sector to a certain extent. The Committee also felt that in view of the need to adjust the definition criteria from time to time in the context of the changing economic scenario, the Parliament may consider delegating the power of classifying MSMEs to the Executive.
- MSEs face problems of delayed payments and hesitate to enforce the legal provisions available to them under the MSMED Act due to their low bargaining power. As timely payments to MSEs is of least priority to the buyers, the solution must be necessarily

designed around the buyers. The Committee recommends amendment to the MSMED Act requiring all MSMEs to mandatorily upload all their invoices above an amount to be specified by Government, from time to time, to an Information Utility.

- As per the MSMED Act, Government has notified procurement policy wherein PSUs/ Government Departments have to make 25% of their procurement from MSEs. To further strengthen the procurement mechanism, the Government has also launched the GeM portal. The Committee recommends that Government should make it mandatory for PSUs/ Government Department to procure from MSEs up to the mandated target of 25% through the GeM portal only
- Recommended that the Government should make PAN as a Unique Enterprise Identifier (UEI) and the same should be used for various purposes like procurement, availing government sponsored benefits, etc. by MSMEs.
- Capacity building of the entrepreneurs is an essential pre-requisite for development of the sector as it equips the entrepreneurs with the necessary knowledge and wherewithal to function. It has been proposed to establish Enterprise Development Centres (EDCs) within District Industries Centres (DICs) in each district. These institutions should be strengthened to be able to run professionally and facilitate development of entrepreneurs into full-fledged, self-sustaining enterprises.
- Presently, MSME clusters are inadequately equipped in areas such as tool rooms, innovation centres, testing facility, etc. The Committee recommends that these clusters should collaborate with companies having innovation infrastructure, R&D institutions and universities that specialize in a specific industry or knowledge area.
- MSMEs lack expertise in product development, technology adoption and marketing strategy. To alleviate these problems, it is recommended that Government should build networks of development service providers that can provide customized solutions to MSMEs in the area of technology, product development and marketing techniques.
- Ministry of MSME may consider setting up of a Non-Profit Special Purpose Vehicle (SPV) to support crowd sourcing of investments by various agencies particularly to pave the way for conducive business ecosystem for MSMEs.

- The Committee recommends for the creation of a Distressed Asset Fund, with a corpus of ₹ 5000 crore, structured to assist units in clusters where a change in the external environment, e.g. a ban on plastics or 'dumping' has led to a large number of MSMEs becoming NPA. This fund could then operate on the lines of the Textile Upgradation Fund Scheme (TUFS) which has been in existence over many years. This would be of significant size in order to make equity investments that help unlock debt or help revive sick units
- As per RBI's extant guidelines issued in 2010, banks are mandated not to seek collateral security for loans upto ₹10 lakh. Considering price rise, the Committee recommends to revise the collateral free loan limit to ₹20 lakh. The same should also apply to loans sanctioned under PMMY and to SHG based enterprises.
- In order to provide loan portability in a seamless manner to MSMEs, the Committee recommends that RBI should come out with measures on portability of MSME loans with a lock in period of one year.
- The Committee considered that there is a case for increasing the exposure limit of ₹5 crore for Regulatory Retail to at least ₹7.5 crore, which can benefit a large number of MSMEs.
- The Committee recommends for creation of Digital Public Infrastructure that will have the potential to reduce loan operating costs significantly.

**The detailed Report of the Expert Committee on Micro, Small and Medium Enterprises is enclosed for your kind reference.**

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm Regards,

Dr S P Sharma

Chief Economist

PHD Chamber of Commerce and Industry

PHD House, 4/2 Siri Institutional Area

August Kranti Marg, New Delhi-110016, India



Tel: +91 49545454  
Fax: +91 11 26855450  
Email: [spsharma@phdcci.in](mailto:spsharma@phdcci.in)  
Website: [www.phdcci.in](http://www.phdcci.in)

Follow us on



*"Towards an Inclusive & Prosperous India"*



**PHD CHAMBER OF COMMERCE AND INDUSTRY**

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400  
Fax : +91-11-2685 5450 • E-mail : [phdcci@phdcci.in](mailto:phdcci@phdcci.in) • Website : [www.phdcci.in](http://www.phdcci.in), CIN: U74899DL1951GAP001947



**COPYRIGHT:** All rights reserved. No part of this publication/Release may be reproduced, distributed, or transmitted in any form or by any means, without the prior written permission of the publisher. For permission requests, write to the publisher.

**DISCLAIMER:** This message and its attachments contain confidential information. If you are not the intended recipient, you are strictly prohibited to disclose, copy, distribute or take any action in reliance on the contents of this information. E-mail transmission cannot be guaranteed to be secure or error-free, as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this message, which arise as a result of e-mail transmission. If verification is required please request a hard-copy version.