

BLOCK IV:
Micro -Small and Medium Enterprises

Unit 1: MSMEs in India

Unit 2: Various Govt. Initiatives in the MSME sector

Unit 3: MSMED Act 2006

Unit-1

MSMEs in India

Unit Structure:

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1.1 Introduction

MSME is an acronym for Micro, Small, and Medium Enterprises. The Government of India introduced it in accordance with the MSMED (Micro, Small, and Medium Enterprises Development) Act of 2006. MSMEs are involved in the processing, production, and preservation of goods and commodities, according to this Act. Over the previous five decades, this sector has been a major contributor to India's socio-economic development. This industry has grown in prominence in a developing country like India due to its major contribution to GDP. This industry has also made a significant contribution to the development of entrepreneurship, particularly in semi-urban and rural areas of India. With a large fraction of the labour force and huge export potential, MSMEs dominate the industrial landscape of the country. MSMEs are important contributors to economic growth, accounting for 29.7% of GDP and 49.66 percent of exports. The sector employs over

60 million people through 28.5 million businesses. Previously, MSMEs were referred to as Small Scale Industries (SSIs). We will analyze the relevance and importance of MSMEs in India's economic and entrepreneurial development in this section. MSMEs will play a critical role in the success of the Make in India Initiative, according to the *Economic Survey 2015-16*, because of their comparably low capital costs and forward-backward connections with other sectors.

1.2 Objectives

After going through this unit, you will be able to–

- define Micro, Small and Medium Enterprises,
- explain the role of MSMEs in economic development of India,
- understand the role of MSMEs in Entrepreneurship development in India,
- illustrate the roles of KVIC, Coir Board, NSIC Ltd and MGIRI in accelerating the growth of MSMEs in India,
- explain the Importance, features and challenges faced by the MSMEs in India.

1.3 Definition of MSMEs

The Government of India had enacted the Micro, Small and Medium Enterprises Development ACT, 2006 so as to facilitate the promotion, enhancement of the competitiveness of micro, small and medium enterprises. As in line with the Act, the definition of micro, small and medium enterprises are as follows-

a) In case of the enterprise engaged in the manufacture or production of goods pertaining to any industry,

i) A micro enterprise is an enterprise, where the investment in plant and machinery does not exceed rs. 25, 00,000 (twenty five lakh);

ii) A small enterprise is an enterprise, where the investment in plant and machinery is more than rs. 25, 00,000 (twenty five lakh) but does not exceed rs. 5, 00, 00,000 (five-crore) and;

iii) A medium enterprise is an enterprise, where the investment in plant and machinery is more than rs. 5, 00, 00,000 (five-crore), but does not exceed rs. 10, 00, 00,000 (ten-crore).

b) In case of the enterprise engaged in providing or rendering of services,

- i) A micro enterprise is an enterprise, where the investment in equipment does not exceed rs. 10, 00,000 (ten-lakh);
- ii) A small enterprise is an enterprise, where the investment in equipment is more than rs. 10, 00, 000 (ten-lakh) but does not exceed 2, 00, 00, 000 (two-crore) and;
- iii) A medium enterprise is an enterprise, where the investment in equipment is more than rs 2, 00, 00, 000 (two-crore) but does not exceed rs 5, 00, 00,000 (five-crore)

Table 1.1=Definition of MSMEs

Nomenclature and classification of MSMEs	Ceiling on investment in Plant and Machinery for	
	<i>Manufacturing enterprises (Rs.)</i>	<i>Service enterprises (Rs.)</i>
Micro	2.5 million/25 lakh	1 million/10 lakh
Small	50 million/5 crore	20 million/2 crore
Medium	100 million/10 crore	50 million/5 crore

Source- Fourth *All-India Census of Micro, Small and Medium Enterprises 2006-07*, Unorganised Sector Report, Published in 2011-12

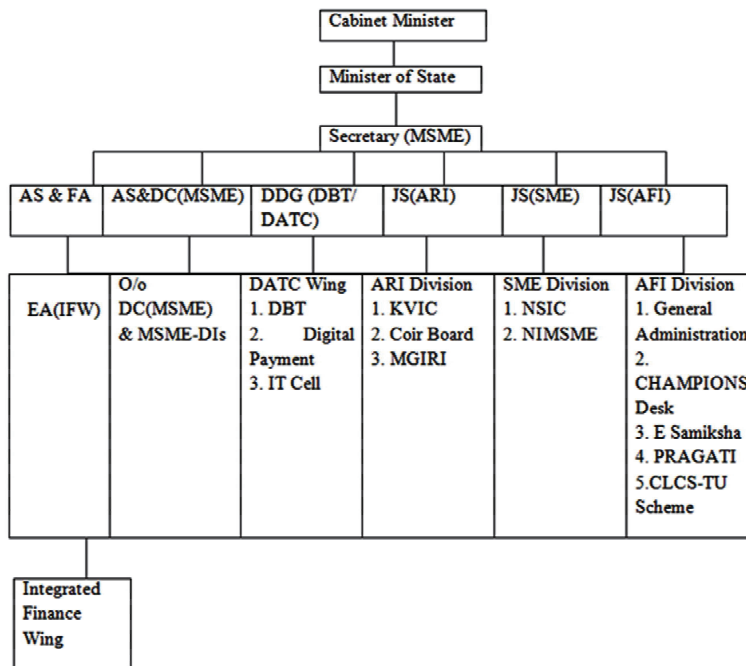
The new categorization will take effect on July 1, 2020. The previous MSMED Act, 2006 criterion for classifying MSMEs was based on investment in plant and machinery/equipment. Manufacturing and service units were treated differently. In terms of financial constraints, it was likewise quite low. The economy has seen substantial changes since then. On the 13th of May, 2020, the ‘Aatmanirbhar’ Bharat package announced a modification in MSME classification criteria. This was done in order to be realistic with time, build an objective classification system, and make doing business easier. As a result, on June 26, 2020, a new composite criterion of classification for manufacturing and service units was announced, along with composite criteria guidelines assisting both current and future entrepreneurs. There will no longer be a distinction between the manufacturing and service industries. In addition, a new turnover requirement has been introduced to the prior classification criteria based only on plant and machinery investment. The new criterion is believed to have a number of advantages that will help MSMEs expand. It has also been agreed that export turnover will not be included in the turnover restrictions for any kind of MSME unit, whether

micro, small, or medium. This is simply another step in the direction of making doing business easier. This will aid the MSME sector in attracting investments and creating more jobs. The modification in classification criteria for MSMEs is set to provide significant help to exporters. The government has also abolished the distinction between manufacturing and services with this adjustment in MSMEs classification criteria. The promotion and growth of MSMEs is primarily the responsibility of state governments. The Government of India, on the other hand, complements the efforts of state governments through a variety of initiatives. The Ministry of MSME and its organization’s role is to support states in their efforts to promote entrepreneurship, employment, and livelihood opportunities, as well as improve MSMEs’ competitiveness in the changing economic environment.

1.4 Organizational Structure

The organizational structure of ministry of MSMEs comprises of small and Medium Enterprises (SME) Division, Agro and Rural Industry (ARI) Division, Administration & Financial Institutions (AFI), Integrated Finance (IF) Wing, and Data Analytics and Technical Co-ordination (DATC) Wing, as well as the Office of the Development Commissioner (DCMSME) as an attached office and other subordinate organizations. The following chart depicts the Ministry’s organizational structure:

1.4.1 SME Division



The SME Division takes care of overall inter-alia body direction of the National small Industries Corporation (NSIC) Ltd., a central public sector enterprise and National Institute for micro, small & Medium Enterprises (NIMSME) associate autonomous national level entrepreneurship development/ coaching organizations. The Division is also answerable for implementation of the National SC/ST Hub Scheme, International Cooperation Scheme and help to coaching establishments, among others. Additionally, the SME Division conjointly deals with preparation of Ministry's media campaign for promotion of schemes and its implementation through advertising in broadcasting, newspaper world and Social Media.

1.4.2 ARI Division

The ARI Division is in charge of two statutory bodies: the Khadi and Village Industries Commission (KVIC) and the Coir Board, as well as the Mahatma Gandhi Institute for Rural Industrialization (MGIRI). It also oversees the Prime Minister's Employment Generation Programme (PMEGP), the Scheme of Fund for Traditional Industries Regeneration (SFURTI), and the A Scheme for Promoting Innovation, Rural Industry, and Entrepreneurship (ASPIRE).

1.4.3 AFI Division

The AFI Division is in charge of the Ministry's administration and vigilance, among other things. It also oversees the administrative oversight of the CHAMPIONS Desk, Public Grievances, CPGRAM, E-Samiksha, and PRAGATI programmes, as well as the follow-up on MSMEs' complaints, including those with banks, financial institutions, and the CLCS-TU scheme.

1.4.4 IF Wing

IFW reviews various proposals received from the Ministry's Program Divisions and the O/o DC (MSME) for: (I) Concurrence of fund releases under various schemes; (ii) providing opinions on EFC/SFC for Schemes to be continued and convening EFC/SFC meetings. It provides advice to Program Divisions on a variety of financial matters as and when they are requested. Other miscellaneous matters connected to the signing of

Memorandums of Understanding/other Agreements/ Contracts, etc. are also investigated by the Wing.

1.4.5 DATC & DBT Wing

This wing analyses MSME data and statistics and provides technical inputs for evidence-based decision-making in the MSME sector. Other important activities include technical coordination with all stakeholders for the development and maintenance of MSME databases, ensuring complete compliance with the directives for the Ministry's Direct Benefit Transfer (DBT) schemes, promoting digital payments in the Ministry, and managing the Ministry's IT Cell.

1.4.6 Some Peculiar Features of the MSMEs

- Because of their adaptability, they are well-suited to an ever-changing environment. They are quick to adjust to a variety of situations that affect their daily lives.
- These businesses utilize new materials, new manufacturing methods, new markets, new materials sources, and even new organizational structures, and they are always innovating.
- MSMEs offer a cost-effective solution by providing jobs in both urban and rural areas at a minimal cost of capital investment as they are labour-intensive.
- Decentralization and industry dispersion enable the economy to flourish in a balanced manner. MSMEs promote intermediate and capital goods while using local raw materials.

As a result, they help a transitional economy achieve faster economic growth.

- Finally, because they are typically started by individuals, they provide an outlet for the entrepreneurial spirit to manifest itself.

Check Your Progress

1. Define MSMEs in a few words.
2. Who is the structural head of the MSME ministry? Also name the next two heads.

1.5 Role of MSMEs in Economic Development of India

For a developing country like India, the involvement of MSMEs is inevitable in terms of the country's overall economic development. As described by I.N. Gang and M. Pandey, small industries were intended to play a vital role in the country's development process, particularly in absorbing surplus labor and attaining an equal income distribution during the post-independence period. Indeed, this is the customary role that these sectors have been allocated in literature. However, the Indian government has developed a series of regulatory tools and incentives to give special protection and subsidies for the promotion of SSIs throughout time. As a result, some small businesses have grown into medium and large businesses, while others have disappeared or stayed competitive. Through business innovations, Micro, Small, and Medium Enterprises (MSMEs) have made major contributions to the expansion of entrepreneurial endeavours. MSMEs are expanding their sphere of influence across the economy, generating a diversified range of products and services to fulfil the needs of both domestic and international markets. The contribution of the MSME sector to the country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 is as follows, according to statistics from the Central Statistics Office (CSO), M/o Statistics & Programme Implementation:

Table 2.1 Share of Gross Value Added (GVA) of MSME in all India GDP

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA	All India GDP	Share of MSME in All India GDP (In %)
2014-15	3658196	--	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

a) Gross Value Added (GVA): It should be noted that GVA estimates were prepared at factor cost in the previous series (base year 2004-05), whereas they are being prepared at basic prices in the new series (2011-12), GVA

estimated by production approach: $(GVA = \text{Output} - \text{Material Inputs})$ and GVA estimated by income approach: $(GVA = \text{Compensation of Employees} + \text{Operating Surplus} + \text{CFC})$.

b) Gross Domestic Product (GDP) is calculated by adding product taxes, net of product subsidies, to GVA at basic prices.

c) *FISIM* is an acronym for Financial Intermediation Services Indirectly Measured. It is an estimate of the value of services supplied by financial intermediaries, such as banks, for which no explicit charges are made; instead, these services are paid for as part of the margin between rates applied to savers and borrowers, as defined by the National Accounts system. If all financial services had clear charges, savers would receive a lower interest rate and borrowers would pay a higher interest rate, according to the theory.

d) Manufacturing output is defined as the ex-factory value of products and by-products manufactured during the accounting year, as well as the net value of semi-finished goods, work-in-progress, and receipts for industrial and non-industrial services rendered to others, as well as the value of semi-finished goods from the previous year sold in the current year, and the sale value of goods so manufactured.

