

## Initiatives by Indian government to develop micro, small & medium enterprises

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### Abstract

The Indian government merged the Ministry of Small Scale Industries, Agro, Rural Industries into one Ministry called Micro Small and Medium Enterprises (MSMEs). There are many schemes initiated by the government but still there exist many problems that are faced by this sector. Most of the studies found that less than 10% of the MSMEs are able to access finance from financial institutions. Hence government in order to promote these organisations have started and initiated many schemes like: Procurement Preference Policy, providing access to easy credit policy, Coir Vikas Yojana, SFURTI scheme, ASPIRE scheme, TREAD for women empowerment, Pradhan Mantri MUDRA Yojana, reduced tax rates for micro, small and medium enterprises. Sustainable Development is need of the hour which demands that the industries and corporates carry on their production process without harming the environment. The paper also talks about the sustainable development and MSMEs which shows that this sector has a potential to grow the economy sustainably and contribute to the economic welfare.

**Keywords:** procurement preference policy, SFURTI, ASPIRE, MUDRA, TREAD, COIR vikas yojana, sustainable development

### Introduction

Despite many problems faced by this sector, Micro, Small and Medium Enterprises (MSMEs) have grown by leaps and bounds. In fact, MSMEs have performed better than many large scale organisations between 2001- 2006. The companies with the turnover of INR 50 crore-INR 100 crore witnessed an appreciation in the net profit by over 700% in 2001-2006 as compared to an increase of over 150% in net profit of many large organisations. The MSMEs even outperformed large enterprises in terms of operating profits and net sales during the same period. Source: (msmementor.in)

MSMEs are capable of creating employment with least amount of capital and in dispersed locations which makes MSMEs attractive to policy makers.

### Objective of the Study

To analyse various schemes launched by the government

under MSME Development Act, 2006 and otherwise from time to time and how these schemes have been helpful. The paper also talks about Sustainable Development and MSMEs in Indian context.

### Research Methodology

The secondary data from various journals, newspaper articles and government sites is taken for the research purpose.

### Definition of Micro, Small and Medium Enterprises (MSMES) According to the MSMED Act, 2006.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is set according to firm's investment in Plant and Machinery:

Table 1

| Type of Enterprise | Manufacturing enterprise            | Service enterprise                  |
|--------------------|-------------------------------------|-------------------------------------|
| Micro enterprise   | Investment in P&M up to INR 25 Lakh | Investment in P&M up to INR 10 Lakh |
| Small enterprise   | INR 25 Lakh – INR 5 crore           | INR 10 Lakh – INR 2 crore           |
| Medium enterprise  | INR 5 crore – INR 10 crore          | INR 2 crore – INR 5 crore           |

Source: (rbi.org.in)

### Opportunities for Micro Small and Medium Enterprises (MSMES)

The opportunities of setting up a MSME are manifold. Though the sector faces many problems but still the sector is growing continuously from the past many years.

- It serves as an ideal platform for entrepreneurs to produce products
- It has strong growth potential
- The investment required is low hence encouraging many young and middle class/poor people to use their

skills and start something new.

- Even though the investment required to start the firm under this sector is marginal, its contribution towards the domestic and foreign market is huge.
- The exports from this sector are increasing.
- It helps the emerging economies like ours by contributing to GDP.
- MSMEs are expected to become one of the fastest growing sectors of our economy in the coming years.

Source: ( Upendar & Ramulu, 2016)

