सूक्ष्म , लघु और मध्यम उद्यम मंत्रालय
MINISTRY OF
MICRO, SMALL & MEDIUM ENTERPRISES

सत्यमेव जयते

Guidelines for "MSE Scheme for Promotion and Investment in Circular Economy (MSE SPICE)"

भारतीय लघु उद्योग विकास बैंक
GCFV
नई दिल्ली कार्यालय

Contents

भारतीय लघु उद्योग विकास बैंक
GCFV
नई दिल्ली कार्यालय

1. Introduction

1.1 Micro, Small and Medium enterprises, the world over, play an important role in terms of their contribution to fostering GDP, exports, and employment generation opportunities. The MSME sector in India is no different and is vast and diverse not just in terms of products and size, but also in terms of technology, processes, traditionalism, or innovativeness thereby contributing significantly to all the indices of the economic development cutting across the rural and urban landscape. Largely, MSMEs work on a linear "take-make-dispose" business model, using conventional processes and technologies leading to higher resource consumption and associated waste generation and emissions, adversely impacting the climate.

While the recent India growth story has been a remarkable journey, it still needs to extensively factor in environment and ecology into the process of development. With a population of 1.4 billion people, accounting for almost 18% of the global population, India is staring at an economy of shortages of significant resource constraints and conversely, suboptimal utilization of capital and capacity. With the growing recognition of the finite nature of many resources, the Circular Economy (CE)offers a more sustainable and resilient alternative to the traditional linear model of economic growth. In practice, adopting CE models is an enterprise-level endeavour that demands a long-term and sustained commitment to transform the current use-and-throw production cycle. The concerns for the implementation of the CE become more demanding in MSMEs as these firms encounter resource constraints in terms of finance, human capital, and infrastructure.

2. Rationale of the Scheme

2.1. India has made the following commitments) to the United Nations Framework Convention on Climate Change (UNFCCC) during the Conference of Parties (COP)26 held in Glasgow, United Kingdom.

i. Reach 500GW non-fossil energy capacity by 2030.
ii. 50 %of its energy requirements are to be met from renewable energy by 2030.
iii. Reduction of total projected carbon emissions by one billion tonnes by 2030.
iv. Reduction of the carbon intensity of the economy by 45 % by 2030, over 2005 levels.
v. Achieving the target of net zero emissions by 2070.

2.2. Under India's G20 Political Guidance on Extended Producer Responsibility (EPR) for Cross-Border CE Value Chains, the Ministry of Environment, Forest, and Climate Change (MoEFCC) has set out targets for waste disposal standards for manufacturers, producers, importers, and bulk consumers in the fields of battery waste, plastic waste, e-waste etc. Circular Economy(CE) Action Plans for 11 waste streams have been finalized by NITI Aayog (Lithium-ion batteries, End-of-Life vehicles(ELVs), Scrap metal - ferrous and nonferrous, municipal solid waste and liquid waste, Electronic waste, solar panels, gypsum, toxic and hazardous Industrial Waste, Used Oil Waste, Agriculture Waste, Tyre and Rubber Recycling etc. Out of 11 waste plans identified, notifications of E-Waste Management Rules, 2016; Plastic Waste Management Rules, 2016, and Extended Producer Responsibility for Waste Tyre, 2022 (under Hazardous and Other

Wastes (Management and Transboundary Movement) Rules, 2016) have already been done and others are under process of notification.

MSMEs, being at the heart of any economy's production and growth cycle, play a critical role in the proliferation and use of CE. The various supply chains across sectors, the components and parts industry, the intermediary factories, and a large number of ancillary units in each and every production process are expected to align and adjust to this overall global effort on sustainability. It is only if the MSMEs adopt and accept CE, the industrial economy can be truly transformed into a circular business model. Being an engine of growth of the World Economy, it is imperative that the MSME sector makes a long-term commitment to CE, thereby setting an example of consistently high growth through the most optimal resource utilization.

CE encourages the recirculation of resources in the system through three main strategies:

- Reduce (Reducing resource flows): It implies the consumption of fewer resources per product without compromising the quality of the product.
- Reuse: Reducing resource loops aims to extend the utilization period of products. Reuse can be encouraged through the introduction of subsidies and customer awareness.
- Recycle: Closing resource loops means creating a circular use of resources by connecting the post-use stage with the production stage. It implies re-processing waste materials "into products, materials or substances whether for the original or other purposes.