From the above table, it is quite evident that the MSMEs have been playing a very crucial/vital role in economic development of India, especially in terms of its contribution towards GDP. Manufacturing MSMEs' share of the country's overall Manufacturing GVO (Gross Value of Output) at current prices has stayed stable at roughly 33%, or one-third, for the period 2014-15 to 2018-19. According to data from the Central Statistics Office, Ministry of Statistics and PI, MSME Gross Value Added (GVA) in All India Gross Domestic Product for the years 2018-19 and 2019-20 was 30.5 percent and 30.0 percent, respectively, at current prices (2011-12). The micro, small, and medium-sized enterprise (MSME) sector is a vital part of the Indian economy. According to data from the Central Statistics Office, Ministry of Statistics and PI, MSME Gross Value Added (GVA) in All India Gross Domestic Product at current prices (2011-12) was 30.5 percent in 2018-19 and 30.0 percent in 2019-20, respectively. During the years 2018-19 and 2019-20, MSME manufacturing accounted for 36.9% and 36.9% of total manufacturing gross value production in India, respectively. Furthermore, according to data from the Directorate General of Commercial Intelligence and Statistics, the contribution of MSME-related exports to all-India exports in 2019-20 and 2020-21 was 49.8% and 49.5 percent,

respectively. According to the Ministry of Statistics and PI's 73rd Round of NSS Report on Unincorporated Non-Agricultural Enterprises (July 2015-June 2016), the estimated number of workers in the MSME sector was 11.10 crore. The estimated employment generated (number of people) in micro firms under the Prime Minister's Employment Generation Programme (PMEGP) for the years 2020-21 and 2021-22 (as of 01.07.2021) is 5.95 lakh and 1.19 lakh, respectively.

Apart from all these, the importance of MSMEs in Indian economy can be well understood from the following points-

1) It generates large-scale employment: In this area, inclusive businesses require little capital to start up. Furthermore, it provides a large number of opportunities for unemployed people to take advantage of. India generates over 1.2 million graduates per year, with approximately 0.8 million engineers. So far, no economy has been able to offer such a vast number of freshmen in a single year. MSME is a godsend for India's young talent.

2) Growth and leverage stability in the economy Exports: Exports are India's most important economic driver, accounting for 8% of GDP. Other industries gain from MSME because of its contribution to manufacturing, exports, and employment. Automobile corporations, for example, buy clutches and brakes from small businesses. Even after the GST is implemented, it is useful in establishing a relationship between small and large businesses. GST Registration was also used by 40% of MSME businesses, which helped the government gain revenue by 11%.

3) Encourages Inclusive Growth: Encourages Inclusive Growth: For several years, the Ministry of Medium, Small, and Medium-sized Enterprises has placed inclusive growth at the top of its agenda. Poverty and deprivation, on the other hand, are stumbling blocks to India's progress. Furthermore, it comprises socially underprivileged groups, which is a significant problem for the Ministry of MSME.

4) Cheap labour and little overhead: One of the primary challenges in large-scale firms is retaining human resources through an effective human resource management professional manager. However, when it comes to MSME, the labour requirement is lower, and it does not necessitate the use of a highly skilled labourer. As a result, the owner's indirect expenses are similarly minimal.

5) **Enterprises with a Simple Management Structure:** MSMEs can begin with modest resources under the owner’s control. Making decisions becomes much easier and more efficient as a result of this. A major firm, on the other hand, necessitates an expert for every departmental function due to its complicated organizational structure. A tiny business, on the other hand, does not need to engage an outside specialist to handle it. The proprietor is capable of taking care of himself. As a result, it could run on its own.

6) **The primary role in the “Make in India” mission:** The Prime Minister of India’s trademark campaign, “Make in India,” has been simplified thanks to MSME. It serves as a foundation for making this ambition a reality. Furthermore, the government has urged the banking institution to offer more credit to small and medium-sized businesses.

Check Your Progress

1. What is the percentage growth in share of MSMEs in Gross Value Added to all India GDP in the FY 2018-19 in comparison to the FY 2014-15?
2. What is the relevance of MSMEs in Indian Economy.

1.6 Role of MSMEs in Entrepreneurship Development of India

Entrepreneurship development is the only way out for the generation of employment in a highly populated country like ours. MSMEs not only serve a critical role in creating huge numbers of jobs at a cheaper cost of capital, but they also foster entrepreneurial activity in rural and underdeveloped areas. (June 2017 handbook for MSME entrepreneurs). MSMEs in India play a critical role in decreasing regional imbalances and ensuring a more fair distribution of national income and wealth by providing substantial job opportunities at a lower capital cost than large businesses, as well as through industrialization of rural and backward areas. According to the National Sample Survey Office, Ministry of Statistics and Programme Implementation’s 73rd round, there were 633.88 lakh unincorporated nonagricultural MSMEs in the country engaged in various economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission¹, 230.35 lakh in Trade, and 206.85 lakh in Other Services) during the period 2015-16. (Excludes MSMEs registered

under Sections 2m(i) and 2m(ii) of the Factories Act, 1948, Sections 2m(i) and 2m(ii) of the Companies Act, 1956, and Section F of the National Industrial Classification (NIC) 2008.) Table 3.1 and figure 1 depicts the breakup of distribution of MSMEs activity wise.

Table 3.1 Estimated Numbers of MSMEs (Activity Wise)

Activity Categories	Estimated Number of Enterprises (in lakh)			
	Rural	Urban	Total	Share (%)
1	2	3	4	5
Manufacturing	114.14	82.50	196.65	31
Electricity*	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

**Non-captive electricity generation and transmission*

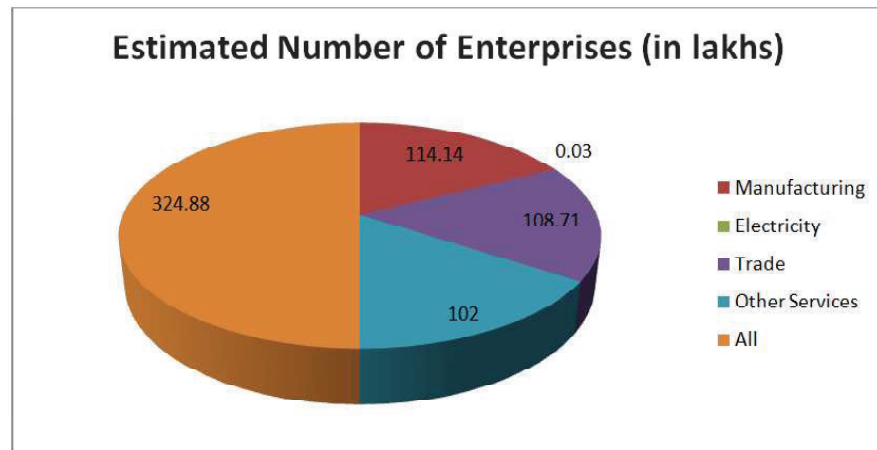


Figure 1

With 630.52 (**Rural and Urban area wise**) lakh estimated companies, the micro sector accounts for more than 99 percent of all MSMEs. The small sector, with 3.31 lakh estimated MSMEs, and the medium sector, with 0.05 lakh estimated MSMEs, respectively, accounted for 0.52 percent and 0.01 percent of **total** estimated MSMEs. 324.88 lakh MSMEs (51.25 percent) are in rural areas, whereas 309 lakh MSMEs (48.75 percent) are in urban areas, according to the estimated number of MSMEs. The following table and figure shows the distribution of enterprises (Rural and Urban area wise)

**Table 3.2 Distribution of Enterprises (Rural and Urban area wise)
(Numbers in lakh)**

Sectors	Micro	Small	Medium	Total	Share (%)
1	2	3	4	5	6
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

% Share of Rural and Urban MSMEs in India (Numbers in lakh)

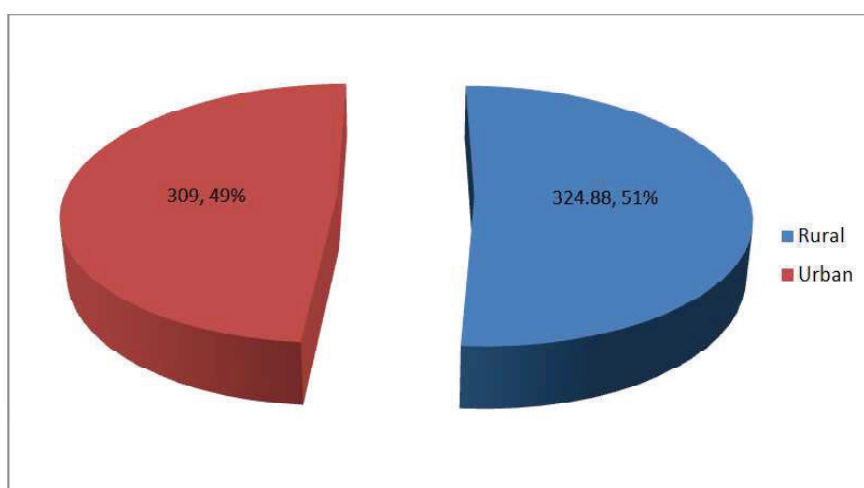


Figure 2

From the above table and figure, it is clearly visible that majority of the MSMEs are concentrated in the rural areas of the country. Majority of the micro enterprises are concentrated in the rural areas and majority of the small and medium enterprises are spread across the urban areas of the country.

1.7 Type of Ownership of Enterprises

1.7.1 Male/ Female Ownership

There were 608.41 lakh (95.98 percent) proprietary concerns out of 633.88 MSMEs. Males predominated in the ownership of proprietary MSMEs. As a result, males held 79.63 percent of proprietary MSMEs overall, compared to females owning 20.37 percent. There was no substantial

difference in this pattern between urban and rural areas; however male-owned businesses were slightly more prevalent in urban areas than in rural areas (81.58 percent as compared to 77.76 percent).

Table 3.3 Percentage Distribution of Enterprises in rural and urban areas. (Male/ Female ownership)

Sectors	Male	Female	Total
Rural	77.76	22.24	100
Urban	81.58	18.42	100
Total	79.63	20.37	100

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

Table 3.4 Percentage distribution of enterprises owned by Male/ Female entrepreneurs (category wise).

Categories	Male	Female	Total
Micro	79.65	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
Total	79.63	20.37	100

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

From the above two tables, it is clearly highlighted that both in rural and urban areas of the nation, ownership of the MSMEs has been being dominated by the males. The scenario needs to be changed at the earliest and the Government must take initiatives to encourage female ownership in the MSME sector of the country.

1.7.2 Scenario of Employment in the MSME sector

According to the 73rd round of the National Sample Survey (NSS) conducted in 2015-16, the MSME sector created 11.10 crore jobs in rural and urban areas across the country (360.41 lakh jobs in manufacturing, 0.07 lakh jobs in non-captive electricity generation and transmission, 387.18 lakh jobs in trade, and 362.82 lakh jobs in other services). The exact break-up of employment in the MSME sector (Activity-Wise, Area-Wise and Gender-Wise) is depicted in the tables below-

Table 3.5 Anticipated Employment in the MSME Sector (Activity Wise)

Activity Category Areas	Employment (in lakh)			
	Rural	Urban	Total	Share (%)
1	2	3	4	5
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Total	497.78	612.10	1109.89	100

*Non-captive electricity generation and transmission

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

Table 3.6 Distribution of employment by type of Enterprises in Rural and Urban Areas (Numbers in lakh)

Sectors	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
Total	1076.19	31.95	1.75	1109.89	100

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

From the above table, we can see that, highest level of employment has been generated in trading activities in the urban areas of the nation. Employment has been commendably poor in the electricity sector irrespective of the areas. With 630.52 lakh estimated companies, the micro sector employed 1076.19 lakh people, accounting for almost 97 percent of total employment in the industry. MSMEs employed 31.95 lakh (2.88 percent) and 1.75 lakh (0.16 percent) of the total workforce in the MSME sector, respectively, with the small sector employing 3.31 lakh and the medium sector employing 0.05 lakh.

Table 3.7 Break-Up of workers (gender-wise) in rural & urban areas (Numbers in lakh)

Sectors	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100
% Share	24	76	100	

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in

From the above table it is clear that 844.68 (76 percent) of the 1109.89 lakh employees in the MSME sector are men, while 264.92 lakh (24 percent) are women.

Table 3.8 State-wise Distribution of MSMEs (Comparative distribution of 10 ten states)

Sl. No.	State/UT	NSS 73 rd Round*		Fourth All India Census of MSME**	
		Number (in lakh)	Share (%)	Number (in lakh)	Share (%)
1	Uttar Pradesh	89.99	14	44.03	12
2	West Bengal	88.67	14	34.64	10
3	Tamil Nadu	49.48	8	33.13	9
4	Maharashtra	47.78	8	30.63	8
5	Karnataka	38.34	6	20.19	6
6	Bihar	34.46	5	14.70	4
7	Andhra Pradesh***	33.87	5	25.96	7
8	Gujarat	33.16	5	21.78	6
9	Rajasthan	26.87	4	16.64	5
10	Madhya Pradesh	26.74	4	19.33	5
11	Total of above ten States	469.4	74	261.04	72
12	Other State/UTs	164.5	26	100.72	28
13	All	633.9	100	361.76	100

NSS 73rd Round, 2015-16, ** Fourth All India Census of MSME, 2006-07, *Including Telagana in Fourth All India Census of MSME
Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in*

The state of Uttar Pradesh had the most estimated MSMEs, accounting for 14.20 percent of all MSMEs in the country. The top ten states accounted for 74.05 percent of the country's total estimated number of MSMEs.

