

MSMED ACT, 2006- A PROMOTIONAL TOOL FOR MSMEs IN INDIA

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Abstract

All over the map, MSMEs are acknowledged as a conspicuous constituent of national economies as these contribute significantly to GDP, employment generation, utilization of local skills and resources, equitable distribution of income and wealth and poverty alleviation. As MSMEs employ labour intensive technology, these absorb larger population of highly populated country like India. It was unearthed that in India, the total number of operating MSMEs is 447.73 lakh and these units provide employment opportunities to 1012.59 lakh. It has been identified that MSMEs contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. Being cognizant about the crucial role of MSMEs, govt. enforced MSMED Act, 2006 which redefines the meaning of MSMEs. This Act not only attempts to expedite the development and global competitiveness of MSMEs but also introduces expanded advisory functions. It legally recognizes the concept of "enterprise" which comprises both manufacturing and service entities. In present study an effort is being made to have an overview of MSMED Act, 2006 and its impact and to sketch various schemes and programmes of government for the promotion of MSMEs. This paper also highlighted the key challenges and problems comprising financial constraints, poor technology and poor marketing facilities faced by MSMEs in India and it finally recommended some suggestions to policy makers to make MSME Industry more competitive and efficient at global level in this highly competitive era. The Data used for analysis in present study is secondary in nature and collected from various reliable published sources of govt. such as Statistical abstracts of India, Fourth All India Census of MSMEs, Annual Reports of various departments of GOI, Annual reports of Ministry of MSME, Report of World Bank Group etc.

Keywords: MSMED Act, manufacturing and service entities, Small and Medium Enterprises, employment opportunities, Manufacturing Enterprises, labour intensive techniques

Introduction

Micro, Small and Medium Enterprises (MSMEs) sector has emerged as a strong pillar of the Indian economy. MSMEs are playing climactic role in Indian economy in terms of employment generation, employing low level of Investment, marking down regional disparities, contributing significantly to GDP and augmenting equal distribution of income and wealth. As quoted by K H Maniyappa, Union Minister MSMEs "The MSME sector is the nursery of entrepreneurship and has been recognised as the engine of growth. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments

through various initiatives. The MSMEs also have a vital role in the dispersal of industries and generation of employment opportunities” (Economic Times, 2013). Over the years, the small scale sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipment’s, etc. As per the quick estimates of 4th All-India Census of MSMEs number of Manufacturing Enterprises 7.3 million, number of Service Enterprises is 18.8 million, number of Women Enterprises is 2.1 million (8 per cent), number of Rural Enterprises is 14.2 million (54.4 per cent), Employment is 59.7 million and per unit employment is 6.24. This sector has a high growth potential as it re-quires less amount of Investment, practices labour intensive techniques and having low gestation period. The Office of Development Commissioner is the apex body to advise, coordinate and formulate policies and programmes for the upliftment and promotion of the MSME Sector. SME sector has acquired significant place with the enactment of Micro, Small and Medium Enterprises Development Act in the year 2006 by the Government of India.

Review of Literature

Bala Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

According to Batra and Mahmood (2003), MSMEs in developing countries in East Asia receive support from local governments in the form of micro finance, interventions to increase private sector training, technology development, and market information.

Sonia and Kansai Rajeev (2009) analyzed how far the globalization has had an impact on the MSMEs. They considered the period of study from 1973-74 to 2008-09. They analyzed the scenario before the liberalization era and as well as after the liberalization era. They analyzed the MSMEs on the basis of growth in the number of units, total production, employment generated by this sector and total contribution in exports. Their study concluded that the MSME sector has shown a better growth rate in all these parameters in the pre liberalization era as compared to post liberalization era.

The heterogeneous nature and small size of MSMEs needs adequate support from organized intermediaries. These intermediaries exist in every country in different forms. SMEs development agencies such as Small Business Administration (SBA) of the US, Small Business Service (SBS) of United Kingdom and SIDO (Small Industries Development Organization) in India are the intermediaries set up by the Government (Chandra, 2004).

In the Five year plans, MSMEs, because of their major contribution towards economy have created a major place for themselves. MSMEs have shown a relatively higher growth rate as compared to the overall industrial growth rate in the last decade. As the Indian economy is opening gates for the foreign players, it has become imperative for the government to increase the competitiveness of MSME sector by making the flow of credit easy towards this sector. For making the sector competitive, government has implemented several schemes and programmes especially designed for the MSME sector (Rai, 2009).

