

ROLE OF PRIORITY SECTOR AND MSME IN THE INDIAN ECONOMY

PRIORITY SECTOR

- Priority Sector refers to those sectors which the Government of India and Reserve Bank of India consider as important for the development of the country.
- They are assigned priority over other sectors. The banks are mandated to encourage the growth of such sectors with adequate and timely credit.

History of Priority Sector Lending

- The origins of Priority Sector Lending is traced back to 1966
- The then government felt the need for increasing credit to agriculture and small industries.
- However, the definition for Priority Sector was only formalized based on a Reserve Bank of India (RBI) report in the National Credit Council in 1972.
- After bank nationalization, the Priority Sector formulation also allowed the government to focus on different sectors by making credit available, through direct lending.

The following are the priority sector categories

- Agriculture
- Micro, Small and Medium Enterprises (MSMEs)
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy

- Others
- Weaker sections

PRIORITY SECTOR LENDING NORMS

The banks are mandated to encourage the growth of priority sectors with adequate and timely credit.

Adjusted Net Bank Credit (ANBC)

It is the net bank credit plus investments made by banks in non-SLR bonds..

(CEOBE) stands for Credit Equivalent of Off-Balance Sheet Exposure

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC or CEOBE whichever is higher	40 per cent of per cent of ANBC or CEOBE whichever is higher; out of which up to 32 higher; However, per cent can be in the form of lending to exports and not	75 percent of ANBC or CEOBE whichever is higher, However, lending to medium enterprises, social infrastructure and renewable energy shall be	75 percent of ANBC or CEOBE whichever is higher.

		less than 8 per cent can be to any other priority sector	reckoned for priority sector achievement only up to 15 per cent of ANBC	
Categories	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 per cent is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent is prescribed for SMFs	18 percent of ANBC or CEOBE whichever is higher, out of which a target of 10 percent is prescribed for SMFs
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 per cent of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 per cent of ANBC or CEOBE, whichever is higher

DEFINITION OF MSME

In terms of Government of India Gazette Notification S.O. 2119(E) dated June 26, 2020 the definition of Micro, Small and Medium Enterprises.

Micro Enterprise

A micro enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed Rs. 1 crore and turnover does not exceed Rs. 5 crores

Small Enterprise

A small enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed Rs. 10 crores and turnover does not exceed Rs. 50 crores

Medium Enterprise

A medium enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed Rs 50 crores and turnover does not exceed Rs. 250 crores

Note

All enterprises are required to register online on Udyam Registration Portal and obtain 'Udyam Registration Certificate'.

Earlier MSMEs were classified into 2 categories Manufacturing and Services sector

Manufacturing units (Based on investment in plant and machinery)

Micro Enterprises

Investment does not exceed 25 lakhs

Small Enterprises

Investment more than 25 lakh rupees but not exceeding 5 crore rupees

Medium enterprises

Investment more than 5 crore rupees but does exceeding 10 crore rupees.

Service sector (Based on investment in equipment's)

Micro Enterprises

Investment does not exceed ten lakh rupees

Small Enterprises

Investment more than ten lakh rupees but not exceeding two crore rupees

Medium Enterprises

Investment more than two crore rupees but not exceeding five core rupees

ROLE & SIGNIFICANCE OF MSME IN ECONOMIC DEVELOPMENT

- Micro, Small, and Medium Enterprises (MSMEs) are among the country's strongest drivers of economic growth, innovation, and employment.
- With a vast network of over 64 million enterprises, the MSME sector contributes significantly to the growth of the Indian economy.
- The sector contributes roughly 45 per cent of manufacturing output, more than 40 per cent of exports, and more than 28 per cent of GDP,

MSME - PRESENT STATUS IN INDIA

Bank Credit to MSME Sector

The total amount of credit extended to MSMEs in the financial year (FY) 2021-22 by scheduled commercial banks has increased by 24.6 per cent from FY20 and 12.7 per cent from FY21.

Employment Generation

MSME sector has been creating 11.10 crore jobs in the rural and the urban areas across the country.

MSME Sector has helped the country to achieve the following objectives:

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Import substitution
- Technology-oriented industries
- Competitiveness in domestic and export markets.

RECENT INITIATIVES IN MSME SECTOR

Make in India

- The Prime Minister introduced the Make in India programme in September 2014, as part of a larger set of nation-building initiatives.
- Make in India was created with the Objective of turning India into a global design and manufacturing hub.

The "Make in India" project is built on four pillars

New Processes

- 'Make in India' recognizes 'Ease of Doing Business' as the single most important factor to promote entrepreneurship for which a number of initiatives have already been undertaken.
- The aim is to de-license and de-regulate the industry during the entire life cycle of a business.

New Infrastructure

The government intends to develop industrial corridors, strengthen existing infrastructure.



New Sectors

'Make in India' has identified 27 sectors in manufacturing, infrastructure and service activities and detailed information is being shared through interactive web-portal and professionally developed brochures.

New Mindset

'Make in India' intends to bring a paradigm shift in how Government interacts with industry.

The Government will partner industry in economic development of the country and the approach will be that of a facilitator and not regulator.

Emergency Credit Line Guarantee Scheme (ECLGS)

During COVID, the government introduced a Rs. 3 lakh crore collateral-free credit scheme that is into to benefit 45 lakh MSMEs.

Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)

Individual Micro and Small Enterprises can apply for collateral-free loans (up to Rs. 1 crore) from Ministry of MSME and the Small Industries Development Bank of India (SIDBI).

The Ministry of MSME launched the **Credit Guarantee Scheme (CGS)** to strengthen the credit delivery system and facilitate the flow of credit to the MSME sector.

Interest Subsidy Eligibility Certificate (ISEC)

The plan has been implemented as a funding mechanism for the khadi programme run by the country khadi institutions. It facilitates borrowing from banks and bridges the gap between the availability of funds from budgetary sources and the real financial requirements.

Stand-up India

- The government launched the Stand-Up India Scheme to provide a business opportunity to those who are either females or belong to the SC/ST category and require financial assistance to start their greenfield business ventures.



- These individuals are given special loans ranging from Rs. 10 lakhs to Rs. 1 crore, at a low interest rate.

Some of the other schemes to promote MSME are,

Udyami Mitra Portal

Launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.

MSME Delayed Payment Portal

This will empower micro and small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministers/ Departments/ CPSEs/ State Governments.

Digital/ MISME Scheme

The scheme aims at making MSMEs digitally empowered and motivate them to adopt digital tools, applications and technologies in their production & business processes with a view to improve their competitiveness in domestic and global markets

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

Organises traditional industries and artisans into fosters and make them competitive by enhancing their marketability & equipping the with improved skills.

A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)

It creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative busine solution, etc.

National Manufacturing Competitiveness Programme (NMCP)

To develop global competitiveness. among Indian MSMEs, by improving their processes, designs, technology, and market access.