

## Incentivising Registration of MSMEs

Current Status	Proposed Change
<p>Under Section 8(1) of the MSMED Act, registration of micro or small enterprises (both in manufacturing and services) and a medium enterprise engaged in services is <i>optional</i>. However, a medium enterprise engaged in manufacturing<sup>1</sup> is required to register by way of filing an <i>Entrepreneur Memorandum (EM)</i> with the appropriate authority.</p>	<p>Making the filing of an <i>Entrepreneur Memorandum (EM)</i> mandatory for all MSMEs may increase the administrative workload. Instead, this could be incentivised (not by amending the Act but through government notifications). For example,</p> <ul style="list-style-type: none"> <li>(i) if an enterprise would like self-declaration of plants and machinery or regulatory norms about safety, labour, etc. to be accepted by the government this could be made conditional on filing an EM, or</li> <li>(ii) the government could, <i>ceteris paribus</i>, give preference in procurement of goods and services from enterprise that has filed an EM, and</li> <li>(iii) loans from public sector banks at lower rate could be made available to enterprises that file an EM.</li> </ul>

### Rationale

Registration of MSMEs is desirable to better track economic activity and to reduce the prevalence of the parallel (black) economy. However, this should be done by incentivising MSMEs to register rather than through legal fiat. The latter could hinder setting up of such enterprises, lead to harassment and a *de facto* license-permit raj.

<sup>1</sup> With the rider that these goods must pertain to an industry specified in the First Schedule to the Industrial Development Regulation Act, 1951.