Micro, Small and Medium Enterprises (MSME)

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MSME is one of the emerging sectors in India over the last 5 decades. It not only provides employment to the backward and rural areas but also helps in the growth of the economy. MSME helps in equitable distribution of national income and wealth by socio-economic development of the country.

It contributes nearly 8% of GDP, 40% of the exports and 45% of the total manufacturing output. MSMEs produce wide and diverse range of products to meet the needs of not only of local markets but also global and international market.

The MSMEs Development Act was issued in 2006 to address the problems or hassles faced by the MSMEs. The Act also notifies the coverage and investment ceiling MSME. The main purpose of the act is to develop these enterprises and also increase their competitiveness. The Act defines the scope and role of Micro, Small & Medium enterprises which comprises both service entities and manufacturing entities.

It also has the establishment of funds for the development, promotion and enhancement of the competitiveness of these enterprises. The act has effective mechanisms for solving or mitigating the issues of delayed payments to Small and micro enterprises. It also has a statutory consultation mechanism at the national level.

The Ministry of Small Scale Industries and the Ministry of the Agro and Rural Industries were merged to become the Ministry of Micro, Small and Medium Enterprises on 9th May 2007. The Ministry designs programmes, projects, policies and schemes for the development of MSMEs and helps them to progress by monitoring their schemes and policies. The main work of enhancement and development of MSME is the work of the State Government. However the central government supplements the efforts of the state government through various schemes.

**Definitions of Micro, Small & Medium Enterprises (msme.gov.in/)**

As per the provision of the Micro, Small & Medium Enterprises Development Act 2006, the MSME are classified in two categories.

1. **Manufacturing Enterprises**: 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 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in plant & machinery.

<table>
<thead>
<tr>
<th>Manufacturing sector</th>
<th>Enterprises</th>
<th>Investment in plants &amp; Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Is not more than 25 lakhs rupees</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>More than 25 lakhs but not exceed 5 crore rupees</td>
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<tr>
<td>Medium</td>
<td>More than 5 crores but less than 10 crore rupees</td>
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2. **Service Enterprises**: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

<table>
<thead>
<tr>
<th>Service sector</th>
<th>Enterprises</th>
<th>Investment in plants &amp; Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Is not more than 10 lakhs rupees</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>More than 10 lakhs but not exceed 2 crore rupees</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>More than 2 crores but less than 5 crore rupees</td>
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The following facilities are provided by the ministry to MSME:

1. Smooth flow of capital from the banks and other financial institutions.
2. Technology modernisation and upgradation.
3. Proper connected infrastructural facilities.
4. Proper quality certification and modern testing facilities.
5. Training facilities for the entrepreneurship development and skill development.
6. Exposure and better access to export and domestic markets.
8. Support in the development of design and packaging of product (msme.gov.in/)

India has mainly two types of industries in SMEs in rural areas: Khadi and Village Industries.

Khadi industry is one of our proud legacy of India’s national freedom movement and Mahatma Gandhi. Any industry which is situated in rural area and produces goods with or without the use of power and the capital invested per worker or artisan is not more than 1 lakh rupees or such sum notified by the official Gazette as and when specified by the central government.
The main benefit of the kadhi and village industry is that it provides employment at a very low per capita investment. It also provides sustainable employment to village artisans. Today Kadhi and village products have ethnic as well as ethical importance. People from middle and upper middle class of the society has strong liking for this product. There is lot of potential demand in foreign markets.

The government is working hard to protect and promote village industries by providing different services and facilities.

- Providing seasonal raw material
- Providing training to upgrade the artisan’s skills
- Provide ideas of new design and new product in consultation with experts or agencies
- Prepare catalogue of products
- Promote the export of such products in foreign market.
- Establish laboratory for the testing product quality
- Marketing the product by organising various exhibition and melas.
- Providing attractive and appropriate packaging facilities.

Kadhi and village commission was established under the Khadi and village industry Act 1956. It is statutory body for the development and promotion of Khadi and village industries. The commission is headed by chairman and 10 part time members. By providing employment, checks the migration of rural population to urban areas in search of employment.

The main aim of the commission is to promote, assist, plan and organise the programmes and projects or schemes for generation of employment opportunities through development of KVI.

PRIME MINISTER EMPLOYMENT GENERATION PROGRAMME (PMEGP)

The government has started the Prime Minister Employment Generation Programme (PMEGP) for generating employment by establishing Micro and small industries in rural and urban areas. PMEGP is a central sector scheme which will be administered by the Ministry of Micro, Small, and Medium Enterprises (MoMSME). This scheme is implemented by KVIC

Quantum and Nature of Financial Assistance

Levels of funding under PMEGP

<table>
<thead>
<tr>
<th>Categories of beneficiaries</th>
<th>Beneficiaries contribution of project cost</th>
<th>Subsidy rate on project cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location of project (area)</td>
<td>Urban 10%</td>
<td>Rural 15%</td>
</tr>
<tr>
<td>General category</td>
<td>10%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Special (including SC / ST / OBC /Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas etc. | 05% | 25% | 35% |

ISSUES WITH THE MSMEs AND THE INTER-MINISTERIAL COMMITTEE

Suggestions to overcome it

The last few years’ statistic data have shown that the share of MSMEs in GDP and also in export and manufacturing output is slowing declining at an alarming rate. The employment aslo is declining in manufacturing sector.