Bhavani T.A. (2010) studied about the quality employment opportunities generated by the MSME sector. He stressed on the point of quality employment and not short term employment. The author highlighted that MSMEs may contribute a high percentage towards employment generation but that is more quantitative in nature, rather than being qualitative. He also stressed on the use of technology for the MSMEs and argued in favour of technology upgradation, which in turn would improve remuneration, create quality employment opportunities and improve skills. Use of technology may reduce the rate of growth of employment in short run but it would ensure sustainable employment opportunities in the long run for the MSME sector.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Objectives of the Study

1. To trace out the MSMED Act, 2006
2. To study the promotional and developmental activities of MSMED Act, 2006
3. To study the impact of MSMED Act, 2006
4. To highlight the problems and challenges of MSMEs in India

Research Methodology

The present study is based on the secondary data collected from reliable published sources comprising: Statistical Abstracts of India, Fourth All India Census of MSME, Annual Reports of MSMEs, Reports of Ministry of MSMEs, World Bank & IFC and Development Commissioner etc. The study covers a period of 2001-02 to 2013-2014.

MSMED Act, 2006

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 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.

Definition of Micro, Small and Medium Enterprises as per MSMED Act, 2006

In the Indian context, the definition of Small Scale Industries has undergone changes for many times. The main criterion for definition was mainly the investment level and number of employees. A major change took place in 2006 with the enactment of “Micro, Small and Medium Enterprises Development Act”. The MSME Development Act, 2006, recognized the concept of “enterprise” to include both manufacturing and services sector besides, defining the medium enterprises. The classification of enterprises were defined on the basis of investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

Table 1: Investment Limit for Different Enterprises

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million/Rs. 25 lakh	Rs. 1 million/Rs. 10 lakh
Small	Rs. 50 million/Rs. 5 crore	Rs. 20 million/Rs. 2 crore
Medium	Rs. 100 million/Rs. 10 crore	Rs. 50 million/Rs. 5 crore

**Investment limit in Plant & Machinery **Investment limit in equipment*

Source: Annual Report (2013-14): Ministry of Micro, Small and Medium Enterprises, Government of India, New Delhi, p. 309

Promotional and developmental activities of MSMED Act, 2006

The MSMED Act, 2006 was established with an objective to promote and develop the competitiveness of micro, small and medium enterprises. The Act came into effect from 2nd October, 2006. This Act has benefited the MSME sector much more than the previous Acts that had been implemented for the MSME sector. After 65 years of independence, still a lot needs to be done for addressing the problems of MSME sector and MSMED Act is a giant step towards that objective. MSMED Act clearly demarcates the manufacturing enterprises from the service enterprises based on the ceilings of investment. It takes service sector as well under its ambit. The main objectives of MSMED Act are:-

- i. To enhance the competitiveness of MSME sector in this era of globalization;
- ii. To facilitate the overall development of MSME sector; and
- iii. To focus on all the issues related to MSME sector.

Building awareness on IPRs

The objective is to create and enhance awareness about intellectual property rights (IPRs) among the units in the sector by conducting training programs/ workshop and under taking pilot studies for industries clusters. This enables them to protect their ideas and business strategies and avoid infringement of the intellectual property belonging to others.

Bar Coding

Bar coding has emerged as an important marketing tool having wide global acceptability. In order to encourage units in the sector to adopt bar coding, a provision for reimbursement of 75 per cent of one - time registration fee is promulgated to the enterprises.

Quality Management Standards (QMS)

The scheme aims at improving the quality of the product in the MSME sector and inculcating quality consciousness among units of the sector as per global standards.

