

Guidelines on Micro, Small and Medium Enterprises

1. Introduction:

- 1.1 In order to enable identification and facilitate development of MSMEs, Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The MSMED Act, 2006, was enacted to provide enabling policy environment for promotion and development of the sector by way of defining MSMEs, putting in place a framework for developing and enhancing competitiveness of the MSME enterprises, ensuring flow of credit to the sector and paving the way for preference in Government procurement to products and services of the MSEs, address the issue of delayed payments, etc.
- 1.2 The contribution of the sector in the economy can be improved by addressing the challenges affecting growth of the sector. Some of the major ones are mentioned below:
- Policy and institutional interventions
 - Accelerating growth and enabling formalization
 - Addressing infrastructural bottlenecks
 - Facilitating capacity building
 - Facilitating access to credit and risk capital
 - Technological interventions for improving underwriting standards and delivery
 - Enabling market linkage and tie-up with public procurement platforms

2. Policy guidelines on MSME :

2.1 Background

Bank has therefore designed a separate document for - MSME Advances - to have a standardized approach towards the MSMEs and have a reference material to one and all dealing with MSME matters.

This is a formal policy document mentioning therein the Bank's role & approach for meeting the need of the MSME clients. Lending to MSMEs being an integral part of MSMED Act and priority sector lending guidelines of RBI is also discussed in the policy, wherever applicable.

Bank has also issued operating guidelines on lending to MSMEs in sync with policy guidelines.

2.2 Scope

- 2.2.1 The guidelines would deal with all MSME credit related matters such as fund based, non fund based and other forms of credit dispensation of MSME credit.
- 2.2.2 Since other credit related areas have been dealt in detail by the Loan Policy, these aspects are not covered in this section to avoid duplication. Hence, the guidelines on MSME should be read along with the Loan Policy.
- 2.2.3 The guidelines will cover all types of MSME customers such as Individuals, Proprietorship, Partnerships, Limited Liability Partnership, Association of persons, companies registered under Indian Companies Act, SHG, JLG, Co-operative Society etc.
- 2.2.4 This policy guidelines has been made in compliance with all RBI & extant regulatory guidelines issued till date.
- 2.2.5 The guidelines enumerated in the policy are applicable for all domestic branches.

2.3 Ownership

MSME Department shall frame, design/review/fine tune/modify all products/procedures specific to MSME credit in the Bank, with the approval of CRMC/ Board of Directors.

3. MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT (Along With Reserve Bank of India Guidelines& internal guidelines thereof)

- 3.1 The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which was notified on June 16, 2006. With the enactment of MSMED Act, 2006, Services Sector is included in the definition of MSME apart from extending the scope to Medium Enterprises. The MSMED Act, 2006 has modified the definition of Micro, Small & Medium Enterprises engaged in manufacturing or production and providing or rendering services. Reserve Bank of India has notified the aforesaid changes which along with the definition of MSME, as per the Act have been adopted by the Bank for the purpose of credit.
 - 3.1.1 Following significant changes have been introduced through MSMED Act, 2006.
 - i. The word “Industry” has been replaced by “Enterprises”.
 - ii. The word “Tiny has been replaced by “Micro”.
 - iii. The Services sector has been brought under the purview of MSMED Act, 2006.

3.1.2 Definition of Micro, Small & Medium Enterprises

Segment	Classification based on
Micro Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees.
Small Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.
Medium Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

- All the above enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. For PSL purposes Bank shall be guided by the classification recorded in the 'Udyam Registration Certificate'.
- The certificate issued on Udyam Assis Portal(UAP) to Informal Micro Enterprises (IMEs) shall be treated at par with Udyam Registration Certificate for the purpose of availing Priority Sector Lending benefits. IMEs with an Udyam Assist certificate shall be treated as micro enterprises for the purpose of PSL classification.

3.1.2.1 Becoming a micro, small or medium enterprise:

- Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal, based on self-declaration with no requirement to upload documents, papers, certificates or proof.
- On registration, an enterprise (referred to as –Udyam- in the Udyam Registration portal) will be assigned a permanent identity number to be known as –Udyam Registration Number.
- An e-certificate, namely, –Udyam Registration Certificate shall be issued on completion of the registration process.

3.1.2.2 The details of registration process, including for existing enterprises, updation of information and transition period in classification etc as notified in gazette notification of Government dated 26.06.2020 are provided in Annexure I. Notification dated 18.10.2022 is also provided in Annexure I.

(As per RBI guidelines on Priority Sector Lending, loans for Food & Agro processing units upto aggregate sanctioned limit of Rs 100.00 crore per borrower from Banking system will form part of agriculture).

3.1.2.3 During registration by MSMEs in Udyam Registration portal, data of Investment and Turnover either get auto filled/fetched from the Income Tax Department and GSTN (for those enterprises who have filed IT & GST returns) or is filed on a self-declaration basis (by those enterprises who are yet to file the IT & GST returns). The data which gets auto filled/fetched from the IT Department and GSTN is the data which had been finalized by the above respective departments after rectification, wherever necessary, for the relevant Financial Year.

