



GNLU CENTRE FOR LAW & ECONOMICS
Policy Recommendations

GNLU/CLE/PR-05
28 February 2022

**Recommendations to the Ministry of Micro, Small
and Medium Enterprises on the Draft National
Policy for Micro, Small and Medium Enterprises
(MSME) in India**

Comments on behalf of the Research Group on MSMEs,
GNLU Centre for Law and Economics

Centre Faculty

Prof. (Dr.) Ranita Nagar
Professor of Economics
Head of Centre for Law &
Economics

Dr. Hiteshkumar Thakkar
Assistant Professor of Economics
Co-Convenor, Centre for Law &
Economics

Student Members

Hritvik Mohan (Team Lead)
Ayush Gorana
Manit Sharma
Pratyusha Ivaturi
Sanjali Rupnawar

Index

I. Introduction.....	2
II. General Comments	3
III. Comments on Action Area 8.1 - Intergovernmental Role and Responsibility.....	8
IV. Comments on Action Area 8.2 - Legislation/Regulatory Framework for MSMEs in India 19	
V. Comments on Action Area 8.3 - Access to Finance/ Financial assistance for MSMEs .	26
VI. Comments on Action Area 8.4 - Technology Upgradation.....	31
VII. Comments on Action Area 8.5 – Skill Development.....	33
VIII. Comments on Action Area 8.6 - Knowledge Management.....	36
IX. Comments on Action Area 8.8 – Exit Code.....	37

I. Introduction

Like most other sectors, the Micro, Small and Medium Enterprises (MSME) sector was detrimentally impacted by the COVID-19 pandemic. Since the MSME sector contributes significantly to the Indian economy, it became paramount to ensure that the productivity and efficiency of this sector is improved in order to achieve the V shaped recovery of the Indian economy.

The Ministry of Micro, Small and Medium Enterprises has released the Draft National Policy for Micro, Small and Medium Enterprises in India. The primary goal of the policy is to firm up adaptive and inclusive policy for the MSME sector. Subsequently, the ministry has solicited comments and suggestions from stakeholders, Industry Associations, MSME units and general public. Keeping in mind the mandate of the Centre for Law and Economics at the Gujarat National Law University, Gandhinagar, an endeavor was made to study and analyze the Draft Policy in order to provide comments and suggestions for the ever-growing MSME sector. The focus of the draft policy is to essentially stimulate the overall productivity and efficiency of the MSME sector, so that it can generate income and employment. The Draft Policy is also aimed at helping the MSME sector to become a part of domestic and global value chains.

Therefore, the Centre for Law and Economics constituted a Research Group on the MSME sector to study the Draft Policy and research on the recommendations to suggest comments which would further aid the development of the MSME sector in

India. This document is a collection of the comments of the Research Group, where the focus of the group was to ensure that the MSME sector operates at maximum efficiency, and has the legislative backing to do so. This was done by way of collating and scrutinizing the working of MSME industries in international jurisdictions, as well as various recommendations and state policies, which have been incorporated in the Specific and General Comments advanced below.

II. General Comments

Many financial problems constrain the development and performance of MSMEs. Lacking a strong assets base and viable securities, the typical MSME has very limited access to bank credit. The weak development of complementary financial options such as insurance, equipment leasing, and hire purchase further limits their financing opportunities. This section provides certain general comments advanced by the Research Group.

Supply Side Considerations

The recent government revival plan for MSMEs in the post Covid-19 scenario seems to focus on the supply side, emphasizing on providing liquidity through credit, rather than undertaking measures in the form of increasing expenditure on part of the government. Such a stress on the supply-side and neglecting the demand-side concerns shows an erroneous evaluation of the present situation in order to recover the economy. Because producers do not want to build up stocks of unsold items, supply responses will be slower than usual if there is little or no increase in demand. Thus, though the make in India initiative is in action, there is a need to take active measures to support these enterprises in bringing their products to the market. This, firstly can be done by appropriate training and skill-development especially in today's world wherein these stakeholders need to be equipped with an adequate understanding of e-commerce and how to sell their products online so as to reach a larger audience. Another measure is ensuring that for appropriate products, the public sector rely on these enterprises and be available as a consumer base for them. This would ensure an availability of demand to absorb the products, the production of which is primarily utilizing all these funds.

Ease of Doing Business through exports for MSMEs

1. **Integrating Indian MSMEs with Global Value Chains** - Rise of Global Value Chains and the digital transformation offer opportunities for MSMEs to integrate themselves into the global economy. Global Value Chains allows MSMEs to specialize in specific segments of production rather than having to master all processes required to produce finished goods, and thus integrate into segments of global production chains.¹ There are two ways to implement this:
 - MSMEs involved in manufacturing **intermediate goods for further processing** should be targeted. Evidence for Southeast Asian countries shows that selling inputs is particularly important: manufacturing SMEs in these countries have a higher tendency than larger firms to export goods and services that are sold directly into GVCs. In Thailand, for example, 16% of the value added in the exports of manufacturing SMEs is sold directly to firms abroad for further processing, versus only 6% for larger manufacturing firms.²
 - MSMEs can benefit from GVCs through indirect exports, or by **supplying intermediate goods and services to typically larger firms** – domestic or foreign-owned – which then export. In Mexico, for example, MSMEs account for less than 15% of gross exports, but for 30% of the total value added in the country's exports. In other terms, when the role of SMEs as suppliers of inputs to larger direct exporters is considered, the importance of SMEs as exporters doubles.
 - The report published by Asian Infrastructure Investment Bank on Sustaining Global Value Chains (GVCs) has flagged that India severely lacks participation in Global Value Chains.³ In this regard, **Special Economic Zones (SEZs) are an efficient tool to increase GVC participation.** For instance- GIFT City in Gandhinagar. SEZs have their own set of regulations which incentivize Banks and Non-Banking Financial Institutions to provide credit to MSMEs. Further, MSMEs will be able to borrow in foreign currencies at reasonable rates. The paperwork is digitized, thereby making the process simple and convenient. For these reasons, setting up SEZs can boost exports of MSMEs. Therefore, multiple SEZs must be set up in key regions of India.

¹ <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Plenary-Session-3.pdf>.

² (Lopez-Gonzalez, 2017).

³ https://www.aiib.org/en/news-events/asian-infrastructure-finance/2021/_common/pdf/AIIB-Asian-Infrastructure-Finance-2021.pdf.

2. Tie-up with one district one product scheme

A tie-up between the *one district one product scheme* [ODOP] of the Ministry of Food Processing and Ministry of MSME should be facilitated to boost exports. The intention of ODOP scheme is to provide the framework for value chain development and alignment of support infrastructure.⁴ Each State Government is required to identify the products from each district under this scheme. Making use of this data, the State government can create a list of priority products for export.