Credit Guarantee Fund Scheme

Bank extends loan facilities for the budding entrepreneurs. But usually one has to face the problems of Collateral or third party guarantee in order to avail credit from banks. Realizing this constraint, Government of India and SIDBI started with a trust known as Credit Guarantee Fund Trust in year 2000. This trust runs a scheme known as Credit Guarantee Fund Trust for Micro Small Enterprises. Under this scheme, loans are provided to the budding entrepreneurs without the hassles of collateral or third party guarantee. The purpose of this scheme is to strengthen the credit flow to the MSME sector and encourage the entrepreneurs to achieve their dreams. The main objective is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme assures the lender (Bank) that, in case the MSE unit which has availed collateral free credit from the lender fails to pay back the amount, the trust will make up for the losses to the bank. The trust will compensate up to 75 per cent to 85 per cent of the losses depending upon the gender of the entrepreneur who availed the credit and the region to which he/she belongs. A maximum credit cap of Rs 100 lakhs (Rupees Hundred lakhs only) are eligible to be covered under this scheme.

Microfinance Programme

Under the scheme, the government of India provides funds to SIDBI under a, portfolio risk fund" (PRF), which is utilized for security deposit requirement of the loan amount the MFIs/NGOs.

FDI Policy

With the promulgation of the MSMED act 2006 the restrictive 24 per cent ceiling prescribed for equity holding by industrial undertaking, whether domestic or foreign, in the MSME has been done away with and MSME are defined solely on the basis of investment in the plant and machinery and equipment. Thus, the present policy on FDI in MSME permit

FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulation.

Programmes and Schemes for MSMEs

In March, 2007, a Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the pro-motion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.

Entrepreneurship Development Programme

Entrepreneurship development programs are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSMEs. These programs are generally conducted in DICs where they are motivated towards self-employment. The course contents of such programs are designed to provide useful information on product process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments, project profile preparation, marketing and pricing techniques.

Management Development Programme

The objective of imparting training on management practice system is to improve the decision making capabilities of existing and potential entrepreneurs resulting in higher productivity and profitability.

Technology Up gradation Programme

In general, MSMEs lack access to technology due to poor consultancy support/service for technological information, non availability of skilled man power, lack of awareness among entrepreneurs about emphasis on production and production cost, lack of managerial skill and poor adoptability to change trade trends. For technology up gradation DIC provide capital subsidy and other assistance to strengthen MSME Sector.

Cluster Development Programme

The ministry of MSME, government of India has adopted the cluster development program for following purposes; i. To support the sustainability and growth of MSMEs by addressing common issues such as improvement of technology skill and quality, ii. To build capacity of MSMEs for common supportive action through formation of SHGs, iii. To establish or upgrade infrastructural facilities in the new and existing industrial clusters of MSMEs, iv. To setup common facility centres.

Marketing Assistance Programme

Marketing is a key strategy to the success of any enterprise and it is more relevant about MSMEs. The sector is characterized by absence of strong brand presence in the market and largely unorganized marketing networks, unlike large enterprises. The objective of the marketing assistance programs are following; i. To enhance export from MSME units, ii. To encourage MSMEs in their efforts at tapping and developing overseas markets, iii. To

increase participation of representatives of small or micro manufacturing enterprises under MSME India stall at international trade fairs and exhibitions.

Exhibitions for MSMEs

It is the one of the program implemented by the government of India for the promotion of MSME units. It is very help to the MSMEs to expand the reach of their market. The government of India conducted this program through DICs.

Impact of MSMED Act, 2006

The impact of MSMED Act on MSME sector is shown in Table 2.

Table 2 Impact of MSMED Act on MSME sector

Sl. No.	Clause	Salient Features	Impact
1.	Establishment of National Small and Medium Enterprises Board.	Mandatory quarterly meeting.	Small size of board members will make sure that the problems related to MSMEs are addressed immediately and the required corrective actions can be taken.
2.	Concept of Enterprises	There is a very clear demarcation between manufacturing and rendering services.	It will facilitate the MSMEs to go for service sector enterprises as well.
3.	Definition of Enterprises	There is a specific ceiling limit on investment in plant & machinery and investment in equipments for the manufacturing sector and service sector respectively.	Under this Act, the already existing small units can upgrade into medium units and can make use of the various facilities.
4.	Filing of memoranda is optional for micro & small enterprises but it is mandatory for medium sized manufacturing enterprises, though medium sized service enterprises don't come under this obligation.	Registration is not a compulsion and its place has been taken by memorandum.	MSMEs are able to avail the benefits of the act immediately after setting up of the unit as they are free from the hassles of registration.
5.	Procurement Policies	The central or the state government notifies about the preference policies for the goods and services provided by MSMEs.	It provides an opportunity to MSMEs to supply their goods and services without any hassles and helps in smooth flow of the enterprise.

