



JAIIB (New Syllabus)

**INDIAN ECONOMY &
INDIAN FINANCIAL SYSTEM
(IE&IFS).**

Paper-1

MODULE-A, UNIT-4



**ROLE OF PRIORITY SECTOR AND MSME
IN THE INDIAN ECONOMY**

Paper IE and IFS Module A Unit 4: Role of Priority Sector and MSME in the Indian Economy

Role of Priority Sector and MSME in the Indian Economy

- Development of Priority sectors are much needed, for balanced and inclusive growth.
- The RBI's Priority Sector Lending classifications and standards are meant to match with emerging national priorities and bring a deeper focus on inclusive development, thereby building consensus among all stakeholders.
- Banks are entrusted with encouraging the growth of such sectors, by providing appropriate and timely financing
- **Micro, Small, and Medium Enterprises (MSMEs)** : country's strongest drivers of economic growth, innovation, and employment.
 - vast network of over 64 million enterprises, the MSME sector contributes significantly to the growth of the Indian **economy**.

The sector contributes

- manufacturing output = roughly 45 %
- Exports= >40%
- GDP = >28%

Employing = approximately 120 million people

- **Ranking 2nd only to agriculture, in terms of size of employment.**

Diverse: In terms of enterprise size, product and service diversity, and level of technology deployed.

Driver of economic growth : Potential to grow faster and viewed as a driver of economic growth and a means of promoting equitable development.

The MSME sector's primary benefit is its employment potential, at a low capital cost.

The importance of the MSME sector in

- **employment creation,**
- **innovation,**
- **entrepreneurship, and**
- **supply chains is critical.**

Definition & Role Of Priority Sector

- **Social Control over banks** : Banking Laws (Amendment) Bill 1967, tabled in the Lok Sabha on December 23, 1967
- Banks were directed to align their activities with national objectives through social control.

The current framework of Priority Sector Lending (PSL)

- **Dec 14, 1967:** States in Lok Sabha by Morarji Desai, then Deputy Prime Minister and Minister of Finance, that persistent complaints that several priority sectors, such as agriculture, SSI, & exports, had not received their fair share of bank credit.
- This appears to be the first time the phrase priority sector has been used. As a result, the concept of priority sector lending was born.
- **July 1968:** At a National Credit Council meeting, it was stressed that commercial banks should boost their involvement in financing priority sectors such as agriculture and small-scale industries.
- PSL comprises those sectors that have a substantial influence on vast portion of the population, the weaker sections & sectors that are employment intensive

List Of Priority Sectors Identified In India

- **To align it with emerging national priorities and bring a sharper focus on inclusive development, the RBI revised PSL guidelines on September 4, 2020, by including**
 - Bank finance to start-ups (up to Rs. 50 crores);
 - Loans to farmers for the installation of solar power plants for solarisation of grid-connected agriculture pumps;
 - And loans for the establishment of Compressed Biogas (CBG) plants.

The following are the priority sector categories:

I) Agriculture

II) MSMEs

III) Export Credit

IV) Education

V) Housing

VI) Social

VII) Renewable Energy

VIII) Others

IX) Weaker sections

Priority Sector Lending Norms

The priority sector lending targets and sub-targets are to be computed based on the Adjusted Net Bank Credit (ANBC)/ Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE) as applicable on the corresponding date of the preceding year and are as follows.

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
Top Priority sector	40 % of ANBC as computed in para 6 below or CEOBE whichever is higher	40% of ANBC as computed in para 6 below or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	75% of ANBC as computed in para 6 below or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC	75% of ANBC or CEOBE whichever is higher;
Agriculture	18% of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18% ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs	18% ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs
Micro enterprises	7.5% of ANBC or CEOBE, whichever is higher		7.5% of ANBC or CEOBE, whichever is higher	7.5% of ANBC or CEOBE, whichever is higher
Advance to weaker sections	12% of ANBC or CEOBE, whichever is higher		15% of ANBC or CEOBE, whichever is higher	12% 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 is changed as under:

OLD DEFINITION: CRITERIA: INVESTMENT IN PLANT & MACHINERY EQUIPMENT

Classification	Micro	Small	Medium
Manufacturing enterprises	Investment <25 l	Investment <5 cr	Investment <10 cr
Service enterprise	Investment <10 l	Investment <2 cr	Investment <5 cr

NEW DEFINITION: CRITERIA: INVESTMENT & ANNUAL TURNOVER

Classification	Micro	Small	Medium
Manufacturing & Service enterprises	Investment <1 cr Turnover < 5 cr	Investment <10 cr Turnover < 50 cr	Investment <50 cr Turnover <250 cr

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

- The new definition of MSMEs will make it easier for small businesses to expand and flourish.
- The resulting economies of scale can boost productivity without depriving MSMEs of government benefits such as **market support, export promotion, preferential procurement in the public sector, and incentives through the Micro Small Enterprises-Cluster Development Programme (MSE-CDP)**, Prime Minister Employment Generation Programme (PMEGP), and Scheme of Fund for Regeneration of Traditional Industries (SFURTI), as well as the enabling of IT ecosystems. This favourable atmosphere will encourage competitiveness and **help MSMEs avoid growth retardation**.
- The launch of the new Udyam Registration Portal in July 2020 is one of the recent efforts made by the government to boost the ease of doing business for MSMEs.
- The registration procedure is entirely online, digital, and paperless, and it is based on self-declaration. There are no documents or proof necessary to be supplied while registering.

Role & Significance Of Msme In Economic Development

- **Feature** : Employment potential at a low capital cost.
- Small and Medium Enterprises (SMEs) account for around **90% of businesses and more than 50% of employment globally**.
- The significance of the MSME sector is critical.
- Hence, it is important to foster, nurture, and assist new business ideas, as they develop into enterprises.
- The sector has benefited the economy, by encouraging the development of industries in all parts of the country. Factors such as SME finance from both domestic and foreign investors, as well as new technologies, are supporting SMEs in bringing substantial value to their businesses

I)Job creation,

II)Innovation,

III)Entrepreneurship

IV)Supply chains

MSME – Present Status In India

- Contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet the demands of domestic as well as global markets.

Contribution to GDP

- As per the data available with Central Statistics Office (CSO), M/o Statistics & Programme Implementation, the contribution of MSME sector in Country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 is as below:

Share of Gross Value Added (GVA) of MSME in all India GDP

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in%)
2014-15	3658196	–	11504279	31.8	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.9	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.5	18971237	30.27

Bank Credit to MSME Sector

- The banking sector lending to industry has picked up, led by disbursements to the micro, small and medium enterprises (MSME) sector.
- Bank credit to industry improved **12.6% year-on-year in September 2022, compared to a muted 1.7% growth in the same month in FY 2021.**
- Banks' lending:**
 - Micro and small businesses:** Grew 27% YoY
 - Medium enterprises:** Increased 36% during the month.
- The higher credit growth for the MSME sector may have come due to the extension of the Emergency Credit Line Guarantee Scheme till March 31, 2022.

Employment Generation

- MSME sector has been creating**
 - 11.10 crore jobs in the rural and the urban areas across the country.
 - 360.41 lakh in Manufacturing,
 - 0.07 lakh in non-captive Electricity Generation and Transmission,
 - 387.18 lakh in Trade
 - 362.82 lakh in Other Services
- Trade, import and export for MSMEs' share in exports assumes significance as the government has been targeting **\$1 trillion in exports by FY27.**

- In accordance with the target, the government had added '**Capacity Building of First-Time MSME Exporters' (CBFTE)** scheme to enhance the quality of MSME products globally and increase exports.

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
- Capacities to develop appropriate indigenous technology
- Import substitution
- Contribution towards defence production
- Technology-oriented industries
- Competitiveness in domestic and export markets.