In this regard, Ministry of MSME, Government of India (considering the timeline for filing the returns and the time required for further processing the return) has clarified that the following procedure has been adopted in relation to data (auto filled/fetched) in the Udyam Registration portal with effect from 01.07.2020 onwards:

Financial Year of Registration in Udyam Portal and Classification as MSMEs	Data (Investment, Turnover and Export) taken or to be taken from IT Department and GSTN from the relevant Financial Year
2020-21	2018-19
2021-22	2019-20
2022-23	2020-21

3.1.2.4 Ministry of MSME, GOI vide their office memorandum 5/2(2)/2021-E/P&G/Policy (E-19025) dated 02.07.2021 has notified addition of **Retail & Wholesale Trading** activity (NIC codes) under MSMED Act, 2006 and allowed such enterprises for registering on Udyam Registration portal. [IC 2672-2021 dt 06.07.2021]

4. MSME- PRIORITY SECTOR LENDING (Reserve Bank of India Guidelines & Internal Guidelines thereof)

4.1 Priority Sector Lending shall continue to be a chosen area of the Bank. Bank will endeavor to exceed the overall share of 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher as at the end of the previous year. Further the sub-target for lending to Micro Enterprises, under priority sector, is 7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher as at the end of the previous year.

4.2 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:

4.2.1 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 & Machinery and Turnover. (It is clarified that all eligible manufacturing enterprises under MSME irrespective of size of credit exposure will be classified under priority sector.)

4.2.2 Service Enterprises:

All bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment & turnover under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

The classification of an MSME enterprise as manufacturing or service shall be as per extant regulatory and statutory guidelines.

4.2.3 Khadi & 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.

4.2.4 Other finance to MSMEs:

- 4.2.4.1 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.
- 4.2.4.2 Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- 4.2.4.3 Loans sanctioned to MFIs for on-lending to MSME sector as per the conditions specified by RBI.
- 4.2.4.4 Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- 4.2.4.5 Overdrafts extended up to Rs.10,000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts will qualify as achievement of the target for lending to Micro Enterprises.
- 4.2.4.6 Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

- 4.3 MSME Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person /company for the purpose of classification of industrial undertakings as Micro, Small & Medium Enterprises.
- 4.4 Investments in Securitized Assets, transfer of pool of loan assets through direct assignments / outright purchases and investments in Inter Bank Participation Certificates (IBPCs) on risk sharing basis shall be eligible for classification under respective categories of priority sector provided the underlying assets are eligible to be categorized under the respective categories of priority sector as per RBI guidelines.
- 4.5 The outstanding Priority Sector lending certificates bought by the bank will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, and are eligible to be classified as priority sector advances and fulfill the Reserve Bank of India guidelines on priority sector lending certificates.
- 4.6 To increase liquidity support for the MSME sector, factoring transactions taking place through TReDS (Trade Receivables Discounting System) shall be eligible for classification under priority sector.
- 4.7 A system should be put in place at all levels for maintaining a register/ electronic record, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.
- 4.8 An acknowledgement is to be provided for loan applications received under priority sector MSME loans and decision should be communicated in writing to the applicants within prescribed time limit.
- 4.9 Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) Sector**
- 4.9.1 Advances to Micro, Small and Medium Enterprises (MSME) sector is reckoned for computing achievement under the overall Priority Sector target as per point No.4.1.
- 4.9.2 Bank is 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.
- 4.9.3 In terms of the recommendations of the Prime Minister's Task Force on MSMEs, Bank as 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
- iii. 60 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro Enterprises.

Hence, all endeavors to comply with the directives should be made in letter and spirit.

5. Common Guidelines / Instructions for Lending to MSME Sector
(Reserve Bank of India Guidelines & internal guidelines thereof)

The common guidelines pertaining to Issue of Acknowledgement of Loan Applications to MSME borrowers; Credit Guarantee Schemes; Composite loan; Specialized MSME branches; Delayed Payment; Framework for Revival and Rehabilitation of MSMEs; General Credit Card (GCC) Scheme; State Level Inter Institutional Committee (SLIIC); Empowered Committee on MSMEs; Cluster Approach etc earlier part of MSME policy are enumerated in operational guidelines on MSME.

6. Bank's Initiatives for Stepping up Credit to MSMEs:

Bank has taken various initiatives for the growth of credit to MSMEs which are as under:

- i. Separate Organizational set up at Central Office
- ii. Business Banking Branches and MSME Focused Branches
- iii. Establishment of Centralized Processing Centers- MLPs
- iv. Developing Credit Officers Cadre
- v. Clusters
- vi. MSME Care Centers
- vii. Pradhan Mantri MUDRA Yojna (PMMY)
- viii. Stand up India
- ix. Start-up India

- x. Simplified Common Loan Application Form for MSMEs etc

The detailed guidelines on various initiatives are enumerated in operational guidelines to MSME.