To handle this problem the government came up with a manufacturing policy in 2011, but the gestation period of many policies is too long.

The growing concern of the MSMEs made the government to come up with an Inter-Ministerial Committee to recommend the means to accelerate the growth in the MSME sector.

On April 1st 2013 government set up Inter-Ministerial Committee to see and find the solutions to the issues faced by the MSMEs and also to give suggestion to boost the manufacturing in the sector.

The committee is headed by Department of Industrial Policy and Promotion (DIPP) secretary Saurabh Chandra. (articles.economictimes.indiatimes.com August 2nd 2013)

During the findings the committee found out that MSME lacks the economic and functional ability which is there in the large enterprises. The main concern of the entrepreneur is to run the business, but the present ecosystem puts lot of pressure on the resources and time of the entrepreneur in manufacturing sector. Moreover the problems and challenges at the different stages of product are also very diverse. An unfriendly and complex business ecosystem puts the small entrepreneur in the unregistered and informal sector which is growing at a faster rate than the big organised sector which is five times more and accounts for 95% of all MSME. In order to accelerate manufacturing in the Small sector this trend must be reversed as it is not sustainable.

Thus the policymakers should try to create an ecosystem which is sustainable and helps entrepreneur to grow and operate in the organised economy.

The committee formed has more than 60 recommendations which covers the issue of finance, infrastructure, regulation, technology and market at the different stages of the product.

START-UPS

Budget 2016 Schemes and policies for SMEs Start up

Arun Jaitley had announced various schemes to boost the MSME sector in 2016 budget one of it is for start-ups set up during April 2016 to March 2019 100% tax deduction of profits for three out of five years
The government has removed the excise duty on, inputs and parts components and subparts for the production of battery, adapter and wireless headsets or speakers of mobile phones. This was done to boost the manufacture of phone locally.(http://economictimes.indiatimes.com/small-biz/startups/budget-2016)

**Start ups policies regarding Land.**

State government has simplified many internal processes and over 30,000 plots were allotted in established industrial sectors across the country to all the good business plans as start - ups

State government has also identified mid-sized land close to urban areas, to be developed and allotted to MSMEs. It will grow faster near urban areas as start-ups generally look for spaces close to their families and markets. also development of small sector is faster and less time consuming as compared to larger projects. So the government should give first preference to the development of MSME by making favourable changes in their programmes and by allocating more funds to the growth of such sectors

**Start ups policies regarding premises Rented**

The government can also make arrangement for the construction of premises that can be given on rent to strat-ups. This will help in de-risking the collateralization.

Processes for Registration for property, state taxes and access to other utilities

With the help of Information technology, state government has simplified and made transparent the processes regarding VAT registration and other local taxes, land and property taxes and utilisation of other services and also bought such services under the surveillance of Public Services Delivery Act.

Funding at the early stage, Venture capital and Angel investors

Government may provide funds at a higher rate and subsidy to all the start-ups with high potential growth. The prime Minister’s Employment Generation Programme (PMEGP) will accelerate manufacturing in the MSME sector, and it will renamed as the Prime Minister’s Entrepreneurship and Employment Generation Programme

A committee was st up with senior authority in the finance Ministry to make recommendation for enhancing the flow of capital from angel and venture capital at the early stag of start-ups, and to remove any impediments in the policy regarding the flow of capital from these investors.

SIDBI will make plans to attract more institutional and private funds for the new start-ups. It should increase the coverage of the India Opportunity Venture Fund for MSME beneficiaries. The Innovation fund was established by the National Innovation Council to boost the growth of innovative start-ups, which is much needed for the economic growth of the country.

**Formation of Capital for Start-ups**

The unlisted enterprises returns on investment which are registered under the companies Act will be made tax free after 1 year of investment as in the case of listed companies. This would boost and accelerate both the institutional and individual investors to provide equity contribution to MSME new companies and help them to meet their non-debt capital needs, thus accelerating manufacturing in the MSME.

RS.1000 core has been dedicated for the start-ups by the graduate management trainee and graduate engineers by forming A credit Guarantee Fund by the government.

