

Sector Profile

Micro, Small and Medium Enterprises (MSMEs), including Khadi and Village/ Rural Enterprises, play a significant role in the economic growth of the country owing to their contribution to production, exports and employment. The MSME sector has slowly come into the limelight, thanks to increased focus from the government, government institutions, corporate bodies and banks. Furthermore, policy based changes; investments into the sector; globalisation and India's robust economic growth have opened up several latent business opportunities for this sector. The MSME sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products. During the past decade this sector has recorded a higher growth rate in comparison to the overall industrial average. The total number of MSMEs operating in India significantly increased 207 per cent between 2000-01 and 2009-10 and the sector registered a sterling 21.52 per cent compounded annual growth in terms of production. The employment generating potential of the sector has also grown at an annual compounded rate of 11.74 per cent in the last decade.

FINANCE AND ASSISTANCE

MSMEs, credited with generating the highest rate of employment after agriculture, account for a major share in industrial production and exports. It is estimated that in terms of value, this sector accounts for around 45 per cent of the total manufacturing output; 40 per cent of India's total exports and contributes around 8 per cent in India's Gross Domestic Product (GDP). It employs about 59 million persons in over 26 million units across the country. Further, there are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. With all these developments, there is a huge scope for MSMEs to enter international markets, explore opportunities abroad and make the 'Made in India' tag global.

Schemes and Programs of the Government of India

1. Credit & Finance:

Easy and adequate availability of credit is important for the sustainable growth of the MSME sector. Keeping this in mind the Government has announced a 'Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)'. To ensure better flow of credit to SMEs and double the flow of credit to this sector within a period of five years, the Ministry of MSME has introduced the following major schemes:

- Credit Guarantee Scheme
- Performance & Credit Rating Scheme

2. Competitive Technology:

In today's fast paced business world, technology has become more vital than ever before. With a view to foster the growth of the MSME sector in the country, the Government has set up ten 'state-of-the-art' Tool Rooms and Training Centres. The Ministry of MSME has implemented the following schemes and programmes for the up-gradation of technology of the MSMEs:

- ISO 9000/14001 Certification Fee Reimbursement Scheme
- Micro and Small Enterprises Cluster Development Programme
- Credit Linked Capital Subsidy Scheme

3. National Manufacturing Competitiveness Programme:

The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. Conceptualised by the National Manufacturing Competitiveness Council, the Programme was initiated in 2007-08. There are ten components of the NMCP, targeted at enhancing the entire value chain of the MSME sector. These are:

- Marketing support/assistance to MSMEs (Bar Code)
- Support for entrepreneurial and managerial development of SMEs through 'Incubators'
- Enabling the manufacturing sector to be competitive through 'Quality Management Standards & Quality Technology Tools' (QMS/QTT)
- Building awareness on Intellectual Property Rights (IPR) for MSMEs
- Lean Manufacturing Competitiveness Scheme for MSMEs
- Mini Tool Rooms proposed to be set up by the Ministry of MSMEs (MTR)
- Design Clinic Scheme for providing design expertise to MSMEs manufacturing sector (DESIGN)

- Marketing Assistance & Technology Up-gradation Scheme for MSMEs
- Technology and quality up-gradation support to MSMEs
- Promotion of ICT in the Indian Manufacturing Sector (ICT)

4. Skill Development:

The Ministry of Micro, Small & Medium Enterprises has floated several schemes to promote the development of micro and small enterprises in the country with the objective of creating self employment opportunities and upgrading the relevant skills of existing and potential entrepreneurs. The following are two such schemes:

- The entrepreneurship and skill development scheme
- Outreach Programme for Skill Development in Less Developed Areas

5. Marketing and Procurement:

Under the Government Stores Purchase Programme, enterprises registered with the *National Small Industries Corporation* (NSIC) are provided various facilities in order to assist them in marketing their products in a competitive environment. These facilities are:

- issue of 'Tender Sets' free of cost;
- exemption from payment of Earnest Money Deposit;
- waiver of Security Deposit up to the monetary limit for which the unit is registered; and
- price preference up to 15% over the quotation of large-scale units.

6. Export Promotion:

Exports from the MSE sector have been accorded a high priority. To help MSEs in exporting their products, the following facilities/incentives have been provided by the government:

- Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;
- To acquaint MSE exporters with latest packaging standards and techniques training programmes on packaging are organised in various parts of the country in association with the Indian Institute of Packaging, specially for SME exporters;
- Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individuals as members of a trade delegation going abroad.

7. Infrastructure Development:

The Integrated Infrastructural Development (IID) Scheme was launched in 1994 to set up industrial estates and to develop infrastructure facilities such as power distribution networks, water pipes, telecommunication, drainage and pollution control facilities, roads, banks, raw material supplies, storage and marketing outlets, common service facilities and technological back up services for MSMEs. The scheme covers rural as well as urban areas with a provision of 50 per cent reservation in rural areas and 50 per cent of industrial plots to be reserved for micro enterprises. The IID Scheme has been subsumed under the **Micro and Small Enterprise Cluster Development Programme (MSECDP)**. All the features of the IID Scheme have been retained and will be implemented as "New Clusters" under the MSECDP.

8. Fiscal Concessions:

Under the General Excise Exemption Scheme, full excise exemption up to a turnover of \$375 thousand per annum, is provided to enterprises having annual turnover of up to \$1 million. However, the limits of excise exemptions have encouraged a tendency among MSEs to go in for horizontal expansion (i.e. fragmentation) rather than vertical expansion and upward graduation to medium and large enterprises. To promote the progression of small to medium/large enterprises so as to help them to achieve economies of scale, the extension of excise exemptions to the graduating medium enterprises, on a tapering scale, is being considered by the Government.

Regulations governing the sector:

Micro, Small and Medium Enterprises Development Act, 2006*

Recognizing the contribution and potential of the sector, the definitions and coverage of the MSE sector were broadened significantly under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. It

recognized the concept of “enterprise” to include both the manufacturing and service sectors. The Act defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Some of the other features of the Act are-

- 1.Establishment of specific Funds for the promoting, developing and enhancing the competitiveness of these enterprises.
- 2.Notification of schemes/ programmes for this purpose.
- 3.Progressive credit policies and practices.
- 4.Preference to products and services of the micro and small enterprises in Government procurement.
- 5.More effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises.
6. Assurance of a scheme for easing the closure of business by these enterprises.

**Source: Ministry of MSME Annual Report*

Foreign Direct Investment (FDI) Policy:

With the promulgation of the MSMED Act, 2006, the restrictive 24% ceiling prescribed for equity holdings by industrial undertakings, whether domestic or foreign, in the MSEs has been done away with and MSEs are defined solely on the basis of investment in plant and machinery (manufacturing enterprises) and equipment (service enterprises). Thus, the present policy on FDI in MSEs, permits FDI, subject only to the sectoral equity caps, entry routes and other relevant sectoral regulations.

CHALLENGES

Despite the sector’s role in the country’s overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector faces several challenges. Technological obsolescence and financing problems have been associated with the sector since long. Also, constraints such as high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facilities, including power, water, roads and regulatory issues related to taxation (state-central), labour laws and environmental issues, impede Indian MSMEs from realizing their true potential.

FUTURE PROSPECTS

There is a need to develop potential strategies for MSMEs to improve linkages and coordination between the Government, industry and academia. It is important to provide an additional impetus to the MSME sector as it is likely to have a multiplier impact on Indian economic growth in this decade.