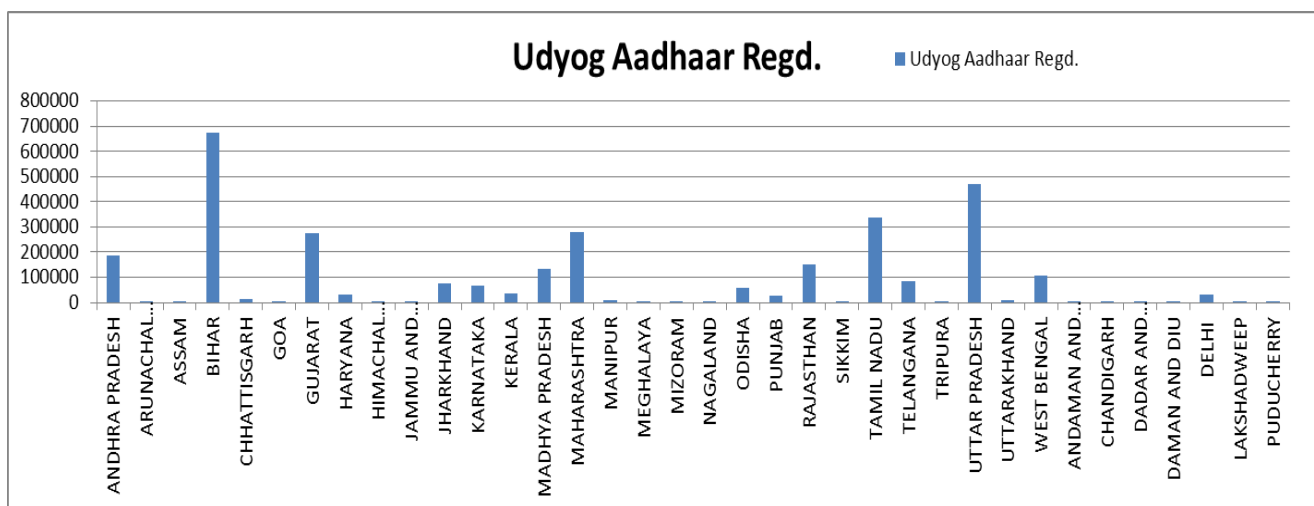
**Initiatives by Government for this Sector**

Government of India has taken several steps from time to time to encourage and ensure small industries growth. They are the powerhouse of the economy which provides employment to over 120 million people and contributes to around 46% of the total exports from India. Also, 55.3% of the total MSMEs are located in rural areas which help in creating regional balance and promoting equitable distribution of income. It is therefore important for the government to take steps to assist and nurture these enterprises as the advantages to the population and economy as a whole are manifold.

**Initiatives under MSMED Act, 2006**

- **UAM:** Micro Small and Medium enterprises Act,

2006 simplify the registration process for setting up of new MSMEs. The previous time consuming process has been replaced by simplified online filing of memoranda. The entrepreneurs located anywhere in the country can file a single online UAM (Udyog Aadhaar Memorandum), without payment of any fee, which would end the existing complications in filing of EM (Entrepreneurs Memorandum). The entrepreneurs get registered instantly with the help of UAM, thus making the process easy and paperless. Such an initiative by the Ministry is a crucial step to promote the ease of doing business for MSME in India.



(udyogaadhaar.gov.in)

Fig 1

This graph shows that out of total Udyog Aadhaar registrations, Bihar envisaged highest number of MSME getting registered. Out of total registrations of 3,067,834 in India, the total registrations in Bihar stood at 672,469 which is approx. 22% of total. Uttar Pradesh stood second with total registrations of 470,358 from the total which is approx. 15.3 % of the total. Hence, with the ease in process of registrations the number of enterprises getting registered is at pace.

- **Penalties:** The MSME Development Act, 2006 has also increased penalties for late payments which is imposed on all the buyers or organisations who delay the payments to small scale suppliers. The buyer is required to make payment on or before the agreed date and if the buyer fails to make the payment, he shall be liable to pay monthly compound interest to the small scale supplier from the appointed day or at three times of the bank rate notified by Reserve Bank. Any disputes with regard to amount due shall be made to the Facilitation Council of MSMEs by the State Government concerned. Source: (www.msme.gov.in)
- **Procurement Preference Policy:** Government has reserved 358 items which are exclusively to be bought from MSMEs. This has been done to support and provide assistance to these enterprises. For eg. Agricultural Implements like Hand Operated tools &

implements, Animal driven implements, Candle Wax Carriage, Bandage cloth, Barbed Wire, Brushes of all types, Buckets of all types, Cotton related products, Glass & Pressed Wares, Honey, Paper Tapes (Gummed), Pappads, Pickles & Chutney, Quilts, Umbrellas, handicraft items etc. Source: (dcmsme.gov.in)