**Incentivising through Taxation**

Entities in the organised sector are encouraged by lower corporate tax rate as it is done in Japan. In the same way Direct Tax may be exempted or concessions may be considered in the first 3 years of operations. The exemption may be limited to 50 percent of the tax liability in the following 2 years. It would not result in loss of revenue to the government but it will strengthen the start-ups in the first two years of struggle and give the message of incentive to the MSME projects

**Improving and enhancing Credit to MSMEs**

SIDBI should play a proactive role in designing specialised instruments, providing specialised professional inputs that could boost credit access by the MSME in times of distress.

SIDBIs programmes should be supported by the government funding, for helping the ‘credit gap’ in the MSME sector. All Scheduled commercial banks may be told to make fuller use of CGTMSE dispensation with the SIDBI collaboration so as to reach out to the needy MSME units with attractive ‘credit offers’

**Interest Rates**

RBI is considering to reduce the lending rates to MSME from 17%-18% to 13% through all Scheduled commercial Banks. The banks can also charge lower lending rate for External Commercial Borrowing to MSMEs, especially for exporting MSEs. External Commercial Borrowing is available at lower global interest rates.

**Technological up gradation Schemes**

Ministry of finance may consider the up gradation of technology of MSMEs by increasing the budget outlay on Textile up gradation scheme and Credit linked capital subsidy scheme as the present fund is not enough to meet the demand of upgrading or modernising equipment of the industry

Further the ministry of MSME is considering in enhancing the current credit limit from one crore by revising the Credit linked capital subsidy.
Capital Subsidy for Second-hand Machines

Ministry of capital subsidy provides subsidy only for the purchase of new machinery and not for the second hand machinery. However the Technology Up-gradation Fund scheme given by department of Textiles has permitted the eligibility of subsidy for the purchase of second hand machines. Some Associations have put forth the case that it makes more sense to buy a second hand machines instead of new one. This is because in many cases the cost and life of the second hand machine are better or favourable as compared to that of a new one. So a unit may opt for a second hand machine.

The Ministry of Textile has seconded this view and has granted subsidy for new as well as old machine. This subsidy on procurement of second hand machine is provided only if the machine has at least 80 percent of its productive normal life. This view is not supported by the Department of Industrial policy and Promotion as this would give the wrong signal that the government does not really intend to drive the up-gradation of technology.

MARKETING IN GLOBAL AND NATIONAL SPACE

MSMEs marketing in National and Global market

MSMEs have to face many hurdles and challenges in marketing their products right from the inception. The main issue is Indian manufacturing MSMEs are catering more to the local market unlike China where the MSME are export driven.

This deprives the unit from taking the global market opportunities. Thus the marketing strategies of MSME product should consider both domestic and global markets.

Use of IT

The challenges of marketing in global market like information barrier, infrastructure and resources- of geographies, market penetration, logistic and prices, foreign regulations etc. makes the small firms to concentrate in local market. These handicaps can be overcome by the use of information technology that has made the whole world come so closer.

Export Promotion

In order to enhance exports one need to identify the product this has potential in large global market.

The development commissioner, MSME has undertake the task of making the product list whose export can be increased or promoted with more impact. Only those products whose world annual average imports are more than US$ 1 billion was shortlisted which were 247 products for export promotion.

If the export of 247 products is 3.7% of the world imports market then if by export promotion their export increases even by 5 percent of the world imports, then it is estimated that India’s export will increase by at least 25% without any growth in world imports

Import Substitution

Government is also trying to promote import substitution like export promotion for the local market which prefers products of foreign suppliers. Mostly electrical and motor vehicle parts are imported on a large scale i.e. it was US$ 42 billion imports of electrical products and US$ 9 billion import of motor parts in 2009-12. However it has not affected the domestic manufacturing of these products as it is growing at a high rate and is well established

Public Procurement Policy

Ministry of MSME has notified in March, 2012 the public procurement policy. According to this policy the central government ministries, public sector undertakings are compulsorily required to procure annually from Micro and small Enterprises from the financial year 2012-13 a minimum of 20% of total purchases in a period of three years.

This notification of the public procurement policy by the government has not only enlarged the market for MSEs but also build professional relationships between small industry and government enterprises.

If this policy is carefully pursued and implemented then this will boost the MSMEs production, facilitate technology and information to think globally.

Standards and Testing Facilities

Ministry of MSME is reviewing the four regional and eight sub-regional testing centres and is equipping these centres with world class facilities as with the European and US standards. This done by reviewing the management and funding pattern.

Government is directing all the MSME to mandatorily comply with the product standards given by the Bureau of Indian Standards. This is done to enhance the quality standards of manufactured products by MSME.

The Ministry of MSME is also helping MSMEs to obtain Bureau of Indian Standards under the ISO certification scheme which is currently implemented as a part of NMCP.