1.7.3 Registration of New MSMEs

The data on the opening of new MSMEs is one of the critical indicators for assessing the successful development of the MSME sector in an economy; it depicts the conducive environment for the opening and growth of such units in an economy, as well as the high morale of entrepreneurs in the

macroeconomics of the economy. Prior to the MSMED Act of 2006, small scale industrial units had to register with the DICs. MSMEs used to file Entrepreneurs Memorandum (Part-I) at District Industries Centres (DICs) before launching an enterprise, as required by the MSMED Act, 2006. The entrepreneur in question used to file an Entrepreneurs Memorandum (Part- II) / [EM-II] after the start of production. Between 2007 and 2015, a total of 21, 96,902 EM-II filings were made. (<http://www.dcmsme.gov.in/publications/EMII-2014-15.pdf> contains analyses of information from EM-II filings.) From September 2015 until June 30, 2020, an online filing system based on self-declared information was in effect under the ‘Udyog Aadhar Memorandum (UAM)’. The total number of MSME registrations (UAM) was 10232451 as of June 30, 2020. The Ministry has replaced the previous method of filing Udyog Aadhaar Memorandum with ‘Udyam’ registration on a platform designed by this Ministry based on composite MSMEs classification criteria, as announced vide Notification No. On the 26th of June, 2020, a notification was issued. Existing and potential entrepreneurs can now register for their ‘Udyam’ online at <https://udyamregistration.gov.in>. So far as statistical data is concerned, when compared to MSMEs in the Manufacturing Sector {537677, (38%)} the Service Sector {865058, (62%)} has a higher share of Udayam Registration. Services sector comprises a greater proportion of Udyam Registratin as compared to that of manufacturing sector. Micro MSMEs make up the great majority of businesses (93 percent), while Small Businesses (6%), and Medium Businesses (1%), make up the rest of Udayam Registration.

Check Your Progress

1. Which activity sector is the highest in terms of estimated number of enterprises and which sector is the lowest? Also mention their share of percentage.
2. Which area has the highest percentage share of distribution of enterprises? What is the percentage?
3. What is the percentage of gender-wise distribution of enterprises?

1.8 Legal institutions and other affiliated offices under the MSME Bureau

1.8.1 Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC), which was established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a Statutory Organization under the Ministry of MSME that

is responsible for promoting and developing Khadi and Village Industries in order to provide employment opportunities in rural areas and strengthen the rural economy. KVIC has been regarded as one of the most important decentralised organisations for developing long-term non-farm job opportunities in rural areas at a minimal per capita investment. It carries out operations such as skill development, technological transfers, research and development, marketing, and so on, and assists in the creation of job and self-employment opportunities in rural areas.

Objectives

The main objectives of the KVIC are-

- (i) The social goal of creating jobs in rural areas;
- (ii) The economic goal of producing marketable goods; and
- (iii) The overall goal of fostering self-reliance and cultivating a strong rural community spirit.

Functions of KVIC

- i) To design and organise training for people who work in Khadi and Village Industries or who want to work in them;
- (ii) To accumulate raw material and implement reserves directly or through designated agencies, and to supply or arrange for the supply of raw materials and implements to persons engaged or likely to be engaged in the production of handspun yarn, Khadi, or Village Industries at such rates as the Commission may determine;
- (iii) To promote and assist in the establishment of common service facilities for the processing of raw materials or semi-finished goods, as well as to ease the manufacture and sale of Khadi or Village Industries products in general;
- (iv) To promote the selling and marketing of Khadi, Village Industries goods, and handicrafts, and to develop ties with established marketing agencies where necessary and possible;
- (v) To encourage and promote research in Khadi and Village Industries technology, including the use of non-conventional energy and electric power, with the goal of increasing productivity, eliminating drudgery, and otherwise improving their competitive capacity, as well as to arrange for the dissemination of key findings from such research;
- (vi) To conduct studies of the challenges of Khadi or Village Industries, either directly or through other bodies;

(vii) To provide financial assistance directly or through specified agencies to institutions or individuals engaged in the development and operation of Khadi or Village Industries, as well as to guide them through the supply of designs, prototypes, and other technical information, in order to produce goods and services for which the Commission believes there is effective demand;

(viii) To conduct trials or pilot programmes, either directly or through designated agencies, that the Commission believes are necessary for the development of Khadi and Village Industries;

(ix) To create and manage separate organisations to carry out any or all of the aforementioned tasks;

(x) To promote and encourage cooperative efforts among Khadi makers and Village Industries workers;

(xi) To assure genuineness and establish quality standards, as well as to ensure that Khadi and Village Industries products meet those standards, including issuing certificates or letters of recognition to those involved; and

(xii) To engage in any other action that is related to the aforesaid.

Table 3.9 Khadi sector's employment during last 5 years (Artisans in lakh)

Year	Employment
2016 - 17 @	4.56
2017-18#	4.65
2018-19#	4.96
2019-20#	4.97
2020 - 21 (up to 31 - 12 - 2020) #	4.97
2020 - 21 (Projected up to 31 - 03 - 2021) #	5.00

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21; www.msme.gov.in (@ Including Polyvastra # Including Polyvastra&Solarvastra)

The above table clearly highlights the scenario of employment in the KV sector from 2016-17 upto 31-12-2020. The figures are quite satisfactory as we can witness a constantly increasing number of employments in the said sector. This is how the sector has been consistently contributing towards the generation of entrepreneurs in the country.

1.8.2 Coir Board

The Coir Board is an official body established under the Coir Industry Act of 1953. The overall development of the coconut industry, including the promotion of coconut fiber and coconut fiber export Improvement of workers' living environment and commercialization Traditional industry in India.

Objectives

India is the world's largest producer of coconut coir, accounting for over 80%. Total world production of coconut fiber. India's coconut sector is very diverse and includes: households, cooperatives, NGOs, producers and exporters. The coconut industry employs approximately 7,370,000 people, most of which are People in rural areas belonging to the economically weaker parts of society. For 80% of coir workers in the textile extraction and spinning sector are women. Board promotes the overall development of the coconut industry and the living conditions of workers employed in this traditional industry.

Functions of Coir Board

- Promoting coir yarn and coir products exports and conducting propaganda to that end.
- Registering coir spindles and looms for producing coir products, as well as manufacturers of coir products, under the supervision of the Central Government.
- Conducting, helping, or encouraging scientific, technological, or economic research, as well as maintaining or assisting in the maintenance of one or more research institutes;
- Collecting statistics on any matter relevant to the coir industry from manufacturers and dealers of coir products, as well as other people as may be prescribed, and publishing the statistics thus gathered.
- For the inspection of fibre, coir yarn, and coir goods, fixing grade criteria are set up as needed.
- Improving and preventing unfair competition in the marketing of coconut husk, coir fibre, coir yarn, and coir goods in India and abroad;

- Using power, erecting or assisting in the erecting of factories for coir product makers.
- Promoting cooperative organisation among husk, coir fibre, and coir yarn producers, as well as coir product manufacturers.
- ensuring a profit for husk, coir fibre, and coir yarn producers, as well as coir product manufacturers;
- To advise/suggest on all the matters pertaining to the development of the coir industry.

Achievements of the Board upto (31/12/2020)

Coir exporters have been registered and awarded Registration-cum-Membership Certificates to 80 entities. Under the International Cooperation Scheme, the Board has paid Rs.1,67,47,114/- to 80 micro, small, and medium businesses from the Indian coir sector as financial assistance for their participation in international events abroad. Due to the cancellation or postponing of foreign events as a result of the COVID 19 epidemic, the Coir Board was unable to coordinate Indian coir sector participation in any of the events abroad to which the Ministry had given in principle approval under the International Cooperation Scheme. The Board, on the other hand, took part in the Namaste Bharat Virtual Exhibition, which took place from October 29 to November 30, 2020. Actions have already been taken to organise the participation of the Indian coir industry in the IECA Virtual Annual Conference and Expo, which will take place from February 22 to February 25, 2021. The Board has also taken steps to organise a virtual international fair dedicated just to coir.

1.8.3 The National Small Industries Corporation (NSIC) Limited

The National Small Industries Corporation Ltd. (NSIC) is a Ministry of Micro, Small and Medium Enterprises-certified Government of India enterprise (MSME). The National Small and Medium Firms Council (NSIC) has been working to encourage help and support the growth of micro, small, and medium enterprises in the country.

Objectives

“To promote and support Micro, Small, and Medium Enterprises by offering integrated support services spanning marketing, finance, technology, and

other services,” says NSIC’s mission statement. “To be the country’s preeminent organisation encouraging the growth of Micro, Small, and Medium Enterprises,” says NSIC’s mission statement.

Operating Performance of NSIC

NSIC plays a critical role in the growth of Micro, Small, and Medium Enterprises (MSMEs) by meeting their need for consistent and timely delivery of required raw materials at the most inexpensive and competitive pricing. This not only improves MSMEs’ competence, but also helps them grow their business volumes. During the fiscal year 2019-20, NSIC met the raw material needs of MSMEs by supplying Steel from M/s. Steel Authority of India (SAIL) & (RINL), Aluminum from M/s. National Aluminum Company Limited (NALCO), Paraffin Wax from M/s. Chennai Petroleum Company Limited (CPCL), Coal from M/s. Coal India Ltd., (CIL), Polymer Products i.e. PP, HDPE & LLDPE from M/s. NSIC has arrangements /MoUs with Regional Producers’ Local Suppliers for provision of raw materials to MSMEs to further assist MSMEs and ease their Raw Material restrictions. M/s. Hindustan Petroleum Company Ltd. (HPCL), the company’s major producer, is handling bitumen and emulsion material at its Guwahati and Vijayawada facilities under its “Agency Sales Scheme”. Under sale purchase, the value of Raw Material Distribution under RMD in 2019-20 is Rs. 1235.49 crore. The value of raw material supplied through sale buy during the current financial year 2020-21 (till December 31, 2020) is Rs. 1070 crore. The expected achievement for the rest of the current financial year (i.e. till March 31, 2021) is expected to be around Rs. 380 crore. NSIC assists MSE(s) at every level of tendering activity, from participation in tenders through tender execution, under the Tender Marketing Scheme. During the fiscal year 2019-20, the Company participated in 869 bids for Rs. 454.20 crore and completed 208.64 crore worth of tenders. The company has participated in 444 tenders totaling Rs. 230.16 crore and executed tenders worth Rs. 74.91 crore during FY 2020-21 (till December 31, 2020). Tenders of Rs. 170 crore are expected to be completed for the remainder of the current financial year (i.e. through March 31, 2021). Apart from all these, the NSIC operates a Single Point Registration Scheme (SPRS), Consortia and Tender Marketing Scheme, various credit support services, NSIC Technical Services Centre (Skill Development and Capacity Building), Coommon Facility Services, E-Marketing/ Digital Services facilitation for MSMEs and National Scheduled Caste and

Scheduled Tribe Hub to promote, protect, assist, facilitate and guide the MSMEs for its all-round growth and development.

1.8.4 Mahatma Gandhi Institute for Rural Industrialization (MGIRI)

In October 2008, the Jamnalal Bajaj Central Research Institute (JBCRI) in Wardha was renamed as Mahatma Gandhi Institute for Rural Industrialization after being rebuilt with the support of the Indian Institute of Technology in Delhi as a national level institute under the Ministry of MSME (MGIRI).

Objectives

- a) Accelerate rural industrialisation for a sustainable village economy, allowing the KVI sector to coexist alongside the mainstream.
- b) To attract experts and professionals to Gram Swaraj.
- c) To give traditional artisans more power.
- d) To provide opportunities for innovation through Pilot studies and field testing.
- e) To provide R&D for alternative technology based on local resources.

Functions of MGIRI

MGIRI's activities are carried out by six sections, each of which is led by a Senior Scientist/Technologist.

i) **Division of Chemical Industries:** The main goal of the Chemical Industries Division is to enhance quality awareness and consistency in the areas of food processing, organic foods, and other rural chemical industry products. It also offers complete quality testing services and is working to develop field-ready kits, methodologies, and technologies to help cottage and small-scale businesses in this area.

ii) **Division of Khadi and Textiles:** This division's key responsibilities include introducing new technologies and providing quality assurance support in order to increase the productivity, value addition, and quality of products created in khadi institutions. It also aims to make environmentally friendly items and processes more accessible.

iii) **Division of Bio-Processing and Herbal:** This section of MGIRI developed a technological package and simple quality assurance methodologies to help rural entrepreneurs produce and use organic manures, bio-fertilizers, and bio-pesticides. This component is also working on new

formulations based on ‘Panchagavya,’ as well as quality assurance techniques and facilities.

iv) **Division of Rural Energy and Infrastructure:** This section has been tasked with developing user-friendly and cost-effective technology for rural industries that make use of frequently available renewable energy sources, as well as conducting audits of conventional rural industries to make them more energy efficient.

v) **Division of Rural Crafts and Engineering:** This division’s mission is to help rural artisans enhance their skills, inventiveness, and productivity, as well as encourage value-adding and improve the quality of their products.

vi) **Division of Management and Systems:** This division helps rural companies with information and communication technology-based solutions in order to improve their worldwide competitiveness.

Major achievements of MGIRI during 2020-21

Through webinars and virtual mode, institute employees participated in 24 national/international workshops and exhibitions for the presentation of research work, technology diffusion, technological awareness, and information sharing among the scientific community and KVI sector. Three research papers have been accepted for publication in national and international publications. The institute was awarded two patents, one for a novel floor cleaning formulation and method (Patent No. 221369) and the other for a process for preparing natural paint (Patent No. 336188). MGIRI developed a number of inventions between 2020 and 2021, including an improved low-cost Pug Mill, a Pneumatic Hammer for Iron Craft, a Pedal Operated Blunger, an Improvised Hank Dyeing Machine, a Honey Bee Pollen Solar Dryer, a Downsized Cotton Ginning Machine, and a Moringa Leaves Separator. Under the MSME’s Livelihood Business Incubation Scheme, MGIRI, Wardha is establishing a Fruits, Vegetables, and Spices Processing and Value Addition Facility for Rural Entrepreneurs, including Panchgaya and Agri-inputs. MGIRI provided skill development and entrepreneurship development training to 27 trainees in 9 sessions from all over the country, including aspirant and existing entrepreneurs, representatives of NGOs, field agencies, artisans, students, farmers, SHGs, and others, for the dissemination of technologies, products, processes, designs, and other information for enterprise development and skill upgradation, and two entrepreneurs in the field of sanitizer and hand washing. A shade card of selected natural dyes has been developed and delivered to

all of the country's Khadi institutions. Manuals on Khadi Spinning Quality Guidelines have been provided to 550 Khadi Institutions across the country. MGIRI has examined 20 samples of various items and offered quality testing and counselling to 7 different agencies, including KVI institutions, businesses, students, and farmers. On the 5th of October, 2020, a one-day "Awareness Workshop on the prospects of entrepreneurship development based on MGIRI technology" was held in partnership with the Wardha Collectorate. Mr. Sunil Jee Kedar, Hon'ble Minister of Dairy and Animal Husbandry, Sports and Youth Welfare of Maharashtra Government, MP and MLA of Wardha, and other dignitaries graced the occasion, which was launched online by Shri Nitinji Gandkari, Hon'ble Cabinet Minister, MSME, GOI. The session was attended by students, instructors from Wardha district Polytechnic and ITI Colleges, officers from DIC, KVIB, and BYST (NGO).