7. Banking Codes and Standards Board of India (BCSBI) for MSEs

- 7.1 The Banking Codes and Standards Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises (MSE code). This Code sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs). 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.
- 7.2 This code has been adopted by the Bank in its Board Meeting dated 30th August 2008 and updated from time to time. The Code of Bank's Commitment to Micro and Small Enterprises has been hoisted on the Bank's website for the knowledge of customers and the staff. Bank has issued operational guidelines for the field functionaries for compliance of the MSE code. All the field functionaries and concerned are required to implement/follow the same in letter and spirit.
- 7.3 However, the Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and Bank will comply with such instructions /directions issued by the RBI from time to time. Similarly, the Code does not replace or supersede guidelines issued by the Bank from time to time. Unless it says otherwise, all parts of the Code apply to all the products and services, provided by branches across the counter, over the phone, by post, through interactive electronic devices, on the internet or by any other mode.
- 7.4 As and when any modification in the Code is made by the BCSBI, the same can be adopted by the Bank with the permission of Managing Director & CEO unless otherwise falling with the delegation of any specified Committee.
- 7.5 Objectives of the BCSBI Code: The Code has been developed to:
- i. Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
 - ii. Promote good and fair banking practices by setting minimum standards in dealing with MSE.
 - iii. Increase transparency so that a better understanding of what can be reasonably expected of the services.
 - iv. Improve understanding of business through effective communication.
 - v. Encourage market forces, through competition, to achieve higher operating standards.
 - vi. Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.
 - vii. Foster confidence in the banking system.

- 7.6 Acknowledgement to be given to MSE customers in line with BCSBI code.
- 7.7 MSE code copies should be circulated amongst all the branches for distribution to the MSE customers free of charge.
- 7.8 The complete text of the Code is available at the bank's website. (http://www.unionbankofindia.co.in/code_bank_msme.aspx)

Annexure - I

Ministry of Micro, Small & Medium Enterprises

Gazette notification S.O. 2119(E) dated 26th June 2020

1. Becoming a micro, small or medium enterprises -

- i. Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal, based on self-declaration with no requirement to upload documents, papers, certificates or proof.
- ii. On registration, an enterprise (referred to as 'Udyam' in the Udyam Registration portal) will be assigned a permanent identity number to be known as "Udyam Registration Number".
- iii. An e-certificate, namely, "Udyam Registration Certificate" shall be issued on completion of the registration process.

2. Registration process -

- i. The form for registration shall be as provided in the Udyam Registration portal.
- ii. There will be no fee for filing Udyam Registration.
- iii. Aadhaar number shall be required for Udyam Registration.
- iv. The Aadhaar number shall be of the proprietor in the case of a proprietorship firm, of the managing partner in the case of a partnership firm and of a Karta in the case of a Hindu Undivided Family (HUF).

- v. In case of a Company or a Limited Liability Partnership or a Cooperative Society or a Society or a Trust, the organisation or its authorised signatory shall provide its GSTIN and PAN along with its Aadhaar number.
- vi. In case an enterprise is duly registered as an Udyam with PAN, any deficiency of information for previous years when it did not have PAN shall be filled up on self-declaration basis.
- vii. No enterprise shall file more than one Udyam Registration:
Provided that any number of activities including manufacturing or service or both may be specified or added in one Udyam Registration.
- viii. Whoever intentionally misrepresents or attempts to suppress the self-declared facts and figures appearing in the Udyam Registration or updation process shall be liable to such penalty as specified under section 27 of the Act.

3. Registration of existing enterprises -

- i. All existing enterprises registered under EM-Part-II or UAM shall register again on the Udyam Registration portal on or after the 1st day of July, 2020.
- ii. All enterprises registered till 30th June, 2020, shall be re-classified in accordance with this notification.
- iii. The existing enterprises registered prior to 30th June, 2020, shall continue to be valid only for a period up to the 31st day of March, 2021.
- iv. An enterprise registered with any other organisation under the Ministry of Micro, Small and Medium Enterprises shall register itself under Udyam Registration.

4. Updation of information and transition period in classification -

- i. An enterprise having Udyam Registration Number shall update its information online in the Udyam Registration portal, including the details of the ITR and the GST Return for the previous financial year and such other additional information as may be required, on self declaration basis.
- ii. Failure to update the relevant information within the period specified in the online Udyam Registration portal will render the enterprise liable for suspension of its status.
- iii. Based on the information furnished or gathered from Government's sources including ITR or GST return, the classification of the enterprise will be updated.

- iv. In case of graduation (from a lower to a higher category) or reverse-graduation (sliding down to lower category) of an enterprise, a communication will be sent to the enterprise about the change in the status.
- v. In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise shall continue to avail of all non-tax benefits of the category (micro or small or medium) it was in before the re-classification, for a period of three years from the date of such upward change. (Updated as per Gazette notification of Ministry of MSME, Gol dated 18.10.2022).
- vi. In case of reverse-graduation (sliding down to lower category) of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.