

MSMED Act (2006) provides for enterprises to register with DIC and file Entrepreneurs Memorandum (EM)1 & EM2 . Udyog Aadhaar as part of Ease of Doing Business initiative, has been discussed in the National Board of MSME and Advisory Committee meeting recently

# Udyog Aadhaar

Reaching the Unreached

Ministry of Micro Small and Medium Enterprises  
(An ISO 9001:2008 Certified Organisation)

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# UDYOG AADHAAR: EASE OF REGISTRATION

## BACKGROUND

Micro Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.

The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the M/o MSME and its organizations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

## OVERVIEW OF THE SSI/MSME SECTOR

Performance of Micro, Small & Medium Enterprises (MSME) Sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The Census was conducted with reference year 2006-07, wherein the data was collected till 2009 and results published in 2011-12. Fourth All India Census of MSME is the first

census conducted post implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Prior to implementation of MSMED Act, 2006, the sector was defined, as per the provision of Industrial Development and Regulation Act 1951, as Small Scale Industries (SSI) sector and its constituent tiny and auxiliary units as per periodic revision of criteria for defining such units. Third All India Census of SSI was conducted with coverage and concepts as prevailing during 2001-02. The scope and coverage of the MSME sector were broadened significantly under the MSMED Act, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sectors, besides defining the medium enterprises under MSME Sector. Thus, the entire non-agricultural sector of economy was brought under the coverage of MSME Sector subject to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and services sectors.

The census adopted different methodology for Registered and Unregistered Sectors. While complete enumeration of enterprises was adopted in Registered Sector, sample survey was resorted to in Unregistered Sector. However, activities under wholesale/retail trade, legal, educational & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) were excluded from the coverage of sample survey. For these activities, data was extracted from Economic Census, 2005 (EC, 2005) conducted by Central Statistics Office (CSO) of Ministry of Statistics and Programme Implementation (MOSPI) for estimation of MSME relevant enterprises.

## DEFINITION

**Registered Sector:** Enterprises registered with District Industries Centres in the State/UTs., Khadi and Village Industries Commission/Khadi and Village Industries Board, Coir Board as on 31.03.2007 and factories under the coverage of section 2m(i) and 2m(ii) of the Factories Act 1948 used for Annual Survey of Industries having investment in plant and machinery up to Rs. 10 crore were considered to belong to registered sector.

**Unregistered Sector:** All MSME engaged in the activities of manufacturing or in providing/rendering of services, not registered permanently or not filed Entrepreneurs Memorandum Part-II/ [EM-II] with State Directorates of Industries’ District Industries Centers on or before 31.03.2007 are called unregistered MSME. Those enterprises that are temporarily registered on or before 31-03-2007 as also the units that are temporarily or permanently registered or filed EM-II after 31-03-2007 till the date of Sample Survey, conducted as part of

Fourth All India Census of MSME, 2006-07, were treated as unregistered MSME. All unregistered MSME, covering both manufacturing and services sectors, constituted unregistered sector.

2.2 Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) are two national heritages of India. One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans. KVI today represent an exquisite, heritage product, which is 'ethnic' as well as 'ethical'. The Sector has a potentially strong clientele among the middle and upper echelons of the society.

2.3 Coir Industry is an agro-based traditional industry, which originated in the state of Kerala and proliferated to the other coconut producing states like Tamil Nadu, Karnataka, Andhra Pradesh, Odisha, West Bengal, Maharashtra, Assam, Tripura, etc. It is an export oriented industry and has greater potential to enhance exports by value addition through technological interventions and diversified products like Coir Geotextiles etc. The acceptability of Coir products has increased rapidly due to its 'environment friendly' image.

2.4 Ministry of Micro Small and Medium Enterprises (M/o MSME) envisions a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/ Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

### **3. GROWTH OF REGISTERED SECTOR:**

3.1 The estimated number of enterprises growth at 3.76% annually in case of manufacturing sector and 0.47% for services sector respectively in Registered Sector during 2001-02 to 2006-07, as per Fourth All India Census of MSME 2006-07, Registered Sector and Third All India Census of SSI 2001-02, Registered Sector. The growth in the estimated number of MSME was 2.61% for the period referred above, taking manufacturing and services together.

3.2 The employment increased at an annual growth rate of 9.84% for manufacturing sector and 2.06% for services sector during 2001-02 to 2006-07, as per Fourth All India

Census of MSME 2006-07, Registered Sector and Third All India Census of SSI 2001-02, Registered Sector.

3.3 The employments in Registered Sector as a whole grow at 8.60% per annum during 2001-02 to 2006-07 as per Fourth All India Census of MSME 2006-07, Registered Sector and Third All India Census of SSI 2001-02, Registered Sector.