Designing Insolvency Law for MSMEs to facilitate ease of doing business

In addition to the recommendations made in the Draft MSME Policy regarding insolvency, following suggestion can be incorporated to design a robust insolvency law:

1. MSMEs should be recognized as a different category of debtors under IBC, especially micro and small enterprises. A simplified procedure to rehabilitate the micro and small enterprises can be introduced. For instance, in Japan under the Moratorium Law, Japanese banks were mandated to endeavour to lessen the burden of debts owed by SMEs to the extent possible by taking measures such as change of terms and conditions of debts, refinance of debts, debt-to-equity swap and so forth, if so proposed by the SMEs. This has helped distressed SMEs, which would otherwise have gone bankrupt, to continue their operations.

In South Korea, there exists a Simplified Rehabilitation Procedure particularly for “small operating income earners”. Although the general provisions of the standard procedure apply, significant differences exist in terms of a custodian not being appointed to supervise the debtor, reduced inspection requirements and a relaxation in the voting framework for the adoption of a rehabilitation plan.

2. **To include a provision for pre-packaged insolvency resolution process (PPIRP)**- PPIRP allows creditors and debtors to work on an informal plan and then submit to Adjudicating Authority (AA) for approval. Currently, the application of PPIRP framework under the Indian Insolvency and Bankruptcy Code is restricted to corporate MSMEs (54A-58 of the Insolvency and Bankruptcy Code, 2016). However,

⁴ <https://www.mofpi.gov.in/pmfme/one-district-one-product>.

it can be significant for non-corporate MSMEs. In India, there are 633.88 lakhs unincorporated MSMEs. The United Nations Commission on International Trade Law (UNCITRAL) referred to pre-packs as 'expedited reorganisation proceedings.' This is a concept predominantly found in foreign jurisdictions such as USA, UK, Singapore, France and Canada.

United Kingdom - Individual Voluntary Arrangement (IVA) is a private negotiation between debtors and creditors wherein the debtors avoid the stigma of bankruptcy. While negotiations are outside of the court, they are supported by legal provisions embedded in the law. If the debtors and creditors can come up with an agreement on the composition of debts, then the court only plays a role in sanctioning the agreement. There is no bankruptcy in the case of an IVA since a plan of repayment is agreed upon before a debtor can be called 'bankrupt'.

Australia- Debt agreements were introduced as an alternative to bankruptcy. They were intended to provide debtors with a cost-effective means of making arrangements with their creditors while avoiding bankruptcy and some of its more serious consequences. Debt agreements are binding agreements made between debtors and their creditors in accordance with Part IX of the Bankruptcy Act, 1966.

On similar lines, Indian Insolvency and Bankruptcy Code should contain provisions of PPIRP.

Data Collection in Anti-dumping and Countervailing Duties Investigations

There are various procedural and substantive challenges which make the trade remedial measures inaccessible to the MSME sector. There is a dire need to make trade the investigations for trade remedies more flexible, especially in the context of data collection. As per the rules in India, producers that account for the major proportion of production have to provide data for investigations. Since MSME sector is comprised of hundreds of small-scale producers for a specific product, each such enterprise will actually account for a very small share of production. The law must be made more flexible, as it does not actually specify what is meant by a "major proportion".

In order to ease the burden of MSMEs with respect to data collection, steps must be

taken to ensure that the proportion necessary for providing data must be reduced to constitute “major proportion”. This is in line with the report of the Appellate Body in the case of EC-Fasteners (China) where they opined that due to the issues present in data collection in a fragmented industry, a lower proportion may be considered as a major proportion.

Further, sampling of domestic producers must also be undertaken. This is a standard practice in the European Union where the European Commission in its investigations consider the data of producers that account for even 7% to 10% in some cases. In such cases, the European Commission considers the data of sampled producers for evaluation of microeconomic parameters such as cost, price, profitability, etc. but the data for the entire industry for macroeconomic parameters such as production, sales, capacity, market share, etc. A similar approach can also be taken in India, and this would help ease the burden of data collection. This would also ensure that in terms of macroeconomic parameters, the injury analysis would also reflect the performance of the entire MSME industry.

III. Comments on Action Area 8.1 - Intergovernmental Role and Responsibility

Section No.	RBI Proposal	CLE Research on Comments	Final Comment
8.1	<p>National Government: (ii) Develop Standard Operating Procedures (SOP) for registration of MSMEs: it discusses the need to have a uniformity in the registration procedures.</p> <p>State Government:(ii) Measures for encouraging enterprises to register and providing convenient and easy mechanism for regulatory compliances.</p> <p>Local Government: (iv) Local governments may ensure speedy registration of property and permission for construction.</p>	<p>Recommendations of Shri Prabhat Kumar Committee: <i>14. It is proposed that the new entrepreneurs should be given a provisional registration. Further, a new field of women entrepreneurs, Scheduled Caste entrepreneurs and Scheduled Tribe entrepreneurs should be added in the alphanumeric registration number.</i></p> <p>Complex registration processes have been recognised as a challenge for the MSME sector in the Draft national policy too.</p> <p>Only 8.2 million of the 55.8 million MSMEs are registered, with the remaining 47.6 million unregistered. Given the aforesaid circumstance, the first and most difficult challenge for MSMEs is to bring all unregistered MSMEs into the official fold and make them eligible for a service package. MSMEs'</p>	<p>Covid-19 has pushed for more online registration systems for MSME's also. However, as an SoP, it would be more effective to adopt a hybrid mode and allow for easier access to registration in agencies set up in districts. This would make the registration more accessible to people in the rural areas.</p> <p>Moreover, as the measure undertaken by the Punjab govt., there should be a flexible period of time to get the requisite approvals and complete all the steps in the registration system. In spite of being a complex procedure, to ensure that the services reach the right people and businesses, a thorough process is required. To facilitate the same, however, training sessions on the registration process should be undertaken.</p>

		<p>unregistered status makes it difficult for them to obtain financing from traditional lenders.</p> <p>The recent Punjab's proposed changes are a welcome recommendation in making access to services more efficient for MSME owners. It now requires that unit owners will have three and a half years after setting up the unit to obtain seven approvals from three departments: the sanction of building plans; issuance of completion/occupation certificate for buildings; registration of new trade licences under The Punjab Municipal Act, 1911 and The Punjab Municipal Corporation Act, 1976.</p> <p>During Covid-19, some changes have been introduced.</p> <p>The Government of India has taken several steps as a follow up on recommendations and impact of COVID 19. These cover easy process of registration.</p>	
8.1	National Government (iii)	Fund of funds by SIDBI under the aspirE. Uses	As international practices and standards show, there is a need