- There is easy exit policy for sick and ailing industries, which are not able to recover, under this act.
- **Promotion and development:** In order to enhance the competitiveness of micro, small and medium enterprises the government of India has taken several initiatives like technological upgradation of MSMEs, training and developing various skills in management and employees, providing marketing assistance and helping to develop forward and backward linkages to ensure timely and good quality supplies and assistance.
- **Credit Facilities:** Banks extend collateral free loans upto INR 10 lakh to all such units that are financed under PMEGP (Prime Minister Employment Generation Programme) which are administered by KVIC. This collateral free loan limit can be increased, on the basis of good credit and financial record of the MSME, for upto INR 25 lakh, with the prior approval of appropriate authority. Each district of the state

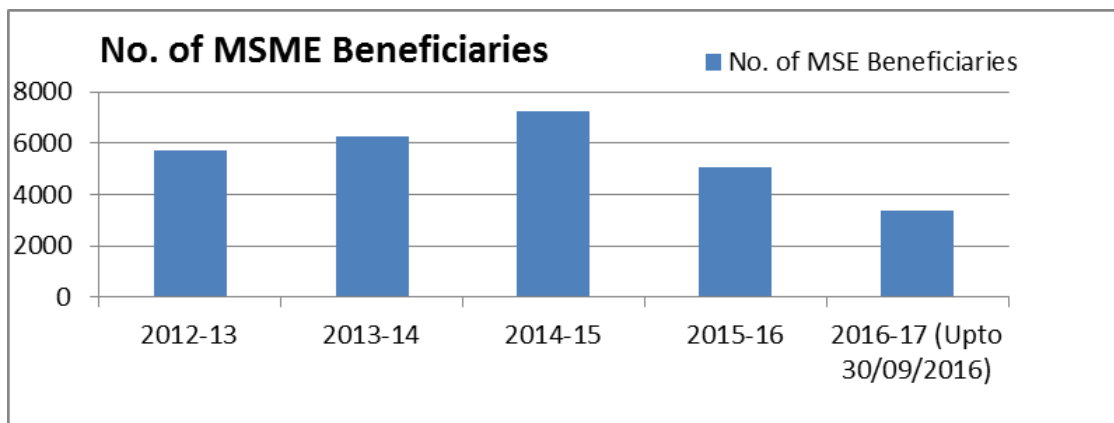
must consist of at least one specialised branch of Public sector banks. Source: (rbi.org.in)

**Other Initiates by Government to Promote this Sector**

- **Reduced tax rates for MSMEs in Budget 2017:** The government proposed a reduced income tax rate for enterprises with annual turnover of upto INR 50 crore from 30% to 25%. This move will benefit 96% of the

country's MSME sector. Source: (economictimes.indiatimes.com)

- **Credit Linked Capital Subsidy Scheme:** For the purpose of technology upgradation, MSMEs under this scheme can get a capital subsidy of approx 15% on the credit availed for technology upgradation with a maximum cap of INR 15 lakh.



Source: (msme.gov.in)