3. Objective of the Scheme

Since the Udyam universe has more than 99% micro and small enterprises, it would be proper to provide the benefits under the scheme to MSEs only. Hence the objectives of the scheme for MSEs are as follows:

i. To promote Circular Economy and incentivize MSEs to adopt CE in the sector with a focus on notified regulations such as Plastic, Rubber and Electronics Waste Management etc.

ii. Enable MSE units to comply with Extended Producers Responsibility (EPR) and Waste Recycling targets set for industries.

iii. To align and contribute to achieving G20 goals made by the Government of India internationally in respect of the Circular economy.

iv. To spread awareness across the MSE sector about Circular Economy and Resource efficiency so as to maximize profitability, reduce wastage, improve organizational efficiency, optimize working capital, and ultimately reduce the overall manufacturing cost of products.

4. Features of the Scheme

- MSE SPICE is a Central Sector Scheme, with an outlay of Rs 472.50 Cr for the period of FY2023-24 to 2026-27. The proposed scheme will be under the RAMP Programme, which was approved by the Cabinet in March 2022.

- All MSEs, who are registered with the UDYAM portal of this Ministry, will be eligible to participate.
- There would be three components under the Scheme namely, Credit Linked Capital Subsidy, Awareness Generation and Demand Creation Component and Information, Education, and Communication Component (IEC).
- More than 3400 units would be benefited from implementing Brownfield projects of MSE units.

5. Financial Assistance

The financial assistance for the 3 components is as below:

I. Capital Subsidy Component: **[INR 450 crore]**
II. Awareness Generation and Demand Creation Component **[INR 15 crore]**
III. Information, Education, and Communication Component (IEC) **[INR 7.50 crore]**

I. Capital Subsidy: The component will address the need for the availability of affordable finance to the MSEs to adopt Circular Solutions (both domestic and global inclusive of taxes and duties). The MSEs are reluctant in adopting the CE model due to the higher capital cost of recycling processes leading to high payback periods, unprofitable product costs, etc. Additionally, the mandatory compliance requirements of the EPR Certificates involve costs and adherence to timelines. Thus, the financial incentives to MSEs would enable them to overcome these roadblocks thereby encouraging the adoption of the CE. The beneficiaries in the proposed scheme would be as follows:

Brown Field Project in MSE: This component is for upgrading/expanding the existing CE projects for promoting/facilitating CE principles across the MSEs. The maximum project cost admissible under the Scheme would be INR 50 Lakhs with a 25 % subsidy on the cost of Plant and Machinery only. However, projects costing more than INR 50 Lakhs would also be admissible under the Scheme, but subsidy shall be limited to a maximum of INR 12.5 Lakhs.

II. **Awareness Generation and Demand Creation among MSEs:**

1. Awareness generation/Demand Creation program across the MSE Clusters would be organized by engaging specialized organizations/agencies at the National/ International level who have expertise and experience in the implementation of CE solutions.
2. Workshops would be organized for awareness and demand generation of MSEs and other stakeholders including capacity-building of officials of the Ministry of MSE and its field offices.

This would be in line with the provisions of workshops in the RAMP programme.

III. IEC Component: The component will address the supply and demand side constraints by addressing the capacity gaps in financial institutions in adopting CE principles. This component will support the scheme implementation and operationalize the monitoring and evaluation framework of the scheme. The following activities will be covered under the IEC component of the scheme:

(i) Programme Monitoring Unit (PMU) Charges and Implementation Charges.

(ii) Training and capacity building of financial agencies.

(iii)Development and use of dedicated Information and Communication Technology (ICT) enabled platforms for MSE green financing for adopting Circular solutions.