	<p>Review the framework for regulating and funding arrangements covering Central Bank, SIDBI, other public and private sector financial institutions in line with incentives and concessions to promote competitive enterprises.</p>	<p>instruments as equity, quasi-equity, mezzanine debt, etc. Moreover, there is a focus on rural and technological development in ascertaining who to allocate funds to.</p> <p>It has also been stated that low technology diminishes MSMEs' potential, lowers product demand (lower sales), and reduces profit margins. Increased investment in technology and research development, as well as increased use of digital and technology-enabled platforms, are critical for Indian SMEs to remain competitive in the global marketplaces. As a result, the ministry's policy support for technological upgrades and modernization is inevitably extended to the MSME sector through various schemes and programmes.</p> <p>An example of policies at the national level is that of the Bank of England, which has promised increased support for banks lending to <i>the real economy</i>, and will unveil <i>new incentives</i> for banks that increase their lending</p>	<p>to encourage and incentivize ventures that further technological development and also adopt more technologically efficient means in their conduct. Particularly in SIDBI considerations should mention the relevance of targeting technology furthering initiatives and harmonize these goals with the development of the rural areas and businesses. The acts should be aimed at mechanizing the rural economy.</p> <p>Make administrative monitoring units across States and districts to ensure larger population is able to avail the opportunities and assistance is available consistently.</p> <p>However, as is also highlighted in the general comments that an excessive focus on the supply side would not be fruitful and there needs to be a focus on increasing demand for these products and services.</p> <p>In order to allow for the recovery of these MSMEs in the post Covid-19 scenarios, there can be grants set up to allow these entities to develop. To dissuade and to ensure that rent-seekers don't avail advantages of the same, adequate thresholds and checks could also be ensured. This could be by not giving the grant at once, but an amount of it be allowed on attainment of thresholds set out by the</p>
--	--	--	---

		<p>to MSMEs. In particular, it is offering 4-year collateralized loans to cover at least 10% of real economy lending at interest rates at or very close to the Bank Rate and additional funding to banks that increase lending to MSMEs.</p> <p>At the international level, multiple measures have been taken in this regard. In Germany, the government has set up dedicated funds for digitalization and ICT advancement of MSMEs. Germany has designed the programme Digital Now – Investment Funding for SMEs, running until 2023, to provide financial grants and encourage SMEs to invest more in digital technologies and in the upskilling of their employees. Applying SMEs must present a digitalisation plan to invest in either software/hardware or employee training.</p> <p>Similarly, Japan offers subsidies to support teleworking, adoption of IT solutions and developing e-commerce sales channels.</p>	<p>enterprise. Moreover, before availing the grant the entity should be made to provide a plan of its activities to be undertaken in fixed time frames.</p>
--	--	---	---

		<p>Australia announced in September 2020 a package of AUD 800 million to remove outdated regulatory barriers, boost the capability of small businesses and back the uptake of technology across the economy. The measures include spending AUD 29 million on the rollout of 5G high-speed Internet and AUD 28.5 million to promote open banking, where customers can shop around for financial services with their own data. It also includes AUD 6.9 million to test the use of blockchain to cut compliance costs.</p> <p>In November 2020, France earmarked EUR 100 million to support small business in building up online operations. In addition, the government platform FranceNum, launched in 2018 to connect SMEs willing to digitalise with a network of specialised consultants, became a platform for live information on support initiatives from national and local governments, and the private sector. To increase its reach, a daily radio show discusses</p>	
--	--	---	--

		<p>upcoming digital trends.</p> <p><u>In order to make the</u> plan for revival of MSME successful on the ground, the government needs to closely monitor to ensure that banks transmit credit to the needy business units in the sector.</p>	
8.1	(iv) Promote RandD activities and support incubation centres to accelerate development and transfer of affordable and modern technology.	<p>In 2015, the ministry established aspirE, an initiative to promote innovation and rural entrepreneurship. The plan was created to create a network of technology centres and incubation centres to help accelerate entrepreneurship and start-ups in the agricultural business. AspirE aims to establish technology Business incubators (tBi), livelihood Business incubators (IBi), and a fund of funds for such initiatives in collaboration with SIDBI.</p> <p>aspirE- https://msme.gov.in/sites/default/files/ASPIRE_EN.pdf</p> <p>To stimulate innovation, Malaysia is establishing the Technology Commercialisation Platform (TCP). The current incubation</p>	<p>There is a need to have particular target groups as special considerations for women, backward classes and minority groups to cater to their requirements.</p> <p>Livelihood Business Incubation as highlighted in aspirE should have a focus on traditional industries in various towns.</p> <p>There is a need to ease the process and the criterion for setting up new incubation centres, which at present is a lengthy and selective process. Moreover, the process should be eased so as to ensure that more centres can be set up in regional and rural places.</p> <p>All investments and outputs produced by key players and their MSME suppliers must be encouraged, particularly to allow indigenization and/or import substitution through responding to research and development, innovation, and global technology.</p> <p>Encourage and assist any</p>

		<p>facilities are brought together under one national platform, program managers are rewarded for successful commercialization, and SMEs and potential financiers are better connected under this program. As can be seen, the TCP project's design prioritizes selecting the most competitive and innovative businesses.</p> <p>From traditional weaving to pottery, painting, and even medicine, India's cultural variety provides a significant number of regional village industries that manufacture traditional and heritage-based items across the country. Almost every state has its own own culture and rural industries. These industries have a lot of potential for international trade. Many historic industries are founded on the principles of employing natural colours, environmentally safe products, and so on, giving them a distinct competitive advantage in the global market. Village industries have the potential to revolutionise India's rural landscape if given the proper</p>	<p>stakeholder that invests in the traditional and heritage industries for agro and natural medicine and therapeutic products, services, and products and services' development, growth, and opening up of global markets.</p>
--	--	--	--

		<p>momentum in terms of global market exposure, financial assistance, and basic infrastructure. There is substantial potential for further expansion in these areas, given the significant increase in exports of products from traditional and village industries. Local industrial organisations like the Leather Export Council, the Loom Export Promotion Council (HEPC), and the Craft Export Promotion Council (EPCH) must collaborate with the federal government. A state that promotes these products in a yet-to-be-developed market.</p> <p><u>MSMEs have a significant</u> technological challenge. MSMEs necessitate efforts to keep abreast of new advances and technological developments, as well as to maintain track of local conditions in order for them to be beneficial, and to comprehend and incorporate local people. IITs, ITIs, Academics, Process and Product Development Centers, Tool Rooms and Training Centers, and similar</p>	
--	--	---	--