Fig 2

- According to the graph, the highest number of beneficiaries who availed benefit of credit linked capital subsidy scheme, stood at 7,246 in 2014-15 in which total amount of subsidy released was INR 448.85 crore.
- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** The main objective of this scheme is to organize the traditional industries into clusters to provide for their long term sustainability, employment, to enhance their skills, provide common facilities with improved tools and equipment for artisans and strengthening the cluster governance systems. To support Soft, Hard and Thematic interventions the maximum financial assistance provided for any particular project shall be INR 8 crore. The Revamped SFURTI scheme was started on 1st August 2014 with an outlay of Rs. 149 crore for developing 71 clusters (including coir) with coverage of approx 44500 artisans in the first phase. The guidelines were further revised on 30th June 2015 to streamline the approval process, fund flow and to remove the bottlenecks. Source: (msme.gov.in)
- **Coir Vikas Yojana:** The eligible coir exporters can get financial assistance up to INR 2 lakh to participate in the international fairs and promotion programmes. Also, assistance for publicity material upto 25% of the production cost with the maximum limit of INR 15000 can also be availed. (msme.gov.in)
- **Women Entrepreneurship (TREAD: Trade Related Entrepreneurship Assistance and Development):** Poor women generally do not have an easy access to funds and credit. Hence as per this scheme, the credit will be available through nodal NGOs to the women who apply for credit. These NGOs not only disburse credit to women but also provide them required training, counselling and assistance.
- **Schemes for National Small Industries Corporation (NSIC):** Under this scheme the government provides financial assistance to procure raw material for up to 90 days. Also, MSMEs are helped to avail bulk purchases and cash discounts. The NSIC and MSMEs have entered into a Memorandum of Understanding various Private sector banks and nationalised banks. With the help of a syndicate of these banks, NSIC arranges for loans/ credit support without any cost to MSMEs. (nsic.co.in)
- **Khadi and Village Industries Commission (KVIC):** KVIC established under KVIC act, 1956, is an organisation engaged in development and promotion of khadi and village industries by providing employment opportunities in rural areas and thereby strengthening the rural economy. (SHAIK, RAMESH, KUMAR, & BABU, 2017). The Ministry of MSME has set a target to employ 5 crore people in Khadi Industry over next five years. Plans have been made to introduce solar run spinning wheels in KVIC to boost the employment in the nation. Even though presently, Khadi constitutes less than 1% of the textiles in India, but with regular efforts Khadi sales have gone up from INR 35,000x crore in 2014, to INR 52,000 crore now. (PTI, 2017)
- **National Bank for Agriculture and Rural Development (NABARD, 1982):** NABARD aims at building a financially inclusive rural India by providing finance and refinancing support to build rural infrastructure. It even supervises Cooperative Banks and Regional Rural Banks and helps them to develop good banking practices. They even train handicraft workers and help them in providing a marketing platform for sale of their articles. (nabard.org)

- **Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE):** Launched in 2015 with a fund of INR 200 crore, ASPIRE has an objective to set up incubation centers to promote and accelerate entrepreneurship in rural and agro based industries and to develop technology centres. ([indiafilings.com](http://indiafilings.com))
- **SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises (SMILE, 2015):** This scheme with an investment size of Rs 10,000 crore, aims at providing soft loans to MSMEs to meet their required debt-equity ratio and to grab the opportunities for growth. The focus will be on the 25 identified Make In India sectors like: Automobile, Aviation, Chemical, Renewable Energy, Construction, Leather, Food Processing, Textile, Tourism, Railways etc. ([sidbi.in](http://sidbi.in))
- **Pradhan Mantri MUDRA Yojana:** MUDRA scheme i.e. Micro Unit Development and Refinance Agency works with the motto "Funding the Unfunded". As per NSSO survey of 2013, there are approx. 5.77 crore small and medium units in the country employing approx. 12 crore people. These people are outside the formal banking system to whom regular and proper finance is not available. To resolve these issues PMMY scheme was launched in April 2015, targeting the small business owners. The loan amount ranges from INR 50,000- INR 10 lakh. The amount of assistance is given in three categories/stages: SHISHU: upto INR 50,000; KISHOR: upto INR 5 lakh; TARUN: upto INR 10 lakh. It is said to benefit more than 58 million small business owners in the country. This scheme acts as an encouragement and boosts the capabilities of young entrepreneurs. The interest rate charged on such loans will depend upon the business and bank. The various public and private banks are participating in this scheme like: SBI, ICICI, Axis Bank, Bank of Baroda, United bank of India etc. ([mudra.org.in](http://mudra.org.in))

### **Sustainable Development and MSMEs**

Every economy wants to grow and develop in long run. But how many economies actually think of developing sustainably is the need of the hour. The nations and organisations must think and act in a sustainable manner so that they protect the environment and natural resources in the most efficient way. Hence, the present situation of the century makes it mandatory to change the concept of economic growth that is driven by high consumption and production and move towards the growth driven by sustainable production and consumption. In India, Sustainable Development is one of the leading political agenda. By 2017, the aim is to grow faster, