

3. New Definitions for MSMEs

Prelims Syllabus: Policies

Mains Syllabus: GS-II Government Policies and Interventions for development in various sectors and Issues Arising out of their design and implementation.

Why in News?

- Union Minister for MSMEs informed the Rajya Sabha that the government would come out with a new definition of MSMEs.

What are MSMEs?

- Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which was notified on October 2, 2006, deals with the definition of MSMEs. The MSMED Act, 2006 defines the Micro, Small and Medium Enterprises based on
 - ✓ the investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of goods and
 - ✓ the investment in equipment for enterprises engaged in providing or rendering of services
- But in February 2018, the Union Cabinet approved the amendment to MSMED Act, 2006 for classifying MSMEs from current investment in plant and machinery criteria to annual turnover criteria. Accordingly,
 - ✓ **Micro Enterprise:** Annual turnover does not exceed Rs. 5 Crore
 - ✓ **Small Enterprise:** Annual turnover between Rs. 5 crore – Rs. 75 crore.
 - ✓ **Medium Enterprise:** Annual turnover between Rs. 75 crore – Rs. 250 crore.

What is the Proposal?

- Government has accepted 39 suggestions by the K. Sinha committee on MSMEs appointed by the Reserve Bank of India, including the setting up a “fund of funds” for the sector.
- The MSME sector currently contributed 24% of the GDP growth and 48% of exports, with an annual turnover of ₹1 lakh crore this year. A target of ₹5 lakh crore in five years had been set.
- Among the hurdles before the sector were the pending payments by governments and public sector undertakings, which were ₹5.5 lakh crore to ₹6 lakh crore. These dues needed to be cleared in order to boost the sector.

What are their Impacts?

- It would increase compatibility with the Goods and Services Tax (GST) system.

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- It may lead to further improvement in India's ease of doing business scenario.
 - It may allow a single definition for purposes related to taxation, investment, etc.