		institutions should be encouraged to connect / enable local MSME clusters, understand and respect their technology-related concerns and problems, and carry out projects that are problem specific. Students should be encouraged to join local organisations and include innovation in their work.	
8.1	<p>National Government (vi) Develop inter-state platform for exhibitions, seminars, workshops, training, research etc., to identify common issues, strategies, share experience and show-case best practices. In this regard, organise stakeholder meets to develop convergence, synergy, mutual learning and cooperation for higher efficiency and productivity.</p> <p>State Government: (ix) Help with value chains creating or linking the enterprises. (x) Integrate the</p>	<p>In France, the Région Grand Est has created a platform called "A Stronger Grand Est" (Plus Forts Grand Est) to connect around 50 innovative companies and communities, companies, associations, healthcare institutions, and other entities in the region in order to determine innovative products and services that can help the region overcome the crisis and rebound.</p>	<p>The platform can be made into a digital platform, and there should be a possibility of adopting a hybrid model for the same. This would enable access and participation from larger number of stakeholders.</p> <p>As done with France, this could also be used to identify overall issues faced by different areas, and how existing innovations could help overcome the problems faced by the MSME sector.</p> <p>Larger enterprises can also be incentivized to participate in the process by means of allowing such activities as a part of the company's CSR initiatives.</p>

	state portals with national level portals.		
8.1	(ix) Develop suitable measures to safeguard interest of the employees and the enterprise (with respect to employment), giving due cognizance to existing regulatory framework in line with the proposed labour codes.	<p>The majority of labour laws apply to businesses of a certain size (usually 10 or more), which is a considerable advantage to MSMEs as it helps in assisting small firms in reducing their regulatory burdens, allowing them to develop efficiently and aid them in remaining competitive.</p> <p><u>It is also essential that the safety</u> of the workers is given utmost priority. The workers' rights have already been curtailed by several state governments by way of suspending the provisions of social security benefits under various laws. Indeed, repercussions of this would be disastrous in case the MSMEs compromise with the safety aspect on account of reducing their expenses. To promote safety at MSME workplaces, it has been proposed that cash incentives are provided, with more reliable vigilance on compliances. Any lapse in ensuring a safe work environment</p>	<p>MSMEs can save their operational cost by reducing compliance costs due to the simplification and digitalisation brought by the new reforms.</p> <p>As it has also been suggested in the cited research report, that cash incentives be combined with more dependable vigilance on compliance requirements to increase safety at these workplaces. Such a measure would greatly incentivise and keep in check compliance by MSME's with the requisite laws.</p>

		may unleash havoc and endanger the lives of all the stakeholders, especially when the Covid-19 spread is alarmingly high.	
8.1	<p>National Government: (xv) Develop a platform to create an integrated database under uniform format on numbers, products, investment, technologies, RandD, marketing, etc. in MSMEs and provide access to stakeholders on need basis.</p> <p>Local Government: x) DICs should develop a local database for regular updation and onward submission for a state and national database.</p>	<p>Recommendations of Shri Prabhat Kumar Committee (2017):</p> <p><i>11. The Committee feels that there is an urgent need for creating a comprehensive MSME database, which can be used to deliver a range of services to individual and groups of enterprises.</i></p> <p><i>13. The Committee recommends that the issue of a comprehensive MSME database be considered in consultation with state governments and other subject matter ministries and then placed before the proposed National Authority at the earliest.</i></p> <p><i>51. E-Tracking of MSME loan proposals and creation of Database of credit to MSME sector: The Committee recommends that a comprehensive ePortal should be established by the Ministry of MSME which should be available to all MSME applicant borrowers throughout the</i></p>	<p>In line with the recommendations of the committee, a comprehensive database that discusses all required details at different levels, i.e., national, state and centre, should be established.</p> <p>Such a portal can be in all required regional languages and in English and hindi, depending on the State and region. The submission of loan applications through the portal would also allow them to avail the required benefits and keep a track of the developments on their applications. Formalizing and making this procedure efficient would reduce the reliance by MSMEs on informal sources of income.</p> <p>The e-portal would facilitate allowing benefits more efficiently and lead to a speedier process.</p>

		<p>country so that they can register their loan applications on such portal against acknowledgement number and the bank should provide complete information about disposal of such applications. Any loan applicant should be able to track the current status of his/her application by logging on to such electronic platform / portal.</p>	
--	--	---	--

IV. Comments on Action Area 8.2 - Legislation/Regulatory Framework for MSMEs in India

8.2.ii	<p>The first major step in this direction has been taken by the Ministry of MSME by bringing appropriate changes in the classification criterion of MSMEs. The new definition and criterion have come into effect from 1st July, 2020. Gears up to implement the New Norms of classification of MSMEs.</p>	<p>The new definition and criterion have come into effect from 1st July, 2020. Prior to the revised definition, MSMEs were defined on the revised definition has made three key changes:</p> <ol style="list-style-type: none"> 1. Revised the threshold of investment upwards. 2. An additional criterion of turnover was added. 3. The difference between manufacturing and services. <p>While this is a welcome</p>	<p>To have a comprehensive definition of MSMEs, an additional parameter of no. of employees should be considered.</p> <p>Further, Investment should be scrapped off as a requirement and turnover should be emphasized upon.</p>
--------	--	---	---

		<p>move to have a holistic approach towards the definition of MSMEs, it is not in line with international best practices. Reserve Bank of India cited a study by International Finance Corporation analyzing international definitions of 155 countries provided that 92% of the definitions use number of employees as one of the criteria.</p> <p>The Standing Committee had highlighted that in a labour-intensive country like India, appropriate focus is required on employment generation and MSME sector is the most suitable platform for this. Thus, number of employees serves as a significant parameter to define MSMEs.</p> <p>Further, The 2018 Amendment Bill sought to replace the investment criteria with annual turnover as the sole criteria for the classification of MSMEs. The Standing Committee agreed with the proposal under the Bill to use annual turnover as the criteria</p>	
--	--	--	--

		<p>instead of investment.⁷ It observed that this could overcome some of the shortcomings of classification based on investment. While turnover based criteria will also require verification, the Committee noted that the GST Network (GSTN) data can act as a reliable source of information for this purpose. Various countries such as USA, Brazil, Canada, France, UK and Switzerland have adopted definitions based on annual turnover.</p>	
8.2.iii	Each state should have its own regulatory system exclusively for MSMEs.	<p>Point no 8.2.iii is in conflict with point 8.2.xvi which states: “Many states are having <i>different Laws/ordinances to regulate and promote MSMEs. There is no uniformity in these States’ Laws. The Central Govt may prepare a model law and circulate among states. The adoption of the model law by the state will bring uniformity among all states.</i>”</p>	<p>One of the objectives of MSME draft policy is to bring about uniformity.</p> <p>Thus, there should be one regulatory framework which provides broad guidelines to the States. Further, every state should have the flexibility to introduce its own initiatives within the mandate of the regulatory framework.</p>
8.2.iv	Review the composition of	Section 21 of the Micro, Small and Medium	In the present MSME Act, Section 21 (iv) provides for the

