Micro, Small and Medium Enterprises: Government Policies and Major Issues

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ABSTRACT

Worldwide, the micro small and medium enterprises have been accepted as the engine of economic growth and for promoting equitable development. MSMEs can play a catalytic role in low-cost employment generation, poverty alleviation, rapid industrialization and economic development. The support systems established by the governments are instrumental in nurturing the growth of MSMEs. The contribution of MSME in the development of our economy is extraordinary as it contribute 8% of GDP, 45% of total manufactured output, not only this it contribute 40% of total export and also generates employment for 60 million persons by operating 26 million enterprises and 6000 products.

The paper is an attempt to highlight the government policies for development of MSMEs. Inspite of government’s support system the MSMEs are facing so many problems generated through the external as well as internal elements. In our present paper an attempt has been made to discuss some of the major bottlenecks impeding the growth of the MSME sector followed by some suggestions that should be included in policies and regulation for MSME so that the same could contribute more in the development of our economy.

Keywords—MSMEs, GDP, Economic Growth

I. INTRODUCTION

The development of any nation is very much depends upon the industrial development. In the present era of globalization and free trade the development of micro, small and medium enterprises plays a vital role in the economy as these are the significant contributories in the national income, gross domestic production and employment generation. The role of MSME is of utmost important in the Indian economy. This sector contributes 8 per cent of the country’s GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through over 26 million enterprises producing over six thousand products (MSMED Annual Report 2010-2011). The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries.

The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. Cutting across all sections of production and services, MSME sector is truly a strategic asset for the economy of the country. Since independence, especially after the planning for economic growth adequate importance has been given on the development of MSME by government. The impact of initiatives bought out by the government has been reflected in the industrial output, employment generation, and economic growth.

II. OBJECTIVE OF PRESENT PAPER

This paper aims to discuss the government policies for MSMEs. Our objective is also to discuss the problems inhibit the growth of MSMEs and to give few suggestions to improve it.

III. RESEARCH METHODOLOGY

For attempting an in-depth research and learning about the government policies for MSME and the growth of entrepreneurship the necessary data has been collected through the secondary source. The contents of historical data analysis, case studies, and sector reports are used for enrichment of research.

IV. DEFINITION OF MSME

The concept of MSME is universal but the proper and formal definition of MSME is still being a matter of discussion. Different organizations and countries...
developed different approaches towards the MSME, so it very difficult to design a single definition for small business which is used for universal application. The main criteria adopted for defining MSME is number of employees, turnover and capital investment in the enterprise.

Table 1: Shows the Criteria for Defining MSME by New European Union

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Employees</td>
<td>9</td>
<td>49</td>
<td>250</td>
</tr>
<tr>
<td>Maximum Annual Turnover</td>
<td>02 million Euros</td>
<td>10 Million Euros</td>
<td>50 Million Euros</td>
</tr>
<tr>
<td>Balance Total</td>
<td>02 million Euros</td>
<td>05 Million Euros</td>
<td>49 Million Euros</td>
</tr>
</tbody>
</table>

Source: MSME user guide and modal declaration, 2003

Table 2: Shows Australian Bureau of Statistics criteria for defining MSME

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Up to 99</td>
<td>100 to 199</td>
<td>More than 200</td>
</tr>
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According to US Small Business Administration, section 3 of Small Business Act, 1953 a small business is one which is independently owned and operated and which is not dominant in its field of operation, the definition of MSE in USA is based on its market share. The Small business act defines different standards for each industry in USA. Some countries tend not to make a distinction between legal and statistical definitions as the definition of SME is based on revenue in Canada, on the basis of number of employees in United Kingdom. The legal definition based on European union recommendations takes into account the number of employees, annual turnover, annual balance sheet and independence, where as in case of Italy and hungry the monetary basis have adopted. Definition based on number of employees is adopted in France.

Definition of SME in Indian context is based on the following classification.
1. MSME engaged in Manufacturing
2. MSME engaged in providing and rendering services
The demand for a single comprehensive legislation for MSME has been raised from a long period of time by the small business associations, industry and stake holders, as a result an act for the development of micro, small and medium enterprises has been enacted with effect from 2006. The name of the act is MSMED Act 2006. The act inter-alia provides for establishment of a statutory national board for micro small and medium enterprises, filling of memorandum, measures for promotion, development and enhancement of competitiveness of micro, small and medium enterprises.