1.8.5 National Institute for Micro, Small and Medium Enterprises (NI-MSME)

The National Institute of MSME was founded in 1960 in New Delhi as the Central Industrial Extension Training Institute (CIETI) under the Ministry of Industry and Commerce of India. In 1962, the Institute was renamed Small Industry Extension Training Institute and relocated to Hyderabad as a recognised society (SIET). Following the passage of the MSMED Act in 2006, the Institute shifted its focus and restructured its structure. The National Institute for Micro, Small and Medium Enterprises was renamed in accordance with the new Act (NI-MSME). It is now run by the Ministry of Micro, Small and Medium Enterprises (previously the Ministry of SSI & ARI) of the Indian government.

Objectives

NI-MSME's main goal was to teach other trainers. The organization's engagement has changed as a result of technical advancements and a constantly shifting market environment. NI-MSME has expanded its area of services beyond training to include consultancy, research, extension, and information. The Institute has identified thrust areas that require emphasis and exploration in accordance with the national goal of economic development through industrialization and based on the expertise that is available. Entrepreneurship Development, Technology Upgrading & Transfer, Policy Issues, NGO Networking, Environmental Concerns, Cluster

Development, Management Consultancy, Quality Management Services, Financial Services, and Information Services are some of the topics covered.

Functions of NI-MSME

The Institute's competencies converge on the following aspects, with enterprise promotion and entrepreneurship development being the major emphasis of NI-functions: MSME's

- facilitating the start-up of a business;
- Building capacity for enterprise growth and long-term viability;
- Enterprise knowledge creation, development, and distribution;
- For policy formation, diagnostic and development research; and
- Creating opportunities for the underserved through the formation of businesses.

Major achievements

The institute has conducted various Entrepreneurship Development Programmes (EDPs) sponsored by the ministry of MSME. The NI-MSME has imparted 3 Advanced Training Institute's EDPs to 90 trainees and 40 ATIs are ongoing upon 1200 trainees (During 1st April to 31st December 2020) and 34 Programmes are ongoing upon 1020 trainees (From January 2021 to March 2021). The institute has completed 15 National Programmes, 3 International Programmes, 1 seminars/workshops and 41 webinars upon 173, 118, 15 and 5840 trainees during 1st April to 31st December 2020 respectively and 30 National Programmes, 2 International Programmes, 2 seminars/workshops and 10 webinars upon 300, 50, 100, and 500 trainees respectively during January 2021 to March 2021. The institute has imparted altogether 103 programmes upon 7436 trainees from 1st April to 31st December 2020 and 78 programmes upon 1970 trainees during January 2021 to March 2021.

Table 3.10 % of trainees with wage-employment/self-employment during 2013-14 to 2019-20

Year	Achievement (Success rate)				Overall %
	Wage employed		Self employed		
	No.	%	No.	%	
2013-14	8843	51.34	5905	41.36	47.54
2014-15	15419	32.74	9236	19.42	52.16
2015-16	14130	44.30	6313	19.18	64.10
2016-17	2159	53.00	615	15.00	68.00
2017-18	328	12.56	498	19.08	31.64
2018-19	54	7.00	53	7.00	14.00
2019-20	67	3.00	88	3.84	6.84

Source- Government of India, Ministry of MSMEs, Annual Report, 2020-21;

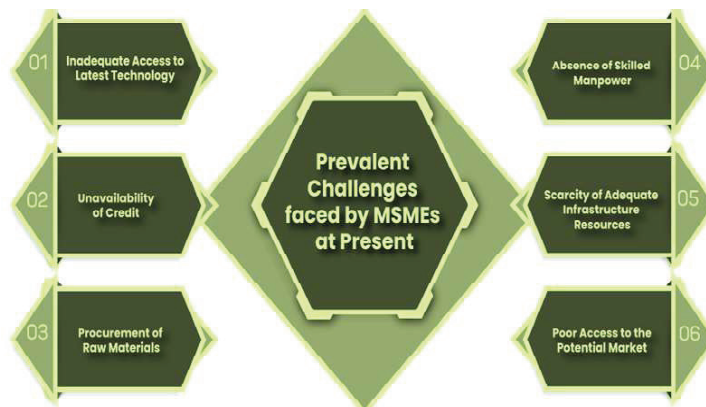
www.msme.gov.in

From the above statistical data, it is evident that the MI-MSME has been catering to the needs of training and employment to the young entrepreneurs of the nation.

Check Your Progress

1. Name the statutory institutions which are very crucial for the overall growth and development of the MSME sector in India.
2. In which year, the rate of overall employment achieved by the NI-MSME is the highest and in which year it is the lowest?
3. Mention one probable reason for the lowest rate of employment during the FY 2019-20.

1.9 Major Challenges/Problems faced by the MSMEs



1) Inadequate Access to Latest Technology- This is one of the most pressing difficulties that MSMEs have faced to date. To be honest, MSMEs lack sufficient access to the most up-to-date information, causing them to be unaware of recent technical advancements. They frequently lack the necessary knowledge, skills, and technical education to run a successful MSME. This is a common stumbling block in rural areas of the country. Technology is thought to be a driving force for those who want to make a difference. MSMEs that have suffered from a lack of quality and production volume. Upgrades in technology can provide resiliency and a competitive advantage in the face of global competition. It is currently one of the most significant concerns facing the MSME.

Measures Initiated- Government has launched an initiative named “Zero Defect and Zero Effect” (ZED) in association with ministry of MSME and Quality Council of India.

2) Unavailability of Credit- Another impediment to this sector’s potential is its inability to secure timely finance at a nominal rate of interest. MSMEs functioning across India, according to several analysts, lack the convenience of acquiring quick financing from financial institutions. This has now subdued their desire for expansion and long-term growth. In addition, the COVID 19 epidemic has had a significant impact on MSMEs. They have been troubled by the outbreak, which has eroded their current resources. As a result, the majority of businesses are currently short on staff. The MSME is currently facing a liquidity constraint, which is one of the most severe difficulties it faces.

Measures Initiated- GOI has launched various schemes under the Aatmanirbhar Bharat Abhiyan

3) Procurement of Raw Materials- In the lack of sufficient financial resources, it is impossible to encourage corporate growth. It has long been one of the sector’s most pressing concerns. Most small businesses are forced to buy low-quality raw materials from the local area due to budgetary constraints.

Measures Initiated- GOI, in association with National Small Industries Corporation (NSIC) has launched “Raw Material Assistance Scheme” to address the issue.

4) Absence of Skilled Manpower- Despite the fact that our country has a large pool of human resources, MSMEs nonetheless face a shortage of quality people capable of completing skilled-oriented tasks. MSMEs are currently in severe need of trained labour to improve the quality and quantity of their manufactured items.

Measures Initiated- The Government of India, in collaboration with the ministry of MSME has introduced an initiative called “Skill Mapping” for the upgradation of skills of the manpower.

5) Scarcity of Adequate Infrastructure Resources- Manufacturing SMEs’ productivity and profitability may be harmed by a lack of infrastructure facilities. MSMEs’ competitiveness is largely dependent on the availability of trained labour, electricity, and other fundamental resources. MSMEs that operate in metropolitan regions, rural areas, or industrial estates are all affected by this challenge.

Measures Initiated- The GOI has established Common Facility Centers (CFCs) for the purpose of improving productivity.

6) Poor Access to the Potential Market- Due to a lack of cash and marketing tools, MSMEs in our country are finding it difficult to gain access to potential markets. As a result, it makes it difficult for MSMEs to sell their services to government organisations. This could also limit their market reach, allowing their competitors to take advantage.

Measures Initiated-The ministry of MSMEs has already launched Marketing Promotion Schemes to provide online services, e-marketplace, organizing trade fairs etc. for promoting the MSMEs.

Check Your Progress

1. Mention one reason each for unavailability of credit access to the MSMEs and poor access to the potential market.
2. Name the measures taken by the GOI to address the issues faced by the MSMEs in India.

Stop to Consider

- The MSME sector has proven to be a major contributor to the prime minister's trademark campaign "Make in India".

1.10 Summing Up

- Micro, Small and, Medium Enterprises are considered as pivotal to the internal reconstruction of the Indian economy.
- MSMEs are a major contributor to the GDP of the country and have been a major source of employment generation.
- The revised classification of Micro, Small and Medium enterprises have come into effect from 1/7/2020.
- The ministry of MSMEs is headed by the Cabinet Minister, followed by minister of the concerned State, followed by the Secretary (MSMEs)
- During the FY 2018-19 and 2019-20, the manufacturing sector of the MSMEs accounted for 36.9% & 36.9% of the total manufacturing gross value production in India respectively.
- The contribution exports pertaining to the MSMEs to all India exports in 2019-20 and 2020-21 were 49.8% and 49.5% respectively.
- The MSME sector helps in ensuring inclusive growth in the country.
- As per the Annual Report on MSMEs, 2020-21, the estimated num-

ber of MSMEs involved in various trading activities was 36%; which was highest and the lowest was 0% involved in electricity category.

- Rural India shares the majority of MSMEs with 51% and urban area shares 49% of the same as per 2020-21 Annual Report on MSMEs.
- Interestingly, 79.63% owners of the MSMEs were male & only 20.37% were female as per the Annual Report on MSMEs 2020-21.
- Estimated employment was highest in the urban areas of India as compared to that of rural India during 2020-21.
- As per the 73rd round of National Sample Survey and 4th All India Census of MSMEs, Uttar Pradesh has registered the highest number of MSMEs and Madhya Pradesh has registered the lowest.
- KVIC, Coir Board, NSIC Ltd, MGIRI and NI-MSME have tremendously contributed towards overall growth and development of the MSMEs in India.

Self Asking Questions

Do you believe that MSMEs are pivotal for the socio-economic reconstruction of India? If so, how? (80 to 120 words)

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.....
.....
.....
.....
.....

1.11 Model Questions

1. Discuss the relevance of entrepreneurship development in a highly populated country like India. In this regard critically highlight the role of MSMEs in entrepreneurship development/employment generation in India.
2. Explain the Challenges/Problems encountered by the MSMEs in India. Also describe the strategies to curb/address these issues.

3. Critically examine the roles of KVIC, Coir Board, NSIC Ltd, MGIRI and NI-MSME in overall growth and development of the Micro, Small and Medium Enterprises in India.
4. Write a brief note of the registration of new MSMEs by emphasizing on Udyam Registration.

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Unit-2

Various Government Initiatives in the MSME Sector

Unit Structure:

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Government Initiatives for the MSME Sector
 - 2.3.1 Digital initiatives
 - 2.3.2 Credit Guarantee Scheme (CGS)
 - 2.3.3 Credit Linked Capital Subsidy Scheme (CLCSS)
 - 2.3.4 Micro and Small Enterprises Cluster Development Programme (MSE-CDP)
 - 2.3.5 Lean Manufacturing (NMCP)
 - 2.3.6 Design Clinic Scheme
 - 2.3.7 Incubation
 - 2.3.8 Marketing Development Assistance (MDA) Scheme
 - 2.3.9 Trade Related Entrepreneurship Assistance and Development (TREAD) for Women
 - 2.3.10 Public Procurement Policy
 - 2.3.11 Marketing Assistance and Technology Up-gradation (MATU)
 - 2.3.12 Capacity Building and Technical Assistance (CB & TA) Scheme
 - 2.3.13 North Eastern Development Finance Corporation Ltd (NEDFi) Schemes
 - 2.3.14 North-East Rural Livelihoods Project (NERLP)
 - 2.3.15 Advertising and Publicity by the Ministry of Development of North-Eastern Region
- 2.4 Summing Up
- 2.5 Model Questions
- 2.6 References and Suggested Readings

2.1 Introduction

Micro, Small and Medium Enterprises require external assistance for their growth and development. This sector is very vulnerable. If it is left alone to thrive on its own, many MSMEs would be closed down. Thus the government comes forward to hand hold the MSME Sector and assist in its growth and development. The government has provided many incentives for the

MSMEs. These initiatives of the government motivate the entrepreneurs to continue with their enterprises. Thus the various government initiatives are responsible for the survival, growth, development of the MSMEs in the country. In this unit, we shall discuss some of the major initiatives taken by the government for the MSME Sector.

2.2 Objectives

After going through this unit you will be able to-

- understand the various government initiatives for the MSME Sector,
- examine the importance and relevance of each of these incentives.