	<p>facilitation council to widen its outreach and access to all stakeholders.</p>	<p>Enterprises Development Act, 2006 (MSMED Act), contains provisions for the composition of the Facilitation Council which consists of:</p> <p>(i) Director of Industries, by whatever name called, or any other officer not below the rank of such Director, in the Department of the State Government having administrative control of the small scale industries or, as the case may be, micro, small and medium enterprises; and</p> <p>(ii) one or more office-bearers or representatives of associations of micro or small industry or enterprises in the State; and</p> <p>(iii) one or more representatives of banks and financial institutions lending to micro or small enterprises; or</p> <p>(iv) one or more persons having special knowledge in the field of industry, finance, law, trade or commerce.</p>	<p>inclusion of persons with special knowledge.</p> <p>This should be narrowed down to specifically include:</p> <ol style="list-style-type: none"> 1. Representatives of women self-help groups or women led MSMEs and representatives, preferably those belonging to the rural sector as 80% of Micro Enterprises are run by woman entrepreneurs. 2. Representatives of Agro-Rural MSMEs. <p>As per the National Sample Survey (NSS) 73rd round, there are 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities.</p>
8.2.v	<p>Most of the states are having one FC at the state level</p>	<p>Setting up facilitation councils increases the burden of financing on</p>	<p>The Centre can financially aid the States in a sharing scheme such as 60:40 or 70:30 with the</p>

	<p>which is not adequate to deal with the number of cases being filed and delay and pendency are common feature. Keeping in view the number of cases coming before the FCs, more FCs are required to be created. To deal with the situation there is need for establishing more FCs and if possible/feasible, an FC should be set up in each district. Increase the number of MSEFCs particularly in larger States such as Madhya Pradesh, Uttar Pradesh, etc., and in areas of large concentration and volume, so as to meet the time specified for resolving cases.</p>	<p>the state since Facilitation Centre would require maintenance. It should be clarified who would bear the cost of setting up the additional Facilitation Council: the Centre or the State. MSMEs in general face problems of lack of formal resources as the State Government finds it difficult to finance MSMEs.</p> <p>The top 10 states with most no. of MSMEs as of 1.7.2022 after the adoption of new definition are:</p> <ol style="list-style-type: none"> 1. Maharashtra- 14,47,953 2. Tamil Nadu- 7,38,085 3. Gujarat-5,67,950 4. Rajasthan- 5,53,197 5. Uttar Pradesh- 5,47,590 6. Karnataka- 3,97,054 7. Madhya Pradesh- 2,99,925 8. Bihar-2,71,395 9. Haryana- 2,46,605 10. Telangana- 2,25,822 	<p>majority portion being paid by the State. This would greatly reduce the financial burden on the State.</p> <p>In the top 10 states multiple Facilitation Councils can be set out in key regions and not necessarily district wise as this might lead to increased demand for infrastructure and funds. A reasonable time period should be affixed to resolve the dispute. Section 29A of the Arbitration and Conciliation Act provides a time limit of 12-months for completing the proceedings. Given, the dispute before the Facilitation Council is not as procedurally rigid in nature, a time limit of 180 days can be affixed.</p>
8.2.vi.	The ambit of	Issues pertaining to	The Centre should address these

	<p>Facilitation Council needs to be extended to Medium enterprises also. The MSMED Act, 2006 need to be modified to expand jurisdiction of council to the cases involving the second party from another state. The modification should also include the cases already taken up by NCLT which came into effect in the year 2016 much later than MSMED Act, 2006.</p>	<p>jurisdiction are:</p> <ol style="list-style-type: none"> 1.If a dispute arises between two MSMEs incorporated in different states, then the jurisdiction of which Facilitation council shall prevail. 2. The Supreme Court has recognized in the case of <i>M/s. Silpi Industries v. Kerala State Road Transport Corporation, (2021) SCC OnLine SC 439</i> that the provision for mandatory conciliation under Section 18 of the MSME Act will override the Arbitration and Conciliation Act. Only when the parties are unsatisfied with conciliation can they resort to arbitration. <p>However, in the same case, the Supreme Court rigidly interpreted Section 8 of the MSMED Act by objecting to the application of MSMED Act to those MSMEs which have registered belatedly.</p> <p>Such a rigid interpretation is detrimental to the aggrieved MSMEs.</p>	<p>issues specifically.</p> <ol style="list-style-type: none"> 1. Once a dispute has been filed before then a particular Facilitation council, any other Facilitation council should be barred from taking cognizance over a similar matter between the same parties. 2. MSMEs which have registered belatedly with a reasonable time period should be considered eligible under Section 18 of MSMED Act.
--	---	--	---

8.2.vii.	Promote awareness on Samadhaan among MSE borrowers.	<p>Only about 20% of all applications filed have either been disposed of, or mutually settled with buyers, while nearly 39% applications were yet to be seen by the government officials. Another 27% of total applications are currently under consideration.</p> <p>The <u>paperwork for each case is so extensive</u> that it would need a minimum of <u>four hours</u> for a highly skilled official to go through and vet each document and make a decision on the case.</p>	<p>The Samadhaan scheme is a critical initiative and requires strategic implementation.</p> <ol style="list-style-type: none"> 1. To simplify paperwork, standardized templates of contracts can be uploaded for MSME entrepreneurs. The entrepreneurs typically do not possess the technical knowledge to file the paperwork or have the wherewithal to seek professional assistance. 2. Technological skill building sessions have to be conducted to accustom the entrepreneur with the interface of the platform. Further, step-by step guidance should be provided.
8.2 xiii.	There is need to make the Registration of micro, small and medium enterprises easier. it is the procedural aspects of registration and licensing that have the potential to serve as hindrances to MSME owners, owing to their tedious and protracted nature. These need to be simplified.	<p>As per data from the MSME Ministry, the numbers of MSMEs which have been registered in India under Udyam Registration so far - <u>59,81,653</u> whereas the number of MSMEs present in India are <u>6.3 crore</u>.</p> <p>The gaping disparity can be attributed to technological and cultural barriers faced by entrepreneurs, particularly those belonging to rural areas and senior citizens.</p>	<p>To promote awareness, the Registration portals should be launched in regional languages of each state. This will facilitate accessibility to technology.</p> <p>Capacity Building workshops should be conducted to guide the entrepreneurs step by step on how to go about registration.</p> <p>There should be a helpline devised to solve technology-based queries of entrepreneurs.</p>