Exit and Closure

Ministry of MSME is provided with required funds from the Ministry of Finance to conduct a detailed report through professionals on how to simplify the procedure for closure of a manufacturing unit. Such procedure relate to legal compliances under the labour law,company law, excise and service tax, direct taxes, VAT, water utility, municipal body, power utility, financial institutions, creditors etc. The main aim is to make the procedures simpler which are easily understood by reducing discretion and intermediation.

Aid during Financial Crisis
SIDBI may start a programme wherein interest free loan is provided with a repayment period of 7 years to stop SME from becoming bankrupt during a financial crisis which also includes global or national crisis which leads the business towards closure.

RBI has advised banks to constitute MSME Rehabilitation Cell at Circle or Zonal head quarters for timely rehabilitation of sick MSE units.

**MSMED Act Changed for addressing Sick Units**

The MSMED Act 2006 was amended to handle the financial distress by the introduction of a temporary stay which was followed by speedy liquidation, revival or sale of the sick unit. The rehabilitation of the sick units by modernising or by funding through banks or financial institutions.

**EXISTING SCHEMES FOR MSMES BY MINISTRY OF MSME**

**Credit Linked Capital Subsidy Scheme (CLCSS)**

In October 2000 the CLCSS was launched for the upgradation of technology of MSME. According to the scheme a 15 percent capital subsidy is given for the purchase of plant and machinery. Loan eligibility maximum limit for the calculation of subsidy is Rs.100 lakh.

**Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)**

This scheme was launched by government in August, 2000 for MSE with a view to provide credit to the Micro and Small Enterprises, for loan up to Rs. 100 lakh without third party guarantee or collateral. This scheme was set up by Government of India and Small industries Development Bank of India jointly.

**Micro & Small Enterprises Cluster Development Programme (MSE-CDP)**

MSE-CDP was set up for the speedy and integrated development of MSE in clusters in form of soft interventions i.e. capacity building, organising workshop, study tour, seminars, marketing development, skill development, export promotion etc. and hard intervention like upgrading infrastructural facilities in MSEs cluster or by setting common facility centres.

The scheme is funded by the state government.

**National Manufacturing Competitiveness Programme (NMCP)**

NMCP was started by the Indian government to develop the global competitiveness among the Micro, Small and Medium Enterprises in India.

The value chain analysis of the MSME found 10 components that needed serious attention.

These components are as follows:

- Support for Entrepreneurial and Managerial Development of SMEs through Incubators
- Technology and Quality Upgradation
- Promotion of Information & Communication Technology
- Lean Manufacturing
- Setting up of New Mini Tool Rooms
- Quality Management Standards and Quality Technology Tools
- Design Clinic Scheme for Design Expertise
- Marketing Assistance
- Awareness on Intellectual Property Rights
- Financial Assistance on Bar Code

(*msme.gov.in/Accelerating%20Manufacturing*)

Special polices for the development of small business in Special Economic Zone (SEZ)

SEZ is one of the best place for the development of small business. It has many schemes and policies which are beneficial for the growth and development of SMEs.

India was first in Asia to set up Special Economic Zone to promote exports. The first Asia's SEZ was set up in Kandla in 1965. The policy of Sez was announced in 2000. The main aim was to bring confidence in investors and government commitment to a stable policy of SEZ. Establishment of SEZ provided employment and economic growth of the country.

The main aims of SEZ are:

- Promote the export of goods and services
- Increase employment opportunities
- Develop infrastructure facilities
- Promote investment from foreign and domestic sources
- Several Facilities and incentives are provided to the units in SEZs for attracting investments.
- 100% exemption on tax on export income for SEZ units under section 10AA of the Income Tax Act for first 5 years and 50% for next 5 years and further 50% of the export profit ploughed back for next 5 years (www.sezindia.nic.in/about-fi.asp)
- Exemption of Central Service Tax
- Exemption of Service Tax
- Duty free import or procurement of goods for maintenance and development of SEZs
- Exemption of State Sales Tax
- Exemption from dividend distribution Tax.
- Exemption from custom and excise duties for SEZs development
- For state and central level approvals there is single window clearance.
- The units of SEZ can get 100% foreign direct investment.
There is no regular examination by customs of import and export cargo. (www.business.mapsofindia.com)

CONCLUSION

The central government and the state government along with the Ministry of Micro, Small and Medium Enterprises are taking keen interest in the growth and prosperity of MSME.

An Inter-Ministerial Committee was set up to boost and accelerate the manufacturing units in MSME sector on 20th March, 2013.

Many policies and schemes are framed to boost the development of MSME in India.

Many suggestions to improve the working of MSME in start-ups, promotion and marketing in global space, upgradation of technology and financing the projects etc. are provided by the ministry of MSME.

Recommendations covering issues of regulation, finance, infrastructure, technology and market through the different stages of the life cycle of MSMEs are taken care of.

Government is putting soul and heart for the development of MSME by encouraging the start-ups with different subsidies and financial support.

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