#### **4. GROWTH OF UNREGISTERED SECTOR:**

4.1 The estimated number of enterprises and employment recorded growth rates of 30.05% and 30.56%, respectively during the period 2001-02 to 2006-07 considering the extended coverage of the sector. The expansion in the coverage of MSME Sector followed adoption of Micro, Small and Medium Enterprises Act 2006. Activities pertaining to wholesale/retail trade, legal, educational & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) which were brought under the coverage of MSME sector accounted for 147.38 and 303.31 lakh in terms of estimated number of enterprises and employment respectively, as per data extracted from Economic Census, 2005 conducted by CSO, MOSPI for MSME relevant enterprises. The annual growth rates recorded, excluding these additional activities, were 16.79% and 16.85% in estimated number of enterprises and employment, respectively. The expansion in the coverage of MSME Sector was limited to service sector only. Therefore, the growth rate for manufacturing sector is not affected and the growth rate was recorded as 25.90% and 22.57% employment respectively, during the year 2001-02 to 2006-07.

4.2 For service sector, while the growth rate of estimated number of enterprises and employment recorded was 32.83% and 36.11% respectively, during the period of 2001-02 to 2006-07, taking into account the expanded coverage of the sector.

#### **5. Introduction to Entrepreneurs Memorandum**

Subsequent to the implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 with effect from October 2006, filing of Entrepreneurs Memorandum Part – II / (EM-II) came into vogue.

As per the provisions of the MSMED Act, 2006 filing of EM-II is discretionary in nature. However, MSME file EM-II at District Industries Centres (DICs), after commencement of the project.

The information on number of EM-II filed by MSME at DICs was collected from the State/UT Commissionerates /Directorates of Industries to assess the trends in growth of MSME during 200-08 to 2013-14 in the country.

## 5.1 Trends in MSME Growth (Filing of EM-II) During 2007-08 to 2013-14.

MSME has shown consistent growth in terms of number of EM-II filed 2007-08 with the District Industries Centres across the country was 1.73 lakh which increased to 1.93, 2.13, 2.38, 2.82, 3.23 and 3.63 lakh during 2008-09, 2009-10, 2010-11, 2011-12, 2012-13 & 2013-14 respectively. The National Portal with only 14 states and UTs has shown a significant improvement in filing of EM1 and EM2 within a short time that further proves that there is a need for hassle free eco-system of registration that may lead towards formalization of economy.

## 6. Universalization of registration

The present registration process has also been commented by the Kamath Committee. “The major issue lies not with the registration process as per the MSMED Act, 2006 but with the conditions applied by the local DICs. There are localized rules and requirements which could vary even from district to district within the same state, which may result in delays in receiving the EM II acknowledgement. The Committee suggests the following measures to minimize such delays:

Deemed acceptance of registration (EM II) within pre-defined time frame. This could be a time period of one week from the filing of the online registration form. Since the form is reposed to enclose a self-declaration clause, all requisite verification can be done by the DICs subsequent to acceptance.



Since procedures like land allotment which are under the state governments entail collection of information, it is suggested that no conditions should be imposed by the state government/DICs for acceptance of registration.

The requirement of no-objection certificate with relation to pollution norms can be discontinued. This activity is already been carried out by the Pollution Control Department and the self-declaration by the MSME can be suitably worded to cover this aspect. If necessary, a negative list for industries where pollution certificate is required may be prepared.

A mobile application with an easy-to-use interface should be used to augment the registration process. Registration can be encouraged by providing incentives for registering with the authority which could include benefits such as insurance for a nominal fee or free of cost, credit ratings for MSMEs at low rates and tax holiday for a limited time period. It may be useful to have a basic form such that 95% of MSMEs including most micro enterprises are eligible for a single-form based basic registration/facilitation and a full form is needed only for the remaining 5% MSMEs. Even for these 5% MSMEs, the form should be simplified and based on self-certification with follow on validation by industry associations certified by the Authority on the lines of the BMO model in Germany, as detailed later in this chapter. The facility can be extended to have the ability to open a bank account entirely online using eKYC (electronic validation of KYC requirement).

**Udyog Aadhaar:** The proposed one-page registration form would constitute a self-declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar details and other minimum basis information required. Based on the same, the MSME can then be issued online, at a minimum, a unique identifier, or Udyog Aadhaar, a Permanent Account Number (PAN) and Tax Assessment Number (TAN); and Employees' Provident Fund Organisation (EPFO) registration and Employees' State Insurance Corporation (ESIC) registration, if applicable. The same should be issued online on a time bound basis. For certain aspects like labour, where self-declaration may not be the best approach for all sizes of firms, it can be permitted depending on the number of employees in the firm."



The Ministry of MSME can coordinate the simplification of registration and linkages to other departments/ministries. The proposed National MSME Portal can then require only a simple one-page registration form for MSMEs with a simplified set of information and documents. With the growing penetration of mobile phones in the country and the incremental usage of data services on mobile devices, this portal should also be easily accessible through mobile platforms. The Committee envisages that such an approach can achieve 95% registration amongst MSMEs in a time frame of six months.