The Micro enterprises have been defined for the first time in this act. The Act classified MSME enterprises into two categories
1. MSME engaged in Manufacturing
2. MSME engaged in Services

Further the enterprises are defined on the criteria of investment in the following way.

Table 3: Showing Investment ceiling for Plant, Machine and Equipments.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing**</th>
<th>Service*</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO</td>
<td>Up to 2.5 million ($50000)</td>
<td>Up to 1 million ($20000)</td>
</tr>
<tr>
<td>Small</td>
<td>2.5 million to 50 million ($1 million)</td>
<td>1 million to 20 million ($400000)</td>
</tr>
<tr>
<td>Medium</td>
<td>50 to 100 million ($2 million)</td>
<td>20 million to 50 million ($1 million)</td>
</tr>
</tbody>
</table>

1$ = ` 50
* Investment in plant and machine
** Investment in Equipments


V. GOVERNMENT POLICIES FOR MSME

The development of MSME was not been take care of before independence. The British rulers had not done much for the development and growth of industries in India. Infact the domestic industries at all levels were terribly exploited. But after independence the Indian Government in its very first resolutions identified that the development of country lies in the development and growth of small scale industries. The MSME were recognized as a major tool for generating employment and investment not only this the same were recognized as an effective source of minimizing the unquotable distribution of income and development in country. As an initiation the small industries development organization (SIDO) which was later on called as Micro, small and medium enterprises development organization (MSMEDO) was established in the year 1954 as an apex body for sustainable and...
organized economic growth of MSME. Within two years of the establishment of SIDO the national small industries corporation, the khadi and village industries commission and the coir board was set up. In the following years the government provided supportive measures that are required to develop MSME in India by way of certain reservations under the government purchase program, reservation of items for exclusive manufacturing, bank credits and accessibility, tax exemptions, infrastructure development and establishment of various institutions for entrepreneurial skills development, MSME development centre, in addition to this government has established tool rooms with German and Danish assistance for providing technical services essential for MSME and also set up district industries centre all over the country.

In the year 1991 Dr. ManMohan Singh who was the finance minister that time introduce a new liberalization, privatization, and globalization policy for rapid development in industrial sector and economic growth. In this context the government framed a new policy for small, tiny and village enterprises in August 1991. The highlight of this policy was that it replaced the protection with competitiveness; infuse more vitality and growth to MSME in foreign competitive market. In this phase of development the main concentration was given towards the infrastructure development, quality control and technological advancement. In order to accelerate the finance and credit facilities small industries development bank of India was established. In addition to this technological development and modernization fund was created. For prompt recovery of dues to the MSME a new act was enacted and a scheme was also launched to set mini industrial estate for MSME.

The focus on development of MSME was bought in the year 1999 when a separate ministry for MSME came into force. The ministry announced a new policy for MSME in August 2000. The policy was bought to sought out the problems related to credit, infrastructure, technology and marketing. Furthermore government has announced a package for MSME for encouraging technical up gradation, a credit linked capital subsidy scheme was launched and a credit guarantee scheme was started to provide free loans to micro and small enterprises. The exemption limit was raised to 1 crores and a new scheme was announced for market development assistance. In the year 2006 a land marking step has been taken by implementing MSME Act 2006.

In the very next year of the enforceability of this act the government announced a package for the promotion of MSME. The package comprises certain schemes related to the development of micro and small enterprises. It is accepted that the development of MSME is not possible without the proper training and entrepreneurship development. In pursuance of this the Ministry of MSME has established three national level entrepreneurship development institutes in India. In view of the fast and dynamic economic environment where in the competitiveness is the key to success the ministry of MSME has initiated various packages and programs for bringing the MSME standing besides the big industries. Following are the initiatives taken by government.

- In accordance with the provisions of the MSMED Act 2006, the MSMED (Furnishing of Information) Rules, 2009 were notified for furnishing of information relating to investment in plant and machinery or equipment by enterprises. Further, the Advisory Committee provided in the MSMED Act has been reconstituted in September 2009.

- The National Manufacturing Competitiveness Program (NMCP) has ten components targeted at enhancing the entire value chain of the MSME sector. Of these, five were already under operation, which included Quality Management Standards (QMS) and Quality Technology Tools (QTT), building awareness on Intellectual Property Rights for MSMEs, Support for Entrepreneurial and Managerial Development of SMEs through Incubators, Marketing Support Assistance to MSMEs and Mini-Tool Rooms. During 2009-10, two more components have been made operational, namely, the Lean Manufacturing Competitiveness Scheme for MSMEs and the Design Clinic Scheme. Of the remaining three schemes, two–Technology and Quality Upgradation Support to MSMEs and the Marketing Assistance and Technology Upgradation Scheme for MSMEs–and have been approved.