V. Comments on Action Area 8.3 - Access to Finance/ Financial assistance for MSMEs

Section 8.3 (i)	Introduce uniformity in and simplification of various loan application formats and assessment process in line with learnings from supply chain financing and escrowing of cash flows.	<p>The government should make offers in the financial sector with a view to invite participation of organizations and institutions that cater specifically to MSMEs (credit unions and other micro lending institutions).</p> <p>Encourage through legislation and Central Bank interventions the opening up of MSME windows in existing financial institutions with simplified procedures and systems of lending.⁵</p> <p>Encourage the introduction of non-bank intermediated finance services such as credit guarantee schemes, micro leasing and credit union/cooperative programs in intermediary organizations and/or through the development of institutions for this specific purpose.</p>	Provisions should be included in the policy itself that are directed at increasing the access to finance and related institutions specifically for the MSME sector.
Section	Use surrogates like	Many MSME don't have	The method should be simplified

⁵ https://msme.gov.in/sites/default/files/2015_02_MSME_Committee_report_Feb_2015.pdf

8.3 (iii)	personal guarantee, bank statement, GST data, standardized score cards to evaluate credit worthiness of MSME borrowers.	solid accounting system in place. The credit scoring is carried out by the channel on-site in China so that no confidential data is leaked. ⁶ The policy focuses on the social credit system. Bank account transaction data can also be used to supplement existing information assets.	to attract more borrowers as it provides more security to them and made them accountable towards lenders.
Section 8.3 (iv)	Encourage MSMEs to obtain Zero Defect Zero Effect (ZED) Certification from QCI, and the banks could pass on some benefit due to lower risks for such units by way of interest/ processing fee concessions.	As a practical example for a bank, transaction costs could be decreased by leveraging information tools. ⁷ <i>Further, a credit expansion effect i.e., higher loan eligibility of the borrowers; due to lower risk weights given to credit line amount is crated in the presence of home ownership and profession element. These results are in line with previous empirical findings.</i> ⁸ In presence of relational information, certain costs such as screening and monitoring are likely to decrease ⁹	The banking system, including MFIs, should be encouraged to be more competitive and use innovative financial instruments targeting MSMEs to reduce transaction costs and increase productivity.

⁶ Alternative Credit Scoring of Micro, Small and Medium Enterprises, [c](#).

⁷ D. Bag, 'Transaction Costs and Efficiency in Intermediation', Journal of Service Research Volume 13(No. 1): pp 94-109. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3770422

⁸ *Ibid*

⁹ Luoto, Jill, Craig McIntosh, and Bruce Wydick (2007) 'Credit Information Systems in Less Developed Countries, A Test with Microfinance in Guatemala', Economic Development and Cultural Change 55:2, pp. 331-34.

Section 8.3 (vi)	In addition to PSB Loans In59 Minutes portal, develop facility for new entrepreneurs, presently under development, needs to be expeditiously deployed. Enhance loan limit to ₹5 core.	MSME start-ups require different forms of finance which includes seed capital from angel investors, venture capital, private equity, etc. ¹⁰ A specialised organisation should be established using private sector investors in partnership with government (PPP) to investigate the viability of such an operation.	There should be improved sustained access to and beneficial utilization of finance for business start-up and expansion.
Section 8.3 (vii)	Ensure that all applications accorded in principal approval are disposed of within a period of 7-10 days. Review algorithms leading to initial in-principal sanction but final rejections by the banks' in a time bound manner.	<ol style="list-style-type: none"> 1) A register should be maintained at the branch wherein the date of receipt, sanction/ rejection/ disbursement with reasons thereof, etc., should be recorded for all the Applications received by the branches for their consideration as and when received. 2) Rejection of application for fresh limit/enhancement of existing limits should not be done without prior approval of the authority. 3) Sanction of reduced limits should be 	Present format of the KFS as under Annexure F of the Report is the one that is standardized for SCBs and therefore, is not optimized enough to be readily put to use in the digital lending sphere. It must be tweaked and optimized according to the realized needs. Before rolling out a KFS, KFS testing is essential.

¹⁰ <https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf>

		<p>reported to the next higher authority immediately with full details for review and confirmation.</p> <p>The reason for rejection should be communicated in writing to the borrower within the period stipulated for disposal in line with the stipulation.¹¹</p>	
Section 8.3 (viii)	Build banks' ability to capture cash flows of MSME borrowers on a regular basis, for which tie-ups with Industry Majors/ Aggregators/ Online platforms will have to be done by the Banks	Whilst majority banks are currently reluctant to lend and provide other services to MSMEs for a variety of reasons, ¹² this can be overcome by providing finance specifically for on-lending to MSMEs, while at the same time the Reserve Bank of India (RBI) should encourage the banks to lend, a certain percentage of their loan portfolio to the MSME sector at affordable interest rates.	Enhance access to finance for MSMEs through alternative finance including guarantees, seed and venture capital, and insurance, in addition to debt and equity lending.
Section 8.3 (x)	Screening methodology of financing institutions to consider non-financial	Based on a survey of SMEs' finance in Japan, Uchida (2011) finds that in the screening process to grant loans to SMEs,	Availability of ample and timely credit at a reasonable rate of interest is vital for the development of these sectors. The use of the Screening method may cause delays in

¹¹ MSME Policy, Punjab National Bank, <https://www.pnbindia.in/downloadprocess.aspx?fid=bgiMazHZpri3ELuuth/AIA==>

¹² https://cab.rbi.org.in/docs/Special_Study/Study%20Report-Issues%20and%20Challenges%20in%20Access%20to%20Finance%20for%20MSMEs%20-%20Pune%20Cluster.pdf

	<p>parameters and management competencies, while evaluating loan proposals from SME units.</p>	<p>smaller banks give more importance to the relationship factor, also using third-party information as a reference.¹³ It may influence the total time taken by the bank in sanctioning the loans.</p>	<p>sanctioning loans in emergency conditions. Financial Institutions may consider credit score and past history of borrowers for lending loans.</p>
--	--	---	---

¹³ New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments, OECD, <https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf>.

VI. Comments on Action Area 8.4 - Technology Upgradation

<p>Section 8.4(ii)</p>	<p>Promote India's integration into the global supply chain, bid for outsourcing businesses, and increase their own productivity. Create an environment for MSME joint ventures to enable Indian MSMEs to partner with their global businesses and evolve to global levels on innovation, adapting to new technologies and attention to quality.</p>	<p>Innovation can be legally protected in two ways- Patent or Trade secret.¹⁴ Inviting bids for outsourcing businesses also involves the transfer of trade secrets related to MSMEs, which may cause danger for the existence of Indian MSMEs in this competitive world.</p> <p>Enter into bilateral and multilateral agreement with international organizations involved in technology transfer and upgrading to improve access to technology by MSMEs.</p> <p><i>India has entered into bilateral trade agreements with some countries in the recent past. A variety of agreements such as Comprehensive Economic Cooperation Agreement (CECA), Comprehensive Economic Partnership Agreements (CEPA) and Preferential Trade Agreements and FTA have been signed by India with Association of Southeast Asian Nations (ASEAN). These agreements would primarily look at facilitating trade and commerce, and stipulating principles and methods for trading.¹⁵</i></p>	<p>A proviso clause should be included that provides rights to Indian MSMEs not to transfer their trade secret during open bids or during the signing of joint ventures with their global business partner.</p>
------------------------	--	---	---

¹⁴ Andrew A Schwartz, *The Corporate Preference for Trade Secret*, Colorado Law Faculty Scholarship, HeinOnline, 2013, <https://scholar.law.colorado.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1680&context=articles>.