2.3 Government Initiatives for the MSME Sector

A number of initiatives have been undertaken by the government for the development of the MSME sector from time to time. It is not possible to discuss each and every initiative the government has taken for the MSMEs. Therefore, we shall discuss a few important incentives of the government for the MSMEs. Some of such initiatives have been given below. Let us understand each one of them.

2.3.1 Digital initiatives

Many digital initiatives have been taken by the government for the MSMEs. These initiatives include the E-office in the Ministry of MSME, interactive interfaces through social media, mobile friendly website, web portal for MSME naukri, web portal for MSME shopping. The scheme aims at promoting Information and Communication Technology (ICT) in the MSME sector through adaptation of ICT tools in their business and production processes. The scheme also aims at creating awareness about e-platforms and promoting digital marketing in the MSME sector. The government is undertaking different initiatives to bring the innumerable benefits of ICT to the knowledge of the budding entrepreneurs who aim to work in the MSME sector so that they can reap such benefits. With the digital transformations, the turnaround time in official work has reduced drastically and hence these budding entrepreneurs see great opportunity to explore the benefits and make inroads in the MSME sector.

2.3.2 Credit Guarantee Scheme (CGS)

Let us now understand about CGS. This scheme was launched in August, 2000 under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). The main objective of this scheme is to make credit available to Micro and Small Enterprises for loans up to Rs. 200 lakh without collateral or third party guarantees. The Credit Guarantee Scheme tries to ensure the lender of a loan (like banks, RRBs, select financial institutions) to the Micro and Small enterprises that if a MSE unit which availed collateral free credit facilities fails to repay the loan to the lender then this CGTMSE would compensate the loss suffered by the lender bank. As on 31.12.2015, cumulatively 21,60,975 credit applications have been provided guarantee coverage amounting to Rs. 103864.11 crore since this scheme began. With different guarantee covers made available for different enterprises and individuals as well as the special emphasis given on women and economically backward region, the CGS has been a boon to the MSE sector. This initiative has aided in the ease of doing business and given a boost to the MSE sector.

2.3.3 Credit Linked Capital Subsidy Scheme (CLCSS)

It should be noted that the main objective of this scheme is to facilitate technological upgradation in Micro and Small Enterprises (MSEs). This scheme is valid for new MSEs as well as existing MSEs which are engaged in manufacturing activity. This Scheme aims to upgrade the MSE plant & machinery and other basic processes with state-of-the-art technology at par with the recent advancements, with or without expansion of the units. Also this scheme benefits new MSEs which have set up their enterprises fulfilling the appropriate eligibility criteria and proven technology as per the scheme guidelines. It should be remembered that since its inception, 36728 units have been benefited by this scheme. It facilitates 15% capital subsidy to a maximum limit of Rs.15 lakhs in MSEs where investment in approved plant & machinery is upto Rs.1 crore for the purpose of introducing well-established and improved technologies. With the introduction of new cutting edge technologies the manual processes are automated and this leads to exponential rise in production.

Self Asking Questions

1. Point out how MSMEs are contributing to the GDP of the country.
.....
.....
2. Make a comparison between Credit Guarantee Scheme and Credit Linked Capital Subsidy Scheme.
.....
.....
3. MSMEs have contributed only towards exports. (State true or false)
.....
4. The contribution of the service MSMEs to the _____ has been steadily rising. (Fill in the blank)
.....

2.3.4 Micro and Small Enterprises Cluster Development Programme (MSE-CDP)

This initiative aims at increasing the productivity, competitiveness as well as capacity building of Micro and Small Enterprises (MSEs). A cluster is a group of enterprises located within an identifiable, adjacent area and which are producing same or similar products/services. It should be noted that the specific needs of similar enterprises can be met through this scheme.

Let us now understand the objectives of this programme which are given below:

- i. ***To support the sustainability and growth of MSEs through a holistic approach:*** Here, the end to end lifecycle is addressed. Then the commonly faced issues are identified and resolved through suggested relevant improvement of technology. Suggestions to the MSE are also provided for upgrading skills and quality, creating and aiding market reach, access to capital and required liquidity to ensure business as usual, etc.
- ii. ***To aid the Capacity building of MSEs for common supportive action:*** This scheme helps entrepreneurs to identify common grounds to collaborate with each other and evolve through initiatives like formation of self help groups, upgradation of associations, etc for better sustainability in the market.

- iii. **To identify scope for improvements:** This scheme tries to find out the possibility of improvements in the existing infrastructural facilities in the new or existing industrial areas/ clusters of MSEs and suggest implementation plans for the creation and upgradation of those infrastructural facilities.
- iv. **To create environment for seeking benefits of common facility centres:** This scheme tries to create an environment for MSEs to get the benefits of common facility centres mainly for testing, training center, raw material depot, effluent treatment, complementing production processes, etc which would be beneficial in operational and upscaling activities of the MSEs.

Check Your Progress

1. What is the objective of the Credit Guarantee Scheme?
2. The government is trying to promote Information and Communication Technology (ICT) in the MSME sector. (State true or false)
3. The _____ has aided in the ease of doing business and given a boost to the MSE sector (Fill in the blank)
4. The _____ scheme is valid for new MSEs as well as existing MSEs which are engaged in manufacturing activity. (Fill in the blank)
5. What is a Cluster?
6. To support the sustainability and growth of MSEs through a holistic approach is an objective of _____. (Fill in the blank)
7. The MSE-CDP tries to create an environment for seeking benefits of common facility centres. (State true or false)
8. Credit Guarantee Scheme makes loans available for MSEs without collateral. (State true or false)

Now let us learn some of the major activities under the MSE-CDP. This programme includes the following-

- **Soft Interventions:** This comprises of general awareness, counseling, motivation and trust building, exposure visits, market development

including exports, participation in seminars, workshops and training programmes on technology upgradation, etc.

- **Common Facility Centre (CFC):** This comprises creation of tangible “assets” like Common Production/Processing Centre, Design Centres, Testing Facilities, Training Centre, R&D Centres, Common Raw Material Bank/Sales Depot, etc.
- **Infrastructure Development Centre (ID):** This includes creation of infrastructural facilities like power distribution, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological backup services for MSEs in the new and existing industrial estates/areas.

2.3.5 Lean Manufacturing (NMCP)

The National Manufacturing Competitiveness Programme (NMCP) has been implemented by the government for the sustenance and healthy growth of the MSME sector. The primary aim of the NMCP is to provide a competitive edge to the MSME units; to build capacity of the MSMEs for facing competition in the global markets; and to survive the challenges put by the multinationals in the domestic market.

You should keep in mind that Lean Manufacturing is a scheme under the National Manufacturing Competitiveness Programme. It tries to increase the manufacturing competitiveness of MSMEs by way of applying various Lean Manufacturing (LM) techniques. The primary objective of this Scheme is to identify areas of improvement of the functioning of MSMEs and upgrade the productivity and quality of the MSMEs by applying various Lean Manufacturing (LM) techniques. Some of these Lean manufacturing techniques include the following:

- Science based waste reduction techniques
- Increase production
- Introducing innovative technical practices to increase overall competitiveness
- Bringing in best practices and good management systems
- Adopting a culture to strive for continuous improvement

3041 MSMEs have been benefited by this scheme so far. This scheme gives a financial assistance of up to a maximum of Rs.36 Lakhs to each

Mini Cluster of 10 units for a period of 18 Months. Or the final assistance is given to the Mini Cluster till completion is paid to Lean Manufacturing Consultants for intervention of Lean Manufacturing Techniques in the units. It should be kept in mind that for the implementation of this scheme in the country, National Productivity Council and Quality Council of India have been selected as National Monitoring and Implementing Units (NMIUs).

Stop to Consider

- ◆ Micro, Small and Medium Enterprises require external assistance for their growth and development as this sector is very vulnerable.
- ◆ A number of initiatives have been taken by the government for the development of the MSME sector.
- ◆ Much emphasis has been given on digitalization to reap the benefits of ICT.
- ◆ The main objective of Credit Guarantee scheme is to make credit available to Micro and Small Enterprises for loans up to Rs. 200 lakh without collateral.
- ◆ CLCSS aims to facilitate technological upgradation in both new and existing Micro and Small Enterprises (MSEs).
- ◆ Lean Manufacturing is a scheme under the National Manufacturing Competitiveness Programme. It tries to increase the manufacturing competitiveness of MSMEs.
- ◆ The MSE-CDP aims at increasing the productivity, competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) through clusters.

2.3.6 Design Clinic Scheme

The **objectives** of this scheme are as follows-

- To create and harness a sustainable design eco system for the MSME sector through continuous learning and upskill initiatives,
- To create an environment of collaboration between the industrial design fraternity and the MSME Sector,
- To develop an institutional base for the design requirement of the sector/ industry,
- To create and increase awareness of the value of design and establish design learning in the MSME sector,

- To increase the competitiveness and quality of local products and services through design best practices.

Some of the **features** of this scheme are provided below:

- The project funding is applicable to an individual MSME or a group of MSMEs coming together.
- A Design Company/ Academic Institutions entrusted on this will visit the unit and scrutinize all designs relevant fields & will suggest next steps to be taken for improvements
- The Project Proposal to be prepared and to be submitted to Design Clinic Centre for consideration through designated application channels.
- Mobilization and co-ordination workshop for MSME officials to create an environment of collaboration
- Schedule regular Seminar / Workshops (including need assessment survey).
- Schedule Promotional Activities such as Orientation programme for stake holders, Study on Global Best Practices & Design Clinic Programme of other nations and case studies and National Level Workshop, etc.
- The Design Clinic Scheme is implemented through the National Institute of Design (DIPP Institution).

Self Asking Questions

1. Make a comparison between Micro and Small Enterprises Cluster Development Programme and Lean Manufacturing.

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2. Point some differences between Lean Manufacturing and Design Clinic Scheme.

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2.3.7 Incubation

This scheme is aimed at innovators. The Government of India provides opportunity to the innovators to develop and nurture their new innovative ideas which can be converted into new innovative products and commercialized in the market. This scheme has been implemented since 2008. Government provides financial assistance of 75% to 85% of the project cost up to the maximum of 8 Lakh rupees. This fund is routed through the business incubators (BIs). These BIs are Engineering Colleges approved by AICTE, Central or State Universities recognized by UGC, recognized Research & Development or Technical Institutes, Development Institutes of DIP&P in the field of Paper, Rubber, Machines Tools, etc. These BIs are also known as host institutions. Host Institutions (HI) are constantly on the lookout for new innovative ideas from the Incubatee of various sectors that may be already existing or prospective entrepreneurs. The Incubation scheme is a platform for even the students from the various streams to participate in nurturing their new ideas through the Host Institutions as a part of their studies and career building.

Now let us learn the **Objectives of Incubation**. These are given below.

- ◆ To Foster an environment to promote emerging technological and innovative ideas for business use cases that seek the nurturing of ideas from professionals.
- ◆ To promote and support untapped creativity of individual innovators and assist to put their ideas into practice and thereby helping the individual innovators to become technology based entrepreneurs.
- ◆ To promote networking and forging of linkages with other constituents of the innovation chain and thereby create a collaborative environment for commercialization of their developments.

The Incubation initiative has been able to strike a chord with the public as this has given them a platform to put their ideas into execution mode which would benefit the individual and the society.

2.3.8 Marketing Development Assistance (MDA) Scheme

You should keep in mind that one of the major thrust areas for the Government is promotion of Export and impetus on FDI. The Marketing Development Assistance (MDA) Scheme has been set up keeping an eye to increase the

exports and to facilitate various measures being undertaken to stimulate and diversify the country's export trade. Marketing Development Assistance (MDA) Scheme under the aegis of the Department of Commerce is there to support the under mentioned activities:

- Create awareness and assist exporters for export promotion activities abroad.
- Knowledge sharing and support for Export Promotion Councils (EPCs) to undertake export promotion activities for their product(s) and commodities.
- Collaborate with approved organization/trade bodies in undertaking innovative activities connected with export promotion efforts for their members and help create awareness.
- Assistance to create Focus export promotion programmes in specific regions abroad like FOCUS (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN +2) programme.
- Adhoc support and collaborations required with marketing promotion efforts abroad.

A very important part of the Marketing Development Assistance (MDA) Scheme is participation in International Trade Fairs/Exhibitions by the MSMEs. This scheme encourages and assists small and micro enterprises in their efforts of capturing and developing international markets. This Scheme also tries to increase the participation of Indian manufacturing MSMEs in the India stall of international trade fairs and exhibitions. In order to enhance exports from local manufacturing enterprises, the Government refunds 75% of air ticket cost by economy class and 50% space rental charges for micro & small manufacturing enterprises under general category entrepreneurs. In case of Women, SC/ST entrepreneurs as well as entrepreneurs from the North Eastern Region, the Government shall reimburse 100% space rent and economy class air fare.

Check Your Progress

1. Under ___ scheme government supports new innovative ideas.
(Fill in the blank)
2. The ___ scheme tries to increase exports from the MSMEs.
(Fill in the blank)
3. The MDA do not encourage MSME participation in international trade fairs. (Write true or false)

4. Business Incubators (BIs) are also known as _____. (Fill in the blank)
5. NMCP is aimed at enhancing _____ of the MSMEs. (Fill in the blank)
5. The Design Clinic Scheme is implemented through the _____. (Fill in the blank)

2.3.9 Trade Related Entrepreneurship Assistance and Development (TREAD) for Women

With special impetus on the women upliftment, the Ministry of Small Scale Industries (SSI) in the Government of India launched a scheme called “Trade Related Entrepreneurship Assistance and Development” (TREAD) for economic empowerment of women through the development of their entrepreneurial skills in non-farm activities. Traditionally the womenfolk have been counted as a weaker section of the society when it comes to economic freedom, access and control over resources and creating an identity in the society. This scheme aims at the economic empowerment of women. For attaining this objective, women entrepreneurs are provided trade related training, information and counseling related to trades, products and services. Such support is provided for women engaged in self-employment ventures in any kind of non-farm activities. Through this scheme, the Government also provides grants up to 30% of the loan offered by lending institutions/banks to such women subject to a maximum loan limit of Rs. 30 lakh. The NGOs engaged in assisting poor women through income generating activities would act as the intermediary in routing Government grant and the loan portion from the lending agencies to such women. To be eligible under this scheme, an NGO must have a minimum of 3 years experience in taking and managing funds (either as loan or grant).