- The cluster approach has been adopted as a key strategy for enhancing the productivity, competitiveness and capacity building of MSEs and their collective. Under the MLE Cluster Development Programme, 27 new clusters were taken up for diagnostic study, 27 for soft interventions and 8 were approved for setting up of common facility centres (CFCs) during 2009-10. Cumulatively, 441 clusters in 28 States and 7 UTS have so far been taken up for diagnostic study, soft interventions and setting up of CFCs under the programme.

- Under the Credit Guarantee Fund Scheme for Micro and Small Enterprises, an amount of Rs 4,465 crore have been approved for extending loans without collateral/third party guarantee during April-December 2009 for registering substantial growth over the previous year’s levels. Cumulatively, about 2.50 lakh MSE proposals for loans amounting to Rs9, 200 crores have been approved under the scheme till December 2009.
Under the Credit Linked Capital Subsidy Scheme (CLCSS), which aims at facilitating technology upgradation of the MSE sector, 1,403 MSEs have been assisted and subsidy amounting to Rs 81.53 crores has been sanctioned during April-November 2009. Cumulatively, 7,910 MSEs have been assisted and subsidy amounting to Rs 344.84 crores sanctioned till November 2009.

Under the Prime Minister’s Employment Generation Programme (PMEGP) launched in August 2008, 50,207 projects involving margin money of Rs 833.86 crore have been sanctioned by the banks up to November 2009.

A new scheme, namely Strengthening of Infrastructure of Existing Weak Khadi Institutions and Assistance for Marketing Infrastructure, has been introduced, envisaging renovation of 30 selected khadi sales outlets and providing assistance for strengthening of infrastructure of 100 existing weak institutions.

The recent global economic slowdown has had an adverse impact on the Indian economy, including the MSME sector. In this context, the Prime Minister announced the setting up of a Task Force to reflect on the issues and formulate an agenda for action within a period of three months after discussions with all stakeholders.

VI. MAJOR ISSUES CONCERNING THE MSME SECTOR

Although Indian MSMEs are a diverse and heterogeneous group and Government has taken various initiatives & provided policy support to the development of the MSMEs even then they face some common problems.

- Unawareness of regulatory requirements at the micro and small enterprise level is widespread and access to information is minimal.
- Bureaucracy, corruption, a lack of transparency, and the payment of extra cost incurred as speed money add to the burden for micro and small enterprises already struggling to meet the high fixed costs of compliance with various regulations.
- Lack of availability of adequate and timely credit.
- High cost of credit.
- Procurement of raw materials at a competitive cost.
- Problems of storage, designing, packaging and product display.
- Lack of access to global markets.
- Inadequate infrastructure facilities, including power, water, roads, etc.
- Lack of skilled manpower for manufacturing, services, marketing, etc.
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws.
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily.

Despite reform efforts, small enterprises are still faced with an extremely complex regulatory framework that is difficult to understand and comply with.

VII. SUGGESTIONS FOR IMPROVING GROWTH OF MSMEs

Following few areas need to be concentrated while framing policies etc for the growth of MSMEs as they are the seed bed for the development of the economy.

- The government should take steps to create an overall enabling environment using appropriate legal and fiscal instruments, to incentive the transition of MSMEs from the unorganized to the organized sector as well as for their corporatization as entities. It should also encourage higher investments for innovative and knowledge based ventures as well as for research and development through greater partnership between the industry and academic institutions.
- The government should ensure strict adherence to the stipulated targets by the commercial banks for the micro enterprises (viz. 20% year-on-year growth for micro and small enterprises lending with 60% apportionment for micro sector).
- Suitable mechanism should be evolved to promote marketing outlets specializing in marketing the products manufactured by the tiny sectors.
- There are multiple govt. agencies engaged in formulation of policy for the MSMEs and its implementation, often with overlapping schemes. There is a need for a coordinated and comprehensive institutional framework for maximizing results of various initiatives taken by the govt.
- Government should set up an independent body at the national level for the promotion and development of MSMEs.
- Special awareness raising campaigns need to be in place at the national level to promote MSE-specific incentive schemes and initiative package to nurture their growth.

VIII. CONCLUSION
MSMEs plays vital role in the growth of the economy. These are the catalyst in the development of the entrepreneurship therefore more efforts to be done for the development of MSMEs.

REFERENCES