

MSME Udyam Registration - Low Rate

What is the issue?

- In June 2020, the MoMSME issued a notification revising the definition of Micro, Small and Medium Enterprises (MSMEs) and introduced a new registration system — the Udyam.
- But the numbers for the new Udyam registration system remains low, and here is why.

What were the changes made?

- With effect from July 1, 2020, the revisions in the MSME definition were three-fold:
 - i. the distinction between manufacturing and services sector MSMEs was removed
 - ii. an additional criterion of turnover was introduced
 - iii. investment thresholds were revised upwards
- The notification also introduced a new procedure for registration in accordance with the revised MSME definition, under the Udyam system.

How is the level of registrations?

- As on March 31, 2021, which was the deadline for registering under the new Udyam system, only 26.4 lakh enterprises have registered.
- This means less than 5% of the total estimated MSMEs (6.33 crore) in the country are Udyam registered now.
- The previous registration system for MSMEs — the Udyog Aadhaar Memorandum (UAM) — had more registrations.
 - Introduced in 2015 and operational until June 2020, this system had a little over one crore registrations.
 - This is approximately 16% of the estimated MSMEs.
- Like the UAM system, the Udyam system is also free of cost, paperless and digital.
- An important difference is that under Udyam, once Aadhaar/PAN is provided, all the relevant income tax and GST data can be pulled from the respective government databases, at the backend.
- Moreover, a single registration is enough for multiple activities

undertaken by the same enterprise.

What are the benefits under Udyam registration?

- Enterprises who self-certify and attain registration are eligible for certain benefits.
- These range from being eligible for subsidy schemes like the Credit Linked Capital Subsidy Scheme (CLCSS) to registering complaints regarding delayed payments on the MSME SAMADHAAN portal.
- As per the RBI's notification, from August 2020, lenders may demand the Udyam registration for credit purposes.
- The Udyam portal is also integrated with the Government e-Marketplace and the Trade Receivables and Discounting System (TReDS).
- So, these enterprises can participate in government procurement, and have a mechanism for discounting their bills.

Why is the registration rate low then?

- One reason could be the earlier requirement that companies that wanted to register under Udyam had to provide their GSTIN.
- Since many companies have a turnover of less than Rs 40 lakh and hence do not need to be GST compliant, it rendered them ineligible to register.
- Such a requirement was removed by the MoMSME on March 5, 2021.
- However, since the deadline for registration was March 31, 2021, this intervention could have deterred many MSMEs from registering.
- Of the total Udyam registered enterprises, only 2% are with GSTIN.
- Another reason could be the lack of awareness regarding the new registration system itself.
- This is a general observation when examining low off-take of schemes that are rolled out for the sector.
- Low levels of awareness regarding the roll-out of schemes, their eligibility conditions, paperwork requirements and grievance redress mechanisms impact overall off-take of these schemes.
- Another grim but likely explanation could be that a vast number of MSMEs have had to wind down in the pandemic period.
- Despite policy initiatives to give the sector a fillip, lockdowns and disruptions in supply chains have had their own impact.

What will the implication be?

- The fate of close to 6 crore unregistered entities remains uncertain.
- The question remains whether they will be allowed to avail subsidies and other credit facilities without an Udyam registration.

- Priority Sector Lending (PSL) directions have not stated an explicit requirement for a UAM or the Udyam number.
- However, since the RBI has allowed lenders to demand the Udyam registration for credit purposes, it is possible that some may choose to do so.
- Given the already burgeoning credit gap in the sector, lenders placing such requirements for a priority sector could further accentuate the credit gap for MSMEs.

What next?

- While the expectation is that the deadline will be extended, the need to ramp up the execution of such important initiatives cannot be overstated.
- Ten states in the country account for 74% of the total estimated MSMEs.
- In states that make up the predominant share of MSMEs, the MSME-District Institutes and other field offices of the MoMSME must be roped in.
- They must be tasked with educating and creating awareness regarding the Udyam system, on a priority basis.
- Last-mile awareness regarding systems and schemes that can benefit MSMEs will be a necessary step towards bridging the never-ending access gap.

Source: The Indian Express