Stop to consider

- ◆ The Design Clinic Scheme is implemented to create and increase awareness of the value of design and establish design learning in the MSME sector. The Design Clinic Scheme is implemented through the National Institute of Design (DIPP Institution).
- ◆ The Government of India provides opportunity to the innovators to develop and nurture their new innovative ideas which can be

converted into new innovative products and commercialized in the market.

- ◆ The MDA scheme creates awareness and assist exporters for export promotion activities. It also encourages participation in International Trade Fairs/Exhibitions by the MSMEs.
- ◆ In TREAD support is provided for women engaged in self-employment ventures in any kind of non-farm activities by way of Government Grants up to 30% of the loan offered by lending institutions/banks to such women.

2.3.10 Public Procurement Policy

The Objective of the Public Procurement Policy is to promote and develop the MSME sector by helping in the marketing of products and services offered by them. This policy aims at facilitating a kind of mutual agreement between Public Sector Units and Indian SMEs for both of their mutual benefit. It is done by way of providing appropriate marketing linkages. It should be kept in mind that Micro, Small and Medium Enterprises-Development Institute (MSME-DI) organize two types of Vendor Development Programmes (VDPs), namely, National Level VDPs-cum-Exhibitions and State Level VDPs. In this policy, Central Public Sector Units (CPSUs) and other large scale organizations (buyers) interact with MSEs in establishing potential vendors. The CPSUs and other buyers can observe and identify their goods and services requirements. Then discussions are also arranged between the concerned CPSUs and MSEs. These discussions facilitate understanding the requirements of CPSUs and the capabilities of MSEs to fulfill such requirements. This Policy aims at developing stronger ties between both of them.

2.3.11 Marketing Assistance and Technology Up-gradation (MATU)

The objective of this scheme is to identify and encourage high performing MSMEs. Such MSMEs have created a name for themselves through their quality production, export potential and provide all necessary know-hows and technical direction to strive for competitiveness. Also such enterprises have created an identity in the national and international markets. This programme aims to improve the technical process and techniques to aid better and quality production, improve market value of products and vie

for promotion of exports. This is an initiative by the government to provide a marketing platform to manufacturing MSMEs through their participation in State/District level exhibitions organized by State/District Authorities. It aims at enhancing the competitiveness of the MSMEs in national and international markets through the adoption of technology upgradation in production and packaging, encouraging them to acquire ISO certification, Bar Codes for making their products more acceptable to the consumers, identify skill gap and skill upgradation/development for Modern Marketing best practices. The scheme also assists the Market analysis and Competition Studies of peer products, Special components for North Eastern Region (NER) and demand identification and search for new markets through state/district level. This scheme also schedules local exhibitions/trade fairs, create awareness on Corporate Governance Practices, foster an environment to create Marketing Hubs and aid reimbursement to ISO 18000/22000/27000 Certification and Quality benchmarks.

Check your Progress

1. What are the two types of Vendor Development Programmes?
2. In Tread scheme, the Government grants are provided up to ___% of the loans. (Fill in the blank)
3. Common Facility Centre (CFC) is an important aspect of MSE-CDP. (State whether true or false)
4. The ___ scheme is aimed for women empowerment. (Fill in the blank)
5. The ___ scheme identifies and encourages high performing MSMEs (Fill in the blank)
6. MATU aims to improve the technical process and techniques for improving market value of products. (State whether true or false)

2.3.12. Capacity Building and Technical Assistance (CB & TA) Scheme

The North East which has huge untapped potential has time and again showed great promise and delivered excellence in varied fields whenever opportunity has been given. Taking note of that, the Ministry of Development

of North Eastern Region (DONER) was created to ensure that relevant growth opportunities, development programmes are initiated for the North East region which will help the people to strive for excellence and work for the community. The Capacity Building and Technical Assistance (CB&TA) scheme was initiated to strengthen its human resources, particularly the youth, to convert them into a skilled and employable workforce. In parallel, certain measures are also planned to increase the competency and knowledge base of administrators in the state governments in order to ensure good governance. Under this Scheme, initiatives are taken to impart residential training to the youth of NER which would make them aligned with current technical benchmarks and competency which is required to setup and operationalize entrepreneurial ventures.

2.3.13 North Eastern Development Finance Corporation Ltd (NEDFi) Schemes

Under the aegis of NEDFi (North Eastern Development Finance Corporation Ltd.) there are a slew of schemes to bolster and develop the MSME ecosystem of the North East Region. Now let us learn some of these schemes provided for the MSMEs.

- i) Corporate Finance: This scheme aims to provide the required capital which will provide sufficient liquidity to set up and run businesses and for adhoc reasons like brand building etc.
- ii) Equipment Finance: This scheme aids in providing financial assistance for acquiring specific machinery or equipment to increase or fine tune production by financially sound and profit making enterprises having good credit record. This is a win-win situation and creates an environment of collaboration.
- iii) Initiative for Development of Entrepreneurs in Agriculture (IDEA): With a target objective to promote science based agriculture with modern techniques, this scheme helps to create an agri -business ecosystem in the North-East region and create awareness to take up agri-business ventures. It also provides relevant employment opportunities and makes available supplementary sources of input supply and services.
- iv) Micro Finance: This scheme ways to mitigate the micro credit need requirements which are found mainly in the weaker sections of the society who are unable to create opportunities for themselves due to fund crunches. Developing and supporting NGOs/ Voluntary Agencies

(VAs) with a good track record and creating an environment for on-lending to the “needy” for taking up any income generating activities in the rural areas is one of the salient features of the scheme.

- v) NEDFi Equity Fund: This scheme intends to invest and aid in funding projects undertaken and promoted by entrepreneurs of the North-Eastern region. The opportunities are based on sound business ideas with potential for high growth and more than normal returns on investment. This fund creates a growth oriented environment helping in overall benefit of the MSME and Entrepreneurial sector.

Self Asking Questions

1. Bring out a comparison between MDA and MATU.

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2. Discuss in detail any one scheme of NEDFi for the MSME sector.

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- vi) NEDFi Opportunity Scheme for Small Enterprises (NoSSE): This scheme targets to identify and provide long term financial support to budding entrepreneurs to set up new industrial and infrastructure projects. It also aids in expansion, diversification or modernisation of existing enterprises and help create financial stability.
- vii) North East Entrepreneurs Development (NEED): This scheme aims to create a support system for first generation entrepreneurs and remove the financial hurdles and provide the necessary capital to setup and operationalize their entrepreneurial ventures. The promoters understanding and technical acumen is an eligibility criteria.
- viii) North-East Handloom Handicrafts (NEHH): This scheme is created to promote enterprises and ventures in handloom and handicrafts sector and provide a platform to local artisans to create wares and also showcase them and create a demand and market for the same.

- ix) Rupee Term Loan (RTL): This scheme aims to provide medium to long term financial assistance for setting up or expansion, diversification or modernisation of projects in manufacturing or services sectors of the micro, small and medium enterprises of the region.
- x) Working Capital Term Loan (WCTL): This scheme targets to provide a one-time working capital assistance to eligible units in order to setup and operationalize plants and ventures.
- xi) WCTL for Contract Finance: NEDFi provides financial assistance in the form of gap funding to eligible contractor firms/companies for contract work execution. This helps the said firms/ companies to maintain their liquidity and turnaround and thereby be prominent in the business.
- xii) Women Enterprise Development: The scheme provides awareness to woman entrepreneurs and creates a platform for them to take up and promote their business ventures. Existing businesses will also be eligible for expansion, modernisation and diversification which gives a boost to move to the next level.

2.3.14 North-East Rural Livelihoods Project (NERLP)

The target objective of the North East Rural Livelihoods Project for India scheme is to harness the potential of rural areas and improve the rural livelihoods with more emphasis on women, unemployed and weaker sections of the society of the North East Region. This project/ scheme has 4 components. Let us now discuss these components:

- i) Social Empowerment - With a target to break the social divide, the objective of this component is to empower the rural society and communities, create sustainable productive institutions to create collaboration around common activities on microfinance, livelihoods and natural resource management
- ii) Economic Empowerment - The objective of this component is to aid in economic upliftment of the society and ensure that the rural communities have the available capital to plan and manage funds for various economic initiatives and society building initiatives.
- iii) Partnership Development - The objective of this component is to create an environment of partnership and collaboration between relevant service providers, resource institutions and public and private sector organizations for the socio-economic upliftment of the society.

- iv) Project Management - The component helps facilitate various governance, implementation, coordination, learning and quality enhancement efforts in the project and with a view to create a knowledge base, this helps in continual service improvement.

Check Your Progress

1. Under the ____ scheme, initiatives are taken to impart residential training to the youth of NER. (Fill in the blank)
2. Which of the following are components under the NERLP? (Choose the correct option)
 - a. Social Empowerment
 - b. Economic Empowerment
 - c. Project Management
 - d. All of the above
3. Which of the following is not a scheme under NEDFi? (Choose the correct option)
 - a) Women Enterprise Development
 - b) North-East Handloom Handicrafts
 - c) Initiative for Development of Entrepreneurs in Agriculture
 - d) Advertising and Publicity by the Ministry of Development of North-Eastern Region
4. The ____ scheme aids in providing financial assistance for acquiring specific machinery or equipment. (Fill in the blank)
5. The North-East Rural Livelihoods Project to harness the potential of urban areas and improve the urban livelihoods. (State true or false)
6. The _____ scheme aims to create a support system for first generation entrepreneurs. (Fill in the blank)

2.3.15 Advertising and Publicity by the Ministry of Development of North-Eastern Region

The North East being an unexplored terrain and region has much to offer to the rest of the nation, region and the world. On that note, this scheme aims to highlight the geographic, historical, social, economic and cultural side of the North-Eastern Region with a view of ease of doing business. The Ministry may provide financial or logistical assistance to public enterprises, public trusts, voluntary organizations, NGOs, etc.

2.4 Summing Up

The MSMEs play a significant role in the Indian economy. The major role played by these enterprises is the creation of maximum amount of job opportunities including self-employment.

The government has taken up a number of schemes to provide various incentives to the entrepreneurs in this sector. Schemes related to credit, technology and marketing has been introduced and implemented.

In the chapter, the following schemes have been discussed in detail: Digital initiatives, Credit Guarantee Scheme (CGS), Credit Linked Capital Subsidy Scheme (CLCSS), Micro and Small Enterprises Cluster Development Programme (MSE-CDP), Lean Manufacturing (NMCP), Design Clinic Scheme, Incubation, Marketing Development Assistance (MDA) Scheme, Trade Related Entrepreneurship Assistance and Development (TREAD) for Women, Public Procurement Policy, Marketing Assistance and Technology Up-gradation (MATU), Capacity Building and Technical Assistance (CB & TA) Scheme, North Eastern Development Finance Corporation Ltd (NEDFi) Schemes, North-East Rural Livelihoods Project (NERLP), Advertising and Publicity by the Ministry of Development of North-Eastern Region.

2.5 Model Questions

- a) Describe any five schemes implemented by the government for the development of MSMEs.
- b) Explain the schemes of NEDFi for the entrepreneurs of the North Eastern Region.
- c) Discuss the schemes aimed at promoting marketing and exports of the MSMEs.
- d) Elaborate the schemes that enhance the technological aspects of the MSMEs.

2.6 References and Suggested Readings

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Unit-3

MSMED Act 2006

Unit Structure:

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Role and Importance of Micro, Small and Medium Enterprises
- 3.4 The Micro, Small, Medium Enterprises Development Act, 2006
 - 3.4.1 Definitions Under This Act
 - 3.4.2 Definition of Micro, Small and Medium Enterprises
 - 3.4.3 National Board for Micro, Small and Medium Enterprises
 - 3.4.4 Advisory Committee
 - 3.4.5 Memorandum of Micro, Small and Medium Enterprises
 - 3.4.6 Measures for Promotion, Development and Enhancement of Competitiveness of Micro, Small and Medium Enterprises
 - 3.4.7 Delayed Payments to Micro and Small Enterprises
- 3.5 Summing up
- 3.6 Model Questions
- 3.7 References and Suggested Readings

3.1 Introduction

Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engines of economic growth. They help in promoting balanced development of a nation. These MSMEs encompass heterogeneous type of activities in manufacturing, services and trade. Their presence is spread across different markets: rural, semi-urban, metro cities, local, national, regional as well international. Also it is worth mentioning that they operate at different levels of investment, skills and growth orientation. MSMEs are the powerhouse of new entrepreneurs as they nurture entrepreneurial talent. They also help in creating employment and enhancing industrial development in an economy. For their growth and proper development, a number of initiatives have been taken by the government. This unit shall discuss the Micro Small and Medium Enterprises Development Act, 2006 in detail.

3.2 Objectives

After going through this unit you will be able to-

- understand the definition of MSMEs,
- describe the Micro Small and Medium Enterprises Development Act, 2006.