Contribution Of Msme In GDP

- MSMEs are among the most powerful engines of economic development, innovation, and employment generation.
- With a broad network of over 64 million firms, the MSME sector contributes significantly to the growth of the Indian economy.
 - **Industry generates**
 - Manufacturing output = roughly 45 %
 - Exports= >40%
 - GDP = >28%
 - **Employing = approximately 120 million people**
 - Ranking 2nd only to agriculture, in terms of size of employment.
- **As India grows to a \$5 trillion economy**, the Ministry of MSME has set a goal of increasing the MSME sector's contribution **to GDP to 50 per cent, by 2025.**

RECENT INITIATIVES IN MSME SECTOR, VIZ., ATMANIRBHAR BHARAT PACKAGE, MAKE IN INDIA, START-UP INDIA, STAND-UP INDIA, ETC.

- The government revised the definition of the MSME in 2020, and the new MSME definition includes **around 99% of all enterprises.**

- **AIMS:** to assist MSMEs in expanding and creating more jobs.
- Abolish the difference between manufacturing and service MSMEs
- The Government of India has taken deliberate measures to guarantee that the benefits of these MSME initiatives reach MSMEs on time.
- Numerous announcements under **the Atmanirbahar Bharat Package** to offer urgent help to the MSME sector.
- The **'Make in India' initiative and the 'Atmanirbhar Bharat Abhiyaan'** (Self Reliant India Campaign) have played significant role in enhancing business and local manufacturing in the country, with a special emphasis on MSMEs
- To maintain business continuity during the COVID-19 pandemic, the national government has also undertaken fast response measures in the guise of the Atmanirbhar Bharat Package. Some of the most important measures are listed below.

➤ **Make in India**

- **Introduced:** by The Prime Minister in September 2014
- As part of a larger set of nation-building initiatives.
- **Objective:** Turning India into a global design and manufacturing hub.
- Built on four pillars established to boost entrepreneurship in India, not just in manufacturing but also in other sectors.
- **Aims:** to increase the manufacturing sector's contribution to GDP to 25%, by 2020–2022.

Four Pillars:

- 1.New Processes,
- 2.New Infrastructure,
- 3.New Sectors,
- 4.New Mind-set

Emergency Credit Line Guarantee Scheme (ECLGS)

- During COVID, the government introduced a **Rs. 3 lakh crore collateral-free credit scheme that is intended to benefit 45 lakh MSMEs.**
- Aims to provide much-needed relief to the MSME sector by incentivizing Member Lending Institutes (MLIs), to provide extra credit at reasonable interest rates, allowing MSMEs to fulfil operational liabilities and restart their businesses.

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 the Ministry of MSME and the Small Industries Development Bank of India (**SIDBI**).
- To strengthen the credit delivery system and facilitate the flow of credit to the MSE sector: Acknowledging that the availability of bank credit without the hassles of collaterals or third-party guarantees would be a substantial source of support to first generation entrepreneurs, in realising their dream of having established their own Micro and Small Enterprise (MSE), the Ministry of MSME launched the Credit Guarantee Scheme (CGS)
- The CGTMSE supported the pandemic affected MSME sector in regaining its footing
- **Interest Subsidy Eligibility Certificate (ISEC)**
 - The plan has been implemented as a funding mechanism for the khadi programme run by the country's khadi institutions.
 - It facilitates borrowing from banks and bridges the gap between the availability of funds from budgetary sources and the real financial requirements.
- **Start-up India**
 - **Started** : In January 2016
 - **Tagline** : "Start-up India and Stand-up India."
 - The initiative intends to create a robust environment for fostering innovation, promoting longterm economic growth, and creating large-scale employment opportunities.
 - Apart from the technology sector, the start-up movement will expand to agriculture, manufacturing, healthcare, and education; and from current tier 1 cities, it will spread to tier 2 and tier 3 cities, including semi-urban and rural areas.
 - **Aims**: to support individuals or businesses that have recently formed their own start-ups, by offering better finance, including tax breaks, and ensuring that the process of establishing a start-up in India is smooth and quick.
 - Aimed at catalysing start-up culture and creating a robust and inclusive environment for innovation and entrepreneurship
 - Start-ups promote economic development and wealth creation, create jobs, and foster an innovation culture, transforming millennials from job seekers to job givers—and so, potentially emerge as a vehicle to capture the demographic dividend.
- **Stand-up India**
 - **Launched** : 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.

➤ Production Linked Incentive Scheme(PLI)

- Keeping in mind India's ambition of becoming an '**Atmanirbhar**,' an allocation of **Rs. 1.97 lakh crore** has been earmarked in the Union Budget 2021-22 for PLI programmes, for 13 important sectors over a **5-year period, beginning with fiscal year (FY) 2021-22.**
- The PLI is a traditional and widely employed government method, for increasing the production of products considered important **for job creation, social welfare, and taxation.**
- PLIs are simply financial incentives for enterprises to increase output.
- They might take the form of **tax breaks, reduced import and export levies**, or reduced land acquisition requirements.
- The PLI scheme is a Government of India initiative that encourages not only international enterprises to locate workers in the country and so produce employment, but also domestic and local industry to create micro jobs.

The PLI schemes provide

- Qualifying manufacturers, incentives ranging from **4%-6% on additional sales**, above the base year of **2019-20, for a 4 to 6 year period.**
- It is comparable to a subsidy provided through direct payments as budgeted for locally made items by the selected beneficiaries.

No.	Sector Specific PLI Allocation	Rs. Crore
1	Mobile Manufacturing and Specified Electronic Components	40,951
2	Critical Key Starting materials/Drug Intermediaries & Active Pharmaceutical Ingredients,	6,940
3	Manufacturing of Medical Devices and 10 new key sectors, which have been approved by the Union Cabinet recently in November 2020.	3,420
4	Automobiles and Auto Components	57,042
5	Pharmaceuticals Drugs	15,000
6	Specialty Steel	6,322
7	Telecom & Networking Products	12,195
8	Electronic/Technology Products	5,000
9	White Goods (ACs and LEDs)	6,238
10	Food Products	10,900
11	Textile Products: MMF segment and technical textiles	10,683
12	High efficiency solar PV modules, and	4,500
13	Advanced Chemistry Cell (ACC) Battery	18,100

- These specialised sectors would make Indian firms globally competitive, encourage investment in core competencies and cutting-edge technology, assure efficiencies, produce economies of scale, boost exports, and integrate India into the global supply chain. Furthermore, it would promote the digital economy, boost exports, safeguard communications infrastructure, and double farmers' income.

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 Sambandh:** To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
- **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 Ministries/Departments/CPSEs/ State Governments.
- **Digital MSME Scheme:** It involves usage of Cloud Computing, where MSMEs use the internet to access common as well as tailor-made IT infrastructure.
- **Prime Minister Employment Generation Programme:** A credit linked subsidy programme under Ministry of MSME.
- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** Organises traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
- **A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE):** It creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution, etc.
- **National Manufacturing Competitiveness Programme (NMCP):** To develop global competitiveness among Indian MSMEs, by improving their processes, designs, technology, and market access.
- **Micro & Small Enterprises Cluster Development Programme (MSE-CDP):** Adopts cluster development approach, for enhancing the productivity and competitiveness as well as capacity building of MSEs.
- **Credit Linked Capital Subsidy Scheme (CLCSS):** It is operational for upgradation of technology for MSMEs.
- **[Join Telegram Group](#)**
- **For Mock test and Video Course Visit: test.ambitiousbaba.com**

- Join Free Classes: [JAIIBCAIIB BABA](#)
- [Download APP For Study Material: Click Here](#)

JAIIB MAHACOMBO

Latest Syllabus



Indian Institute of Banking & Finance

Mock test	Unit-wise & Full length Mock
Video Course	Unit-wise class
Details Explanation	

 Download our Android App Now

For Mock Test & Video Course
Visit: test.ambitiousbaba.com

 [Jaiib.caiib](#)  [JAIIBCAIIB Baba](#)  [Telegram- @jaiib_exam](#)