(iv)Publicity/ Launching of the Scheme

6. Output and Outcome Framework

Components	2023-24		2024-25		2025-26		2026-27		
	Physical (No. of Units)	Financial (INR in Crore)	Physical (No. of Units)	Financial (INR in Crore)	Physical (No. of Units)	Financial (INR in Crore)	Physical (No. of Units)	Financial (INR in Crore)	Total (INR in Crore)
Credit Linked Subsidy for Implementing CE across the MSEs.	370	48	1030	134	1030	134	1030	134	450
Awareness generation and Demand Creation among MSEs		3		4		4		4	15
IEC Component		4.5		1		1		1	7.50
Grand Total		**55.50**		**139**		**139**		**139**	**472.50**

7. Implementing Agency and its Role and Responsibilities

Small Industries Development Bank (SIDBI) would be the Implementing Agency, which shall be paid a management fee of 0.25% of the corpus amount to meet administrative expenses. Additionally, specialized organizations/agencies at the national/ international level who have expertise and experience in the implementation of CE solutions would be on boarded by SIDBI for creating Awareness/ Demand generation as per General Financial Rules (GFR).

Funds from the ministry to SIDBI will be released in the following manner:

I. An initial one-time advance of INR 50 Cr will be provided to SIDBI to operationalize the scheme.

II. Subsequent release of the funds to SIDBI would be done on actual demand received on a quarterly basis with the approval of IFW.

7.1. Role and Responsibilities of SIDBI

- Ensure Implementation of the Scheme component Capital Subsidy and IEC as per the procedure laid out.

भारतीय लघु उद्योग विकास बैंक GCFV नई दिल्ली कार्यालय

- Develop a system/ online portal to operationalize the implementation of the Scheme.
- Execute MoU with Primary Lending Institutions (PLIs).
- Set up a PMU for effective monitoring and Implementation of the Scheme.
- Set up a Technical Working Group (TWG) for developing the criteria for the selection of projects/technologies, in line with the CE principles falling within the mandate of the MSE SPICE Scheme. TWG may meet periodically to revisit and update the criteria. It may co-opt members from MeITY, MoEFCC, and NITI Aayog among others. The TWG may consider the O&M model of MeITY for validation of projects/ technology.
- Develop a system for capturing the carbon credits (if any), thus generated for every project.
- Carry out due diligence with respect to the scheme guidelines and assess the proposal for subsidy.
- Nominate a nodal officer for effective coordination with the Ministry of Micro, Small and Medium Enterprises (MSME).
- Prepare reports on the progress of the scheme for appraisal of the Scheme Steering Committee (SSC) on a quarterly basis.
- Develop a reporting structure covering the benefits that procurement of machinery and plant accrued to the MSE unit through the adoption of CE solutions. This may include a reduction in raw material cost, GHG emission reduction, enhanced waste management, energy saving, etc.
- Any other task assigned by the Ministry.

7.2. Role and Responsibilities of specialized organizations/agencies

- Conducting awareness programs/ workshops for demand generation across the MSE Clusters, as approved by the technical subcommittee.
- Conducting workshops for officials of the Ministry of MSME.
- Providing technical support through awareness programme for selecting the right technologies for adopting CE Solutions across MSE units.
- The cost for workshops shall be in line with the provisions of workshops in the RAMP programme.
- Any other task assigned by the Ministry.

7.3. Eligible Primary Lending Institutions (PLI):

All Scheduled Commercial Banks, All India Financial Institutions (including SIDBI), Small Finance Banks, and Non-Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs), would be eligible to participate in the Scheme, after signing a Memorandum of Understanding (MoU) with SIDBI.

8. Process of disbursement of subsidy

I. An MSE unit desirous of subsidy may apply to a Bank/PLI for a loan to finance eligible investment.

II. The Bank/PLI approves the loan after due diligence ensuring that the project/technology proposed is in line with the criteria developed by the TWG. It, then, carries out documentation, including additional documents to avail of the subsidy.

III. The Bank/PLI disburses the loan.

IV. The Bank/PLI ensures the acquisition of plant and machines is completed after a site visit.

V. The Bank / PLI shall recommend the proposal for the subsidy to SIDBI through an online application and tracking system.

VI. SIDBI shall examine the proposal in line with the guidelines of the scheme. Based on the information submitted, SIDBI would sanction the subsidy.

VII. The subsidy would be released by SIDBI into the account of the PLI of the applicant MSE.

VIII. The subsidy amount would be converted into a TDR without interest accrual.

IX. Soon after the receipt of the subsidy, the loan amount equivalent to TDR would be carved out, which shall not accrue any interest.

X. Remaining loan balance shall be serviced as per the interest payment and principal re-payment schedule drawn by the respective bank/PLI.