3.3 Role and Importance of Micro, Small and Medium Enterprises

A significant feature of the Indian Economy since Independence is the rapid growth of the small industry sector. Small scale and cottage industries were present in Indian economy since time immemorial. However these industries did not receive much support and assistance from the government before independence. It was only after India's independence that the small scale industries received a huge lot of patronage and support from the Indian government. In all the Industrial Policy Resolutions from 1948 to 1991, efforts were made for the development of these industries. Several incentive schemes have been taken by the government so far to make these industries more viable. This sector contributes significantly to the Gross Domestic Product (GDP) of India.

The term 'Micro, Small and Medium Enterprises' (MSMEs) evolved after the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Previously the term Small scale industry was more prevalent. Enactment of this act has been one of the most significant developments for this sector for giving a proper boost to the erstwhile Small Scale Industries. Since these enterprises are smaller in size and scattered across the country, they require special attention. MSMEs mainly function as ancillary units to large industries. It should be kept in mind that this sector contributes enormously to the socio-economic development of our country. The sector contributes significantly to manufacturing output, employment and exports of the country besides providing a strong entrepreneurial base. The major role played by these enterprises is the creation of maximum amount of job opportunities including self-employment.

It should be understood that large industries concentrate only in some pockets of the country. Decentralisation of industries is possible by spreading small enterprises in every nook and corner of the country by creating industrial estates and areas. Thus MSMEs enable the dispersal or scattering of units in semi-urban and rural areas of our country. This shall redistribute

economic power as well as income and raise the standard of living of the people in all parts of the country including the rural areas. These enterprises mobilize local skills and capital since they are widely dispersed in different parts of the nation. Further these are enterprises with small doses of investment but together as a sector they contribute to large scale production of goods and services.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology used by the enterprises. There are over 6000 products which are manufactured by the MSME Sector. The various products of MSMEs include food products and beverages, fabricated metal products, wooden products, textile and weaving apparel, machinery, equipment, non-metallic mineral products. The products can be traditional to highly technology savvy items. Besides, the MSME Sector also provides a wide range of services like repairing, maintenance and repair services to name a few.

Check Your Progress

1. Small Scale Industries are presently known as _____. (Fill in the blank)
2. Dispersal of industries has been possible through the establishment of MSMEs. (State whether true or false)
3. Name any two products of MSMEs.
4. MSMEs do not help in generating employment. (State whether true or false)

3.4 The Micro, Small, Medium Enterprises Development Act., 2006

Now let us understand about the Micro, Small and Medium Enterprises Development Act, 2006. This Act has brought about landmark changes in the small industries sector of our country. Some *significant changes* are:

- This act has replaced the earlier term Small scale industries with the term Micro, Small and Medium Enterprises. It has properly classified each of these three terms with clear cut definition.
- Medium Enterprises have been defined for the first time by this Act.

- It has replaced the earlier term Industry with the new term Enterprise.
- Enterprises have been classified in to two: Manufacturing and Service.

It should be noted that the MSMED Act, 2006 has become operational in the country from 02.10.2006 for the Medium sector and from 04.11.2006 for Micro, Small enterprise sectors.

The MSMED Act, 2006 has been enacted with the following *objectives*:

1. To facilitate the promotion and development of MSMEs in the economy,
2. To enhance the competitiveness of MSMEs and make them more robust,
3. To establish a Board and an advisory committee for making recommendations on policies related to this sector.

3.4.1 Definitions under this Act.

The MSMED, 2006 Act has given some definitions of important terms. The original definitions of the terms as cited in the Act under relevant sections have been given below. Now let us go through these important terms.

- According to Section 2 (a), “*Advisory Committee* means the committee constituted by the Central Government under sub-section (2) of section 7.” It has been explained in details in part 3.4.4 of this chapter.
- According to Section 2 (b), “*Appointed day* means the day following immediately after the expiry of the period of fifteen days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier.”
- According to Section 2 (c), “*Board* means the National Board for Micro, Small and Medium Enterprises established under section 3.” It has been explained in details in part 3.4.3 of this chapter.
- According to Section 2 (d), “*Buyer* means whoever buys any goods or receives any services from a supplier for consideration.”
- According to Section 2(e), “*Enterprise* means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production

of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services.”

- According to Section 2(f), “*Goods* means every kind of movable property other than actionable claims and money.”
- According to Section 2(i), “*National Bank* means the National Bank for Agriculture and Rural Development established under section 3 of the National Bank for Agriculture and Rural Development Act, 1981.”
- According to Section 2(j), “*Notification* means a notification published in the Official Gazette.”
- According to Section 2(k), “*Prescribed* means prescribed by rules made under this Act.”
- According to Section 2(l), “*Reserve Bank* means the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934.”
- According to Section 2(n), “*Supplier* means a micro or small enterprise, which has filed a memorandum with the authority referred to in clause (a) of sub-section (1) of section 8, and includes,
 - (i) the National Small Industries Corporation, being a company, registered under the Companies Act, 1956;
 - (ii) the Small Industries Development Corporation of a State or a Union territory, by whatever name called, being a company registered under the Companies Act, 1956;
 - (iii) any company, cooperative society, society, trust or a body, by whatever name called, registered or constituted under any law for the time being in force and engaged in selling goods produced by micro or small enterprises and rendering services which are provided by such enterprises.”
- According to Section 2(o), “*Small Industries Bank* means the Small Industries Development Bank of India established under sub-section (1) of section 3 of the Small Industries Development Bank of India Act, 1989.”
- According to Section 2(p), “*State Government*, in relation to a Union territory, means the Administrator thereof appointed under article 239 of the Constitution.”

Stop to Consider

- ◆ The MSMEs play a significant role in the Indian economy.
- ◆ Entrepreneurial growth is made possible through establishment of MSMEs.
- ◆ The MSME sector contributes significantly to the Gross Domestic Product (GDP) of India.
- ◆ The Micro, Small and Medium Enterprises Development Act, 2006 came into force in 2006.
- ◆ The MSMED Act 2006 has brought about many landmark changes.
- ◆ The primary objective behind this act is to develop MSMEs and increase their competitiveness.
- ◆ The Act has prescribed the definition of several important terms in relevant sections.

3.4.2 Definition of Micro, Small and Medium Enterprises

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 has provided the definition of micro, small and medium enterprises. Section 7 of the Act has defined all the three terms. It has already been mentioned that MSMEs are classified into two broad classes – Manufacturing and Services. A *manufacturing enterprise* can be either a micro, small or medium enterprise based on its investment. Similarly, a *service enterprise* can be either a micro, small or medium enterprise based on the investment. Now we shall discuss in detail these classifications along with the investment limits.

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods: It should be kept in mind that the manufacturing enterprises are defined in terms of investment in plant and machinery. The definitions for each of manufacturing micro, small and medium enterprises are as follows-

- (i) A **micro enterprise** is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh or Rs. 2.5 million. It is defined under section 7(1)(a)(i) of the MSMED Act.

(ii) A **small enterprise** is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore or Rs. 50 million. It is defined under Section 7(1)(a)(ii) of the Act.

(iii) A **medium enterprise** is an enterprise where the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs.10 crore or Rs. 100 million. It is defined under Section 7 (1)(a)(iii) of the Act.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building.

(b) Enterprises engaged in providing or rendering of services: The service enterprises are defined in terms of investment in equipment (i.e. original cost) excluding land, building and furniture, fittings and other items not directly related to the service rendered or as notified under the MSMED Act, 2006. The definitions for each of service micro, small and medium enterprises are specified below.

(i) A **micro enterprise** is an enterprise where the investment in equipment does not exceed Rs. 10 lakh or Rs. 1 million. It has been defined under Section 7(1)(b)(i) of the Act.

(ii) A **small enterprise** is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore or Rs. 20 million. It has been defined under section 7(1)(b)(ii) of the Act.

(iii) A **medium enterprise** is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore or Rs. 50 million. It has been defined under Section 7(1)(b)(iii) of the Act.

Self Asking Questions

1. Why MSMEs are considered important?

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2. Point out the significance of the MSMED Act, 2006?

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It is important to note that the Ministry of Micro, Small and Medium Enterprises has changed the above mentioned definition of MSMEs. In order to keep pace with the changing times, a new definition has been put up in the place of the old definition. This new definition of the MSMEs comes into effect from 01.07.2020. Some changes that have been brought in this new definition are:

- ◆ MSMEs are now defined with respect to two indicators, i.e. investment and turnover.
- ◆ There is no difference in the limits of investment and turnover for Manufacturing and Service enterprises.

Now we shall learn this *new definition of the MSMEs* as notified by the government. This definition is more concise than the earlier definition.

- i) A **micro enterprise** is an enterprise where the investment in Plant and Machinery or Equipment does not exceed one crore rupees. Also the turnover in such enterprise should not exceed five crore rupees.
- ii) A **small enterprise** is an enterprise where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees. Also the turnover in small enterprises should not exceed fifty crore rupees.
- iii) A **medium enterprise** is an enterprise where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees. Also the turnover in medium enterprises should not exceed two hundred and fifty crore rupees.

Check Your Progress

- 1) MSMEs are classified as manufacturing and service enterprises. (State whether true or false)
- 2) MSMEs are defined on the basis of their production values. (State whether true or false)
- 3) Manufacturing enterprises are defined in terms of investment in _____ and service enterprises are defined in terms of investment in _____ according to the old definition. (Fill up the blanks)

- 4) The investment limit in a 'medium enterprise' does not exceed Rs _____ for manufacturing enterprises and Rs _____ for service enterprises. (Fill up the blanks)
- 5) The new definition of MSMEs provides the definition on the basis of two indicators _____ and _____. (Fill in the blanks)
- 6) In a small enterprise the turnover does not exceed Rs _____. (Fill in the blank)
- 7) Investment in Plant and Machinery or Equipment in case of Micro enterprise should not exceed Rs _____. (Fill in the blank)
- 8) As per Section 2(j) "Notification" means a notification published in the Official Gazette. (State whether true or false)

3.4.3 National Board for Micro, Small and Medium Enterprises

Chapter 2 Section 3 of the MSME Act 2006 gives a detailed description of the constitution of the National Board for Micro, Small and Medium Enterprises (NBMSME). This Board is constituted for suggesting developmental policies for the MSME sector of the country. The Act provides that the head office of the Board shall be at Delhi. The Board shall meet at least once in every three months in a year. On 15th May 2007, the National Board for Micro, Small and Medium Enterprises was constituted for the first time which included 47 members. At present, the sixth National Board for MSMEs is functioning. This sixth NBMSME was formed on 2nd February 2021.

Constitution:

The members of this board shall consist of representatives of ministers from the central and state governments, Members of Parliament, administrator of union territory, secretaries and officers of the Government of India. There shall also be adequate representation from banks, associations of MSMEs, Central trade union and persons of eminence who shall be appointed by the central government. It should be kept in mind that the ex-officio Chairman of this Board shall be the Minister in-charge of Ministry of MSME. Excluding the ex-officio members, the tenure of the members in this Board shall be for two years only. The Central Government also has the power to remove any member of the Board from it, if he is adjudged as insolvent or of unsound

mind by a competent court, if any member refuses to act or becomes incapable of acting as a member of the Board or if any member has been convicted of an offence that involves moral turpitude.

Functions:

The Board has the power to associate with such persons whose assistance and advice will guide in its functioning. The chairperson of this board can invite ministers of State Governments associated with MSMEs or representatives of associations of MSMEs for at least two meetings of the Board conducted in a year. The National Board for Micro, Small and Medium Enterprises performs the following functions:-

- (a) It examines those factors which are affecting the promotion and development of micro, small and medium enterprises.
- (b) It reviews the policies and programmes of the Central Government which are aimed at facilitating the promotion, development and enhancing competitiveness of MSMEs. It also reviews the impact of such policies and programmes on these enterprises;
- (c) The Board is entitled to make recommendations to the Central Government on the factors affecting promotion and development of MSMEs. It can also make recommendations on any other matter referred by the Central Government which is necessary for expediting the promotion, development and increasing the competitiveness of the MSMEs; and
- (d) This Board also advises the Central Government on matters related to the use of the Funds constituted under section 12 of this Act.

So in this part we have learnt about the NBMSME, its constitution and functions.

Stop to Consider

- ◆ MSMEs have been classified as Manufacturing and Service enterprises.
- ◆ Section 7 of the Act has defined all the three terms.
- ◆ The old definition of MSMEs has been replaced with a new definition effective from 1st July 2020.

- ◆ The old definition defined MSMEs on the basis of only one criterion- investment in plant and machinery for manufacturing enterprises or Equipment for service enterprises.
- ◆ The new definition uses two criteria for defining MSMEs: Investment in Plant and Machinery/Equipment and Turnover.
- ◆ The MSMED Act 2006 has provided for the constitution of a National Board for Micro, Small and Medium Enterprises for development of MSMEs in the country.
- ◆ The sixth NBMSME constituted on 2nd February 2021 is functioning.

3.4.4 Advisory Committee

Now we shall learn about the advisory committee. Chapter III and Section 7(2) of the MSMED Act, 2006 has laid down the provisions for constituting an Advisory Committee. This Committee shall be formed by the Central Government.

Constitution:

The Chairman of the Advisory Committee shall be the Secretary of Ministry of Micro, Small and Medium Enterprises. The members of this Committee shall consist of five officers of the Central Government, three representatives of the State Governments, and one representative from each of the associations of micro, small and medium enterprises. The Member-Secretary of the National Board for Micro, Small and Medium Enterprises and the ex officio Member-Secretary of the Advisory Committee shall be the same person.

Functions:

Now we shall discuss the functions of the Advisory Committee.