¹⁵ https://www.wipo.int/edocs/pubdocs/en/wipo_natstudy_sme_india.pdf

<p>Section 8.4(iii)</p>	<p>Develop a focused institution encouraging technology development and RandD activities in MSME sector in a coordinated manner. The suggested institution may identify thrust areas for research, new areas for technology application, opportunities for commercialization of RandD, and hand-holding of MSMEs in their RandD intensification</p>	<p>Recognition of Innovation and incentives offered to innovators play a key role in determining the quality of their works.</p> <p>To promote creativity and innovation in the MSME sector, we need to introduce annual award schemes that recognize innovation and technology development within the sector.</p> <p>The same concept of recognition of work was used in The Micro, Small and Medium Enterprise development policy introduced by Ministry of Commerce, Trade and Technology, Republic of Zambia¹⁶ and The Gambia National Policy for MSME¹⁷</p> <p>(The Policy aims to encourage MSMEs for production through wealth and job creation and reduce over-dependency on other factors.)</p>	<p>The introduction of an annual award for recognition of Innovation would play a key role in the improvement of the quality of the work, as well as incentivize innovation by means of national recognition.</p>
<p>Section 8.4(vi)</p>	<p>Ensure technology linked skill development, so that enterprises don't face the problem of lack of skilled workforce when they adopt the technology. This may require linking the incubation centres with vocational training institutes.</p>	<p>Ensuring internet access platforms/spaces in rural areas for MSMEs is essential for enhancing their online presence and promote their products, with the help of Business Development Advisors.</p> <p>A strong public-private-partnership (PPP) should be established to create opportunities for vocational training and professional mentoring programmes in ICT.¹⁸</p>	<p>Whilst many smaller MSMEs are labour intensive which soak up the unemployed, in the future, the use of technological developments will be necessary to provide products and services that are competitive and acceptable.</p>

¹⁶ http://ilo.org/dyn/youthpol/es/equest.fileutils.docHandle?p_uploaded_file_id=99

¹⁷ https://en.unesco.org/creativity/sites/creativity/files/qpr/msme_policy_2019_-_2024.pdf

¹⁸ https://www.etf.europa.eu/sites/default/files/2021-01/ppps_for_skills_development_volume_i.pdf

Section 8.4(iv)	Create Centres of Excellence with specialized staff to periodically study issues faced by MSMEs and build capacity through SOPs, Guidelines, manuals and checklists.	MSMEs should be encouraged to link together in a network of similar groups to benefit from training, market intelligence and technological innovation. There should be constructive dialogue and exchange of information. Centre of Excellence should facilitate the exchange. The Centre for excellence should launch short term courses for non-specialized staff working in the MSME to improve their productivity and chances of securing jobs. The Ministry of MSME should create funds for the same. The fund should be regulated by the Centre of Excellences created by the Ministry.	To facilitate the exchange of information and benefit from training, the Centre should also launch short term courses for non-specialized staff to improve their productivity and chances to secure jobs for the longer term. The ministry should create a separate fund for the training of non-specialized staff regulated by the Centre of Excellence.
-----------------	--	--	---

VII. Comments on Action Area 8.5 – Skill Development

8.5(i)	This section focuses on the nodal centres for skill development which would be made at the district level and would receive the information from all the training entities regarding the programmes that they would be providing in the next six months.	Singapore provides non-financial assistance and consulting for international expansion through the Internationalization Program. Under this program, training and consultancy services on protecting and maximizing intellectual property rights for Singapore companies who wish to venture abroad, through strategy, research, training and online resources is provided. This program, among many others that are championed by various Singapore government agencies, are aimed at developing a pool of knowledge and experiences in a certain domain area (e.g.	A similar system should also be developed in India, where in the skill development centres, this facility can be provided only to the MSMEs who wish to venture abroad, through strategy, research, training and online resources.
--------	--	--	--

		Intellectual Property) that all firms can tap on, or serve as a common platform to create a more vibrant environment for aspiring businesses to grow. By providing more publicly available resources required by growing SMEs, no firms are excluded from the benefits that government offers, yet only the more competitive ones will utilise these resources to their advantage to create more value in the economy.	
8.5(iv)	This section provides for the Cell to undertake awareness activities since a large number of micro enterprises are in the informal sector.	The ILO provides “open source” training tools using the Activity-Based Learning approach for any organizations interested in supporting vulnerable and hard to reach communities. The ILO has previously organized an online workshop on “Delivering Impactful Support for Informal Businesses” for Indian ministries, sectoral associations and development organizations, which support development of informal businesses. The workshop presented findings from research on training and skills needs for the informal sector in India, as well as case studies from Lao People's Democratic Republic Cambodia on delivery of the ILO's Activity-Based Learning programmes. Mr Emmanuel Santoyo Rio, a specialist in development of informal economies, had presented his findings from an impact assessment of the Activity-Based Learning (ABL)	India should follow the programmes that have been successfully implemented in Cambodia. The programme must be such, which does not require an expert training facility. It must also be scalable, customizable and low cost.

		<p>programmes in Laos and Cambodia. He highlighted that the ILO's ABL approach offers a unique training methodology, one that is participatory, doesn't require expert trainers, is scalable, customizable and low cost. As a result, it is particularly well suited to supporting informal enterprises and workers, and organizations which support them.</p>	
8.5(v)	<p>This section states that the duration of the programmes may be kept small or in parts, if they need to be longer in nature, because the Micro and Small enterprises may not be in a position to spare their employees as they mostly have small workforce.</p>	<p>Working hours are often long and any time off from the productive work means less income. It is unlikely that informal sector entrepreneurs will provide their workers time off for training. On the contrary, skilling workers may appear threatening for the entrepreneurs: skilled and trained workers may demand higher pay, leave to work for competitors or establish enterprises themselves (House and Paramanathan 1994).¹⁹</p> <p>House and Paramanathan (1994) point out that: "in the most effective training projects, programme inputs reflect the plans and desires of the clients and stay close to the level of skills and knowledge in the community." Programmes that are developed on these principles tend to be simple, low cost and participatory, involving closely the community groups in planning and execution. They also stated</p>	<p>A similar approach should be adopted. The programmes should be simple, low cost and participatory, involving closely the community groups in planning and execution</p>

¹⁹ Promotion and training issues in the informal sector in the context of rapid population change, by William J House and Kandasamy Paramanathan.