XI. The beneficiary unit will have to remain in commercial production for a period of three years after the "reference date", on which subsidy under the scheme has been availed.

XII. In case the disbursement is in more than one instalment, the date of disbursement of the last instalment will be referred as the "reference date".

XIII. To ensure this, the subsidy released by the Government under the scheme will be kept in the form of a Term Deposit of an equivalent amount for a period of three years with effect from the "reference date".

XIV. The TDR will not be eligible for earning any interest, neither it can be hypothecated/ pledged by the beneficiary unit/ Banks/PLIs as security against any other liabilities/ loans.

XV. On the expiry of the prescribed retention period of three years, Banks/PLIs will liquidate the TDR and credit the proceeds into the loan account of the beneficiary after being satisfied that the requisite terms and conditions of the scheme including continuity of commercial production of the beneficiary unit are duly adhered to.

9. Cconditions for subsidy:

I. The projects in line with the CE principles would be eligible for the subsidy.

II. Term Loan sanctioned and disbursed by banks / PLIs for acquiring new plant and machinery for technology and process up-grade (refer 5.I above) shall qualify for a subsidy under the scheme. The second-hand / fabricated machines will not be considered to calculate the subsidy under the scheme.

III. All the eligible PLIs (excluding SIDBI) will have to execute a General Agreement (GA) for availing capital subsidy under the scheme.

भारतीय लघु उद्योग विकास बैंक GCFV नई दिल्ली कार्यालय

IV. After sanctioning of the assistance, the eligible PLI will get an agreement executed with the concerned MSE unit.

V. The outstanding principal amount of the term loan account under this scheme from one lending agency to another lending agency, would be permitted only once subject to the condition that the entire portfolio (i.e., balance principal term loan amount and interest due /payable thereon) remains unchanged and subject to the consent of the existing lending agency / PLI.

VI. The unit is allowed to transfer its loan liabilities/accounts along with TDR to only those banks which are PLIs under the scheme, provided functions and conduct of the unit along with other terms and conditions do not change.

VII. The term loan sanctioned for availing the benefit of the scheme should not be for less than three years including moratorium period for MSEs.

VIII. In the event of fire /natural disasters/ theft during the monitoring / lock-in period, the amount of subsidy extended to the unit may be utilized to be adjusted against the outstanding term loan. In case, of insurance claim is transferred to the unit, the subsidy shall not be extended to the unit. In regard to the sale of the machinery during the monitoring period, the fixed deposit will be forfeited, and the subsidy will have to be refunded to the Ministry along with interest thereon. The interest portion on the subsidy amount shall be as per the lending interest rate of the term loan and shall be borne by the beneficiary enterprise.

IX. The issue(s) of change in ownership and legal entity of the unit or in its constitution will be dealt with in the framework of a legal angle on case-to-case basis.

X. The eligible PLI will also be responsible for ensuring that the cases of subsidy have been subjected to due scrutiny of documents and verification of eligibility of the beneficiaries in terms of the guidelines. The concerned PLI will also be responsible for ensuring compliance with the prescribed procedure and the terms and conditions associated with the disbursement of the subsidy. The sanction letter for a term loan to the beneficiary unit should clearly indicate that the above due diligence process has been duly observed. The claim for subsidy will accompany a copy of the particular sanction letter and the sanction letters without the said clause duly mentioned will not be entertained.

XI. The GOI assistance under the scheme cannot be utilized for purposes other than for which it has been sanctioned. The eligible PLI shall have to strictly follow this norm and no deviation would be permitted.

XII. In case, it is found that capital subsidy from the Government has been availed of on the basis of any false information, the industrial unit shall be liable to refund the Government the capital subsidy availed, along with interest to be charged from the date of disbursal to the date of refund. The rate of interest shall be the document rate of the PLIs concerned at the time of invoking this penal clause.

XIII. The credit risk under the scheme will be borne by the eligible PLI and as such, they will have to make their own commercial judgement while appraising the project. The credit decision of the eligible PLI will be final.

XIV. SIDBI shall have the right to inspect the books of eligible PLIs and the loan accounts irrespective of whether refinance is availed or not from SIDBI under this Scheme and/or call for any other information as may be required by GoI from time to time.