- The Advisory Committee is entitled to examine the matters referred to it by the National Board for Micro, Small and Medium Enterprises. After due consideration of the matter, the committee shall provide its recommendations to the NBMSME.
- The Central Government may take advice of this Committee on matters like the following -
 - ◆ Measures for promotion and development (Section 9),

- ◆ Credit facilities (Section 10),
 - ◆ Procurement preference policy (Section 11),
 - ◆ Funds (Section 12)
 - ◆ Administration and utilisation of Funds (Section 14).
- The State Government may also take advice of the Advisory Committee.
 - While giving recommendations or advice to the Central Government or State Government or the NBMSME, the Advisory Committee should consider the following:
 - ◆ the level of employment in the enterprises;
 - ◆ the level of investments in plant and machinery or equipment in the enterprises;
 - ◆ the need of higher investment in plant and machinery or equipment for technological upgradation, employment generation and enhanced competitiveness;
 - ◆ the possibility of promoting and diffusing entrepreneurship in micro, small or medium enterprises;
 - ◆ the international standards for classification of small and medium enterprises.

So in this part we have learnt about the Advisory Committee, its composition and functions.

Self Asking Questions

1. Examine the functioning of the National Board for Micro, Small and Medium Enterprises and Advisory Committee.

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2. Do you think the recent definition of MSMEs is comprehensive in all respects? Give reasons.

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3.4.5 Memorandum of Micro, Small and Medium Enterprises

Section 8 of the MSMED Act, 2006 lays down the provisions for Memorandum of Micro, Small and Medium Enterprises. According to this provision, when a person wants to establish a micro, small or medium enterprise either in the manufacturing or service sector, he/she shall file the memorandum of micro, small and medium enterprises. This memorandum should be filed with the appropriate authority and this authority will be specified by the Central or the State Government. The Central government specifies the form of the memorandum, the procedure of filing the memorandum and other related matters after taking recommendations from the Advisory Committee in this respect. The Central Government specifies the authority for filing the memorandum by a medium enterprise through a notification. For micro and small enterprise, the State Government specifies the authority through a notification for filing the memorandum.

There are two types of Memorandum. These are known as Entrepreneur's Memorandum part – I (EM-I) and Entrepreneur's Memorandum part – II (EM-II). This Memorandum has to be filed with the General Manager, District Industries and Commerce Centres (DICCC) located in each district of the states. This is the competent authority for filing Memorandum by the entrepreneurs of Micro, Small and Medium Enterprises.

Check Your Progress

1. The Micro, Small and Medium Enterprises Development Act was passed in _____. (Fill up the blank)
2. National Board for Micro, Small and Medium Enterprises shall meet once in six months in a year. (State whether true or false)
3. The Advisory Committee shall consist of not more than six representatives of the State Governments. (State whether true or false)
4. The State Government shall specify the authority with which a micro or small enterprise may file the memorandum for MSMEs. (State whether true or false)
5. The National Board for Micro, Small and Medium Enterprises reviews the _____ of the Central Government. (Fill up the blank)
6. The _____ advises the Board, Central and State Governments.

3.4.6 Measures for Promotion, Development and Enhancement of Competitiveness of Micro, Small and Medium Enterprises

A number of measures have been taken by the Government for the development of the Micro, Small and Medium Enterprises in the country. In this part we shall learn the different provisions provided by the MSMED Act, 2006 for the promotion, development and increasing competitiveness of the MSMEs.

Assistance to enterprises (Section 9): According to Section 9 of the Act, the Central Government at certain times issue notifications for development of skill in entrepreneurs, employees and management, assistance for technological upgradation, marketing or infrastructure facilities with the objective of strengthening the competitiveness of micro, small and medium enterprises.

Credit facilities (Section 10): This section highlights that the policies and practices related to credit advanced towards the micro, small and medium enterprises shall be progressive. This will also be specified in the guidelines or instructions issued by the Reserve Bank from time to time. Such steps will ensure timely and smooth flow of credit the MSMEs, minimise the chances of sickness and enhance the competitiveness of such enterprises.

Procurement preference policy (Section 11): For facilitating promotion and development of micro and small enterprises, the Central Government or the State Government may notify preference policies in respect of procurement of goods and services produced and provided by micro and small enterprises. Such procurement shall be made by Government Ministries or departments or its aided institutions and public sector enterprises from the micro and small enterprises.

Funds (Section 12): One or more Funds may be constituted by government notification for crediting any grants made by the Central Government under Section 13.

Grants by Central Government (Section 13): The Central Government may credit to the Fund or Funds by way of grants an amount of money as the Government may consider necessary after due appropriation has been made by the Parliament by law for this matter.

Administration and utilisation of Fund or Funds (Section 14): It consists of the following provisions:

- 1) The Central Government shall have the power to administer the Fund or Funds in the prescribed manner.
- 2) The Fund or Funds should be utilised only for the measures specified in section 9 of the Act, i.e. promotion, development and enhancing competitiveness of the MSMEs.
- 3) The Central Government would be responsible for the coordination, timely release of the amount and its proper utilisation.

Thus we have learnt a number of measures provided in the MSMED Act 2006 for the development of MSMEs and increasing their competitiveness.

Stop to consider

- Chapter III and Section 7(2) of the MSMED Act, 2006 has laid down the provisions for constituting an Advisory Committee.
- The Member-Secretary of the National Board for Micro, Small and Medium Enterprises and the ex officio Member-Secretary of the Advisory Committee shall be the same person.
- The Advisory Committee advises the Board, Central and State Governments.
- When a person wants to establish a micro, small or medium enterprise, he/she is required to file the Memorandum of Micro, Small and Medium Enterprises.
- The MSMED Act 2006 has provided for a number of measures for promotion, development and enhancement of competitiveness of Micro, Small and Medium Enterprises.
- Some of these measures are assistance to enterprises, credit facilities, procurement preference policy, grants by Central government.

3.4.7 Delayed payments to Micro and Small Enterprises

Now let us learn the different provisions associated with the delayed payments to Micro and Small Enterprises.

Liability of buyer to make payment (Section 15): When a supplier supplies any goods or renders any services to a buyer, it is the duty of the buyer to make payment on or before the date agreed between him and the supplier

in writing. When there is no agreement regarding this date, buyer has to make the payment before the appointed day. However, the period agreed upon between the supplier and the buyer in writing shall not exceed 45 days from the day of acceptance.

Date from which and rate at which interest is payable (Section 16): In case a buyer fails to make payment of the amount to the supplier as per section 15, the buyer shall be liable to pay compound interest with monthly rates to the supplier on that due amount. The period for interest shall begin from the appointed day or the date immediately following that date agreed upon by the buyer and supplier. Interest is charged at 3 times of the bank rate notified by RBI. According to Section 17, the buyer is solely responsible and liable to pay the due amount to the supplier.

Establishment of Micro and Small Enterprises Facilitation Council (Section 20): Now we shall understand about the Micro and Small Enterprises Facilitation Council. The State Government may establish one or more Micro and Small Enterprises Facilitation Councils at the time and place as may be required. Section 21 lays down the composition of this Council as discussed below-

1) This Council shall consist of three to five members who shall be appointed from among the following categories, namely:-

- (i) Director of Industries or any other officer not below the rank of Director in such State Government Department that has administrative control of the micro, small and medium enterprises;
- (ii) one or more representatives from associations of micro or small enterprises in the State;
- (iii) one or more representatives from banks and financial institutions that lend to micro or small enterprises; or
- (iv) one or more persons having special knowledge in the field of industry, finance, law, trade or Commerce.

2) The Director who is appointed under point (i) would be the chairperson of this Council.

3) The State Government prescribes the composition of this Council, the manner of filling up vacancies of its members and the functions to be discharged by the members.

After learning about the composition of the Facilitation Council, now let us understand about the role played by this council for dispute settlement among

disputing parties, i.e. the buyer and suppliers. Any disputing party under Section 17 for delayed payment related issue may approach this Facilitation Council. When such a reference is received by this Council, it has two options. The Council may itself conduct conciliation on the matter or refer it to a centre providing alternate dispute resolution services. If the disputing parties are not satisfied then the Council conducts arbitration. The process of arbitration may be conducted by the Council itself or refer it to a centre providing alternate dispute resolution services. Any dispute referred to this council shall be decided within ninety days.

Check Your Progress

1. Liability of buyer to make payment is included in Section 15 of the MSMED Act. (State whether true or false)
2. The Micro and Small Enterprise Facilitation Council shall consist of _____ members. (Fill up the blank)
3. Credit facilities for MSMEs under Section 10 aims at enhancing _____ of the MSME enterprises. (Fill up the blank)
4. There is no provision in the MSMED Act for Memorandum for MSMEs. (State whether true or false)
5. Mention one measure for enhancing MSME competitiveness.
6. In case of delayed payment, the buyer is liable to pay _____ interest to the supplier. (Fill up the blank)
7. When was the National Board for MSME formed for the first time?

Self Asking Questions

1. Elaborate the role played by the Micro and Small Enterprises Facilitation Council for dispute settlement.

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2. Government from the Micro and Small Enterprises.

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3.5 Summing up

The MSMEs play a significant role in the Indian economy. Entrepreneurial growth is made possible through establishment of MSMEs. The MSME sector contributes significantly to the Gross Domestic Product (GDP) of India.

The term 'Micro, Small and Medium Enterprises' (MSMEs) evolved subsequent to the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Previously the term Small scale industry was prevalent.

The Micro, Small and Medium Enterprises Development Act, 2006 came into force in 2006. The MSMED Act 2006 has brought about many landmark changes. The primary objective behind this act is to develop MSMEs and increase their competitiveness. MSMEs have been classified as Manufacturing and Service enterprises.

Section 7 of the Act has defined terms Micro enterprise, Small enterprise and Medium enterprise. Enterprises are classified as manufacturing and service enterprises. Manufacturing MSMEs have been defined on the basis of their investment in Plant and machinery. Service MSMEs have been defined in terms of investment in equipments. In both these two classes of MSMEs, investment in land and building for the purpose of defining the investment limits has been excluded. This definition has been replaced by a new definition of MSMEs effective from 1st July 2020.

The old definition defined MSMEs on the basis of only one criterion- investment in plant and machinery for manufacturing enterprises or Equipment for service enterprises. The new definition uses two criteria for defining MSMEs: Investment in Plant and Machinery/Equipment and Turnover.

The MSMED Act, 2006 has put forward a number of provisions for the promotion, development and increasing the competitiveness of the MSMEs. The various sections of the act includes these important aspects: Various definitions including the definition of MSME; the constitution and functioning of National Board for Micro, Small and Medium Enterprises, Advisory Committee; filing of Memorandum of Micro, Small and Medium Enterprises; measures for promotion, development and enhancement of competitiveness of Micro, Small and Medium Enterprises; provisions for delayed payments to micro and small enterprises.

The National Board for Micro, Small and Medium Enterprises examines policies and programmes of the government, makes recommendations to the Government and examines aspects that impact the competitiveness of the MSMEs. The sixth NBMSME constituted on 2nd February 2021 is functioning at present.

Chapter III and Section 7(2) of the Micro Small and Medium Enterprises Development Act, 2006 has laid down the provisions for constituting an Advisory Committee. The Advisory Committee advises the Board, Central and State Governments on matters related to the promotion and development of the MSMEs. The Member-Secretary of the National Board for Micro, Small and Medium Enterprises and the ex officio Member-Secretary of the Advisory Committee shall be the same person.

When a person wants to establish a micro, small or medium enterprise, he/she is required to file the Memorandum of Micro, Small and Medium Enterprises to the appropriate authority notified by the Government.

The Micro Small and Medium Enterprises Development Act 2006 has provided for a number of measures for promotion, development and enhancement of competitiveness of Micro, Small and Medium Enterprises. Some of these measures are assistance to enterprises, credit facilities, procurement preference policy, grants by Central government.

According to Section 15 and 16, the buyer should make payment to the supplier within the agreed date. In case the buyer fails to make payment, then he is liable to pay compound interest charged at 3 times of the bank rate notified by RBI.

The Act also provides for the establishment of a Micro and Small Enterprises Facilitation Council. This Council tries for dispute settlement among disputing parties, i.e. the buyer and suppliers. It conducts conciliation and arbitration and settles disputes referred to it within 90 days.

3.6 Model Questions

- a) Write a short note on National Board for Micro, Small and Medium Enterprises.
- b) Discuss the role played by Micro, Small and Medium enterprises in Indian economy.
- c) Give the original definition of Micro, Small and Medium Enterprises as per the MSME Act, 2006.

- e) What Measures have been taken for promotion, development and enhancement of competitiveness of Micro, Small and Medium Enterprises as per the MSMED Act, 2006?
- f) Explain the provisions related to delayed payments to Micro and Small enterprises.
- g) How are Micro, Small and Medium Enterprises classified at present?
- h) Define the following according to the MSMED Act, 2006:
 - i) Enterprise
 - ii) Goods
 - iii) Buyer
 - iv) Supplier
- i) Write a short note on Memorandum of Micro, Small and Medium Enterprises.
- j) Explain the role played by Micro and Small Enterprises Facilitation Council.
- k) What should the Advisory Committee consider before giving advice or recommendations to the Government or the Board?
- l) Discuss the constitution and functions of the Advisory Committee.
- m) Discuss the constitution and functions of the National Board for Micro, Small and Medium Enterprises.
- n) Make a comparison of the old and new definitions of Micro, Small and Medium Enterprises.
- o) Briefly explain the provisions of the Micro, Small and Medium Enterprises Development Act, 2006.

3.7 References and Suggested Readings:

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