		that the informal sector projects which combine vocational skills training with management training and intensive follow-up, are the most effective forms of training. They also appreciated training which comes in the form of practical tips given informally and on-site, for e.g., on how to open a bank account and where to purchase required supplies.	
--	--	--	--

VIII. Comments on Action Area 8.6 - Knowledge Management

8.6(b)	The given section focuses on a database through which startups can also be trained.	In Italy, a portal for MSMEs to access free of costs digital services from large private sector companies regarding smart/teleworking, video conferencing, access to mobile data, cloud computing etc. is created. Italy launched an initiative called Digital Solidarity, which includes the creation of an online portal where SMEs and the self-employed can register to access free digital services provided by large private-sector companies in fields such as teleworking, video conferencing, and access to mobile data. The Italian government has established a portal where enterprises, particularly MSMEs, can register to access free digital services from large private-sector companies.	As is seen successful in Italy, the government can help in establishing this portal as a platform where MSMEs can register free of cost to access free digital services from large private sector companies regarding smart/teleworking, video conferencing, access to mobile data, cloud computing, etc.
8.6(vi)	The section provides for local agencies to use AI	CognitionX was commissioned by the Mayor of London, Sadiq Khan, to map AI innovation	Similar initiatives should also be taken by the local elected

	<p>tools in furtherance of carrying out the business.</p>	<p>across London and identify the capital's unique strengths as a global hub of Artificial Intelligence. The findings of this research will inform the actions the Mayor will take to support the future growth of AI across different industries to drive innovation, productivity and growth. AI is a huge opportunity. With 758 companies, 645 of which have a London headquarters, London has an AI supplier base that is double the size of Paris and Berlin combined. London has stronger global positions in AI in its leading industries, especially finance, insurance, and law. The rate of new AI supplier formation in London is 42% per annum, significantly faster than the global rate of 24% per annum. London's skilled talent pool provides the capital's AI suppliers and their customers with a pipeline of technical and entrepreneurial talent. London's open, tolerant and multicultural society is a powerful draw for AI founders, talent and investors who see the city as a great place to live and work.</p>	<p>representatives to incorporate AI into MSMEs and make them more tech savvy. Furthermore, vigilance must be maintained to know that the steps are being implemented properly.</p>
--	---	--	---

IX. Comments on Action Area 8.8 – Exit Code

<p>8.8</p>	<p>(i) Align the small & Medium Enterprises with Fast</p>	<p>When a company falls into liquidation, 2016 MSME dues should be given priority over all other unsecured payments after satisfying employee dues, according</p>	<p>For the benefit of MSME insolvencies, the Code, which establishes a framework for fast-track CIRP, should be changed to make it more debtor-friendly.</p>
------------	---	---	--

	<p>Track Corporate Insolvency Resolution Process under the provision of Insolvency and Bankruptcy Code, 2016.</p>	<p>to the Insolvency and Bankruptcy Code. The MSMED Act may have enough provisions in this regard. MSMEs, as operational creditors, are currently at the bottom of the priority list in liquidation proceedings. MSMEs are particularly vulnerable to distress and failure during a macroeconomic crisis, such as the one caused by the Covid-19 pandemic. This is because of limited access to new lines of credit, undiversified business structures, over-dependence on counter-parties and inability to downsize operations efficiently.²⁰</p> <p>For smaller debtors, the Code already includes a "fast-track corporate insolvency resolution process." The proposed structure should include a simple, debtor-friendly system that leads to quick and cost-effective resolutions. To accomplish this, an MSME debtor's current management should be permitted to initiate proceedings well before a default occurs, and they should be allowed to maintain control throughout the process. Furthermore, existing promoters may be given a right of first refusal to maintain control after the regular bidding process is completed, allowing the business to be run by the same management even after the resolution.</p>	<p>While the bidding procedure for ordinary bankruptcy proceedings should be followed, promoters should also have the right to keep control if their resolution proposals are better than those given by third-party resolution applicants.</p>
8.8	(v) Set up an independent Rehabilitation Fund for	<p>In order to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and</p>	<p>These developments have been a welcome initiative especially in the post Covid-19 scenario where MSME's have been</p>

²⁰ <https://vidhilegalpolicy.in/blog/introducing-a-special-framework-for-resolving-insolvency-of-msmes/>

	<p>rehabilitation of sick, micro, small and medium enterprises.</p>	<p>development of MSMEs, the Ministry of Micro, Small and Medium Enterprises, Government of India, vide its Gazette Notification dated May 29, 2015 notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Reserve Bank of India, after continuous follow up, has also issued guidelines to the Banks on 17.3.2016. Under these guidelines Banks have created a structure for finalising corrective action plan for revival & rehabilitation of MSMEs.</p> <p>According to RBI data, the number of sick units in MSME sector has gone up by 16 per cent to 90,141 units in March 2011 from 77,723 in March 2010. On the MSE (Medium and Small Enterprises) loan policy, he said, "...banks have also been advised to review and put in place MSE loan policy, restructuring or rehabilitation policy and non-discretionary one time settlement scheme for recovery of non-performing loans, duly approved by their board of directors".²¹</p> <p>The Confederation of Indian Industry (CII) has announced setting up of a CII COVID Rehabilitation and Relief Fund (CRR) to assist small enterprises or MSME in rehabilitation. A CII Forum on Covid-19, which is spearheading industry reaction measures to the Coronavirus pandemic, made this conclusion. As a relief measure, CII</p>	<p>greatly impacted. To improve the same, access to the fund can be enabled by the recommended online forum and portal which would improve accessibility for these entities.</p>
--	---	---	--

²¹ <https://economictimes.indiatimes.com/news/economy/finance/rbi-for-setting-up-of-rehabilitation-fund-for-sick-msmes/articleshow/12672970.cms?from=mdr>

		<p>requested an extra ad hoc sanction of working capital to the tune of 25% of the sanctioned limit, as MSME faced a liquidity shortage. The trade group also advised deferring EMIs and lowering the interest rate on working capital. According to the CII, establishing a dedicated MSME Factoring fund that would allow MSMEs to lower their bills to qualified retailers in 15 days and allow retailers to pay in 120 days would help with speedier realisation.²²</p>	
--	--	--	--

²² <https://www.businesstoday.in/latest/corporate/story/coronavirus-impact-cii-sets-up-relief-pool-fund-to-help-msmes-society-252745-2020-03-23>



GNLU CENTRE FOR LAW & ECONOMICS

Gujarat National Law University, Attalika Avenue, Knowledge Corridor,
Koba, Gandhinagar – 382007, Gujarat, India

Ph: +91-79-23276611/12, Fax: +91-79-23276613,

Email: cle@gnlu.ac.in

Website: <https://gnlu.ac.in/Law-And-Economics/Home>