6.	Delayed payment penalty and dispute resolution	Period of payment by the procuring organization has been made 45 days.	On the basis of payment period, MSMEs can make a balance between their Cash inflows and cash outflows in a better manner.
7.	Dispute Resolution	MSME facilitation Councils are setup and they resolve the disputes within a time period of 90 days.	This does not cost much on the pockets of MSMEs and the follow up of the matter regularly becomes easy and simple.
8.	Delayed Payments	Deduction disallowed under section 23 of MSME Act of Tax audit.	This clause will encourage the various procurement agencies to make timely payments to the MSMEs and it will ensure smooth functioning of MSME units.
9.	Closure of Business	Just need a statutory notification regarding the scheme of closure.	It helps in quick liquidation of the enterprise.

Source: Compiled from Annual Reports of MSMEs (2012)

It is clearly identified that the number of total working enterprises before MSME Act, 2006 was significantly lower as compared to after the enactment of Act. In 2005-06 the employment generated by SMEs was 294.91lakh and after MSME Act, 2006 number of people employed in MSMEs became 805.23. The gross output in 2005-06 was 497842.00 and increased multi-fold times i.e. 1351383.45 in 2006-07. It is observed that MSME sector has shown a tremendous improvement in terms of employment, growth rate and productivity in the past 8 years. Thus it is inferred that MSME Act, 2006 has a strong positive effect on Micro, Small and Medium Enterprises.

Table 3: Growth and Performance of MSMEs

Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Gross Output (in Crores)
2001-02	105.21	249.33	282270.00
2002-03	109.49	260.21	314850.00
2003-04	113.95	271.42	364547.00
2004-05	118.59	282.57	429796.00
2005-06	123.42	294.91	497842.00
2006-07	361.76	805.23	1351383.45
2007-08	377.36	842.00	1435179.26
2008-09	393.70	880.84	1524234.83
2009-10	410.80	921.79	1619355.53
2010-11	428.73	965.15	1721553.42
2011-12	447.64	1,011.69	1834332.05
2012-13	447.54	1,061.40	NA
2013-14	488.46	1,114.29	NA

Source: Various Annual Report of MSME

Key Challenges and Problems of MSMEs in India

By analyzing various reports and published material of GOI, it came to light that MSMEs face following problems in general:

- Poor supply of raw material
- Rising cost of inputs
- Lack of adequate marketing facilities
- Entry of large players due to globalization poses challenges for MSME sector.
- Obsolete technology
- Lack of skilled and trained Manpower
- Lack of Entrepreneurship Education
- Ignorance of Government's Policies and Plans on the part of Entrepreneurs
- Problem of Designing and packaging
- Problem of Warehousing
- Inappropriate Infrastructure
- Insufficient Banking and Credit facilities

Conclusion and Suggestions

As we know present world is world of Globalisation, Privatisation and Liberalisation which has benefitted various segments of different Enterprises by opening the doors of business at international level. All this also contributed MSME sector in terms of employment generation, reducing urban and rural poverty of masses as well as entrepreneurs via augmented exports. Despite of various advantages, MSMEs face cut throat competition from all over the world in different product categories. To cope up with this, GOI has made many efforts specifically through MSMED Act, 2006 to enhance the competitiveness, productivity and growth of MSMEs in In-dia. It has provided various facilities like: Entrepreneur-ship Training, Marketing Access, Credit facilities, Protection, Financial subsidies and concessions to MSMEs etc. But still MSME Sector faces certain problems specifically related to Poor supply of raw material, rising cost of inputs, lack of adequate marketing facilities, obsolete technology, lack of Entrepreneurship Education, ignorance of Govt.'s Policies and Plans on the part of Entrepreneurs. There is lot to do on the part of govt. Thus in this highly competitive and complex world, govt. should more rigorously educate and encircle the Entrepreneurs about latest programmes and try to solve their grievances to the earliest and provide them business friendly environment and high class infrastructure like: transportation facilities including roads, railways and airways, wider banking and credit facilities, ware houses, continuous power supply at concessional rates etc. and formulate and implement policies and programmes by taking into consideration the problems and challenges face by MSMEs at home and abroad.

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