XV. The subsidy claims will have to be submitted by the PLIs to SIDBI before the end of the quarter immediately following the quarter in which the bank disburses the final installment (reference date) of the existing term loan to the unit.

XVI. In the event of the beneficiary unit/s becoming defaulter in repayment of loan/s and the relevant account/s being declared NPA/s (as per extant Income Recognition and Asset Classification (IRAC) norms), the benefit of the subsidy/subsidies would have to be immediately withdrawn and the related term deposit/s forfeited and proceeds refunded to SIDBI.

XVII. Except for the event of merger, acquisition, amalgamation or takeover of the beneficiary MSE, the plant and machinery purchased for availing the subsidy under this scheme shall not be disposed off till the TDR is liquidated. The TDR kept with the lending institutions, in case of loans where beneficiary units are merged with or taken over by the Medium and large Units, will not be liquidated in favor of the new entity that emerged as the result of the merger or the large entity acquiring the beneficiary unit. In all such cases, the subsidy would stand withdrawn.

XVIII. Machines purchased on or after the date of sanction of the term loan only shall be eligible for subsidy. The purchase date shall be the date when full and final payment is made by the unit for machinery as evidenced by the bank transaction statement or the date of commercial invoice whichever is later.

XIX. In the event of detection of gross violation or departure in compliance with the terms and conditions prescribed under the scheme and/or specified in a particular approval, SIDBI shall have the right to immediately recall the entire amount of subsidy from the concerned PLIs irrespective of the fact whether or not the concerned PLIs have already recovered the subsidy from the beneficiary units.

XX. The eligible beneficiary units may be permitted to transfer its loan liabilities/account along with TDR to only those Banks which are already listed as designated PLIs so that as per guidelines such transfer will be subject to the condition that there will be no change in the other terms and conditions as well as continuity of loan liabilities.

XXI. The eligible PLI would obtain an application for assistance under the MSE SPICE in the prescribed form provided in **Appendix – I.**

XXII. Promoters' contribution, security, debt-equity ratio, upfront fee, etc. will be determined by the lending agency as per its existing norms.

XXIII. Units which have already availed subsidy in the scheme up to the maximum permissible limit cannot claim additional subsidy. However, the units which have availed the subsidy less than the maximum permissible limit will be eligible to claim the balance subsidy up to the maximum permissible limit, within the tenure of the scheme. In order to limit the disbursement of subsidy within the prescribed maximum permissible limit, the PLI will certify the subsidy amount availed earlier by the unit itself.

XXIV. Units availing subsidy under the MSE SPICE shall not avail of any other subsidy for Adopting Circular Economy Solutions from the Central/State/UT Government.

XXV. One of the main requirements for sanction of assistance under the MSE SPICE scheme will be the availability of competent management in the unit concerned to carry out the upgradation programme and to manage the operation of the unit efficiently. Towards this end, the lending agencies may stipulate conditions as may be considered necessary.

XXVI. In the case of imported machinery, the following shall be included while calculating the value of plant and Machinery, namely: -

a. Import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port);

b. The shipping charges;

c. Custom clearance charges; and

d. GST.

10. Scheme Steering Committee

Composition of the Scheme Steering Committee is as under:

Sl. No.	Name of the Ministry/Department	Designation
1	Additional Secretary and Development Commissioner(MSME), Office of DC(MSME), Ministry of MSME	Chairman
2	Joint Secretary or equivalent level officer	Member
3	Representative of Ministry of Environment, Forest and Climate Change(Not Below the Rank of Joint Secretary)	Member
4	Economic Adviser, IF Wing, Ministry of MSME	Member
5	Representative of SIDBI(Not below the Rank of GM)	Member
6	Any other invitee as and when required co-opted by the Chairman	Member
7	Director, Ministry of MSME dealing with the subject matter.	Member Secretary

The Terms of Reference (ToR) are as under:

a. The Committee shall be responsible for Monitoring and Tracking the Progress of the Scheme Implementing at least quarterly.

b. Committee may approve for release of Funds to SIDBI.

c. Any change/ course correction in the scheme guidelines may be effected on the recommendation of the SSC and with the approval of the Secretary, MoMSME.

11. Monitoring and Evaluation

The overall scheme would be monitored by the Scheme Steering Committee (SSC). The Additional Secretary and Development Commissioner (MSME) will be the Chairperson of the