Among other things, the Committee looked into the registration process and advocated for universalization of registration so that MSME sector, as a whole, can be planned for growth interventions with real time data and need based facilitation.

## 7. Action Points

The Ministry was represented in the Committee and is in broad agreement of the spirit of recommendation to encourage entrepreneurs to register and take advantage of various fiscal and non-fiscal incentives offered by Central and State Government. Ease of Doing business and promoting formalization of MSME sector can be achieved if the current process of filing of EM1 and EM2 are significantly revised and are technology enabled.

The current EM Part 1 format –on the proposed units, consist of 5 pages with 18 types of information and over 6 attachment. The prescribed acknowledgement to be issued by DIC is further 1 page form which is valid for two years. The current EM Part 2 format-after start of production, consist of 6 pages with 21 types of information and over 6 attachment. The prescribed acknowledgement to be issued by DIC after filling the codes and allotting EM number is further 1 page form which to be issued in five days after receipt by post or same day if delivered personally or online.

7.1 Udyog Aadhaar Form has been accordingly designed to capture details of enterprises in an easy and convenient manner.

## Ownership Details / स्वामित्व का विवरण

Aadhaar Number( \* Multiple enterprises can be registered by using Aadhaar Identity as Enterprise 1,2....) / आधार संख्या (\* एक से अधिक उद्यमों को .... उद्यम 1,2 के रूप में पंजीकृत करने के लिए एक ही आधार पहचान का उपयोग किया जा सकता है)

Name of Owner (As per Aadhaar) / मालिक का नाम (आधार कार्ड के अनुसार)

Mobile Number / मोबाइल नंबर +91-

## Enterprise Details / उद्यम का विवरण

Name of Enterprise / उद्यम का नाम

Investment in Plant & Machinery / Equipment (Excluding land & Building) / विनिर्माण सेवा संयंत्र और मशीनरी में निवेश / उपकरण ( भूमि एवं भवन में निवेश को छोड़कर)

(Rs. In Lakhs / (रु। लाखों में))

Date of commencement / उद्यम के प्रारंभ की तिथि(DD/MM/YYYY)

Total number of employees (In numbers only) / कर्मचारियों की कुल संख्या (संख्या में ही)

Major Activity / प्रमुख गतिविधि

Manufacturing  Services

NIC 2 Digit Code

NIC 4 Digit Code

NIC 5 Digit Code

Email / ईमेल

Bank Account Number / बैंक खाता संख्या

IFSC Code / आईएफएससी कोड

Social Category / सामाजिक वर्ग

General / सामान्य  SC / अनुसूचित जाति  ST / अनुसूचित जनजाति

Address of Communication With PIN Code (Proof : Copy of passbook,telephone,water or electricity bill etc.) / संचार का पता पिन के साथ (पासबुक, टेलीफोन, पानी या बिजली के बिल आदि के आधार पर)

State / राज्य

District / जिला

Concerned DIC / संबंधित जिला उद्योग कार्यालय

I hereby certify that information given above is true to the best of my knowledge / मैं प्रमाणित करता / करती हूँ कि ऊपर दिया गया विवरण मेरी जानकारी के अनुसार सही है

Application No. / आवेदन संख्या

\*Verification Code / सत्यापन कोड :

[Code is not case sensitive]

7.2 Udyog Aadhaar registration will enable the units/enterprises to seek information and apply online about various services being offered by various Ministries and Departments.

7.3 Earlier only medium enterprises were insisted to file EM2 as it was very cumbersome to file, the simplified Udyog Aadhaar will enable all enterprises to file and register themselves so that simply by using Udyog Aadhaar Unique identity code they can access other services.

7.4 Industry association and Business Member Organizations (BMO) can take a lead role and help existing enterprises to register and join the formal economy.

7.5 NSIC KVIC Coir Board and other state level agencies dealing with MSMEs can assist entrepreneurs in registering and linking scheme benefits.

7.6 Rating agencies –empaneled for Performance and Credit Rating Schemes and NMCP etc can also promote and encourage enterprises to get Udyog Aadhaar registration.

7.7 Banks and NBFC can also promote and encourage enterprises to get Udyog Aadhaar registration.

## 8. Universalization of registration

The Ministry request all concerned to promote universalization of registration so that a data-driven policy support can be designed and implemented in consultation with all stake holders.

8.1 NIC has been asked to suitable modify the national portal for filing of Udyog Aadhaar registration and even enable online schemed of state and center to be accessed with this unique number and integrate with eBiz system

## 9. Review

Hon'ble Minister MSME has a detailed discussion on this and other issue on 15<sup>th</sup> June 2015 and desired that we may take quick steps in adopting Udyog Aadhaar initiative

proposed by Kamath Committee and take all necessary measures to enable about 10 million units to be brought to the formal economy

We may perhaps write to the Chief Secretaries of all states and UTs to take their considered view before finalizing the form and further detailing