



Regulatory Alert Tracking change

De-reservation of items for manufacture by MSE

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Background

- Under the Micro, Small & Medium Enterprises Development Act, 2006 (MSMED Act) enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 are defined as Micro, Small or Medium Enterprises depending upon the investment in Plant and Machinery as under:-

Enterprises	Investment in Plant and Machinery
Micro Enterprises	Does not exceed ₹ 25,00,000
Small Enterprises	More than ₹ 25,00,000 but does not exceed ₹ 5,00,00,000
Medium Enterprises	More than ₹ 5,00,00,000 but does not exceed ₹ 10,00,00,000

MSMEs engaged in service sectors have different threshold of Investment in Plant and Machinery. The same is not relevant for the present alert.

- Under the Consolidated Foreign Direct Investment (FDI) Policy issued by the Department of Industrial Policy and Promotion (DIPP), any industrial undertaking which is not a Micro or Small Enterprise, but manufactures items reserved for Micro and Small Enterprise (MSE) sector would require Government approval where foreign investment is more than 24% in its capital. Such an undertaking would also require an Industrial License under the Industries (Development & Regulation) Act, 1951, for such manufacture. The issue of Industrial License is subject to conditions including minimum export obligation.
- Recently, the Ministry of Commerce and Industries, based on the recommendation of Advisory Committee which periodically evaluates products / items reserved for exclusive production by MSE Sector, has de-reserved 20 items which were reserved for exclusive manufacture by MSE sector.
- Over the years, list of items reserved for manufacture by MSE Sector has been pruned from over 800 to 20. The phasing out of these 20 items has been done on the backdrop of import liberalization, whereby all items are allowed for imports and there is no *prima facie* reason for continuation of reservation of any items for exclusive manufacture by MSE Sector.

- Reservation of items also discouraged MSE Sector from transforming into medium or large enterprises for fear of losing out the right to manufacture these items. Foreign Direct Investment in MSE sector beyond 24% required prior approval of FIPB, which prevented MSE sector to attract better technology, finance etc.

The list of items that are de-reserved are as under:

List of items de-reserved

Sr. No.	Sr. No. (as per Gazette Notification)	Product Code	Name of the Product
		20-21	FOOD AND ALLIED INDUSTRIES
1.	3	202501	Pickles & Chutneys
2.	7	205101	Bread
3.	11	21100102	Mustard Oil (except solvent extracted)
4.	13	21100104	Ground nut oil (except solvent extracted)
		27	WOOD AND WOOD PRODUCTS
5.	47	276001	Wooden furniture and fixtures
		28	Paper Products
6.	79	285002	Exercise books and registers
			OTHER CHEMICALS AND CHEMICAL PRODUCTS
7.	253	305301	Wax candles
8.	308	314201	Laundry soap
9.	313	317001	Safety matches
10.	314	318401	Fire works
11.	319	319902	Agarbatties
			GLASS AND CERAMICS
12.	335	321701	Glass bangles
		33-35	MECHANICAL ENGINEERING EXCLUDING TRANSPORT EQUIPMENT
13.	364	340101	Steel Almirah
14.	394	341004	Rolling shutters
15.	402	34200602	Steel chairs-All types

16.	404	34200702	Steel tables-All other types
17.	409	342099	Steel furniture-All other types
18.	428	343302	Padlocks
19.	447A	345207	Stainless steel utensils
20.	474	345202	Domestic utensils-Aluminium

Conclusion

With above de-reservation, the large corporate houses can now make in India items that were exclusively reserved for MSE. The de-reservation will also open up greater investment opportunities, access to better technology, improve product quality and encourage healthy competition. The MSEs engaged in these activities will have an opportunity to grow and enhance their scale of operations and target markets.

The de-reservation comes on the heels of the government launching the Micro Units Development Refinance Agency (MUDRA) Bank to extend credit to SME which has a funding of Rs 20,000 crore, and can lend between Rs. 50,000 and Rs. 10 lakh to small entrepreneurs.

Consumers are likely to benefit from the production of de-reserved items by large corporate houses as benefits arising from economies of scale, improved technology etc. may be passed on to the consumers in the form of lower price and better quality of products, to remain competitive.

It may be noted that even though no items are now left for exclusive manufacture by MSE enterprises, the concept of Micro, Small or Medium Enterprises under the MSMED Act has not become irrelevant. MSME sector is identified by the government as an area of encouragement for entrepreneur development, employment generation etc.

Source: Notification S.O. 998(E) dated 10 April 2015 issued by Ministry of Commerce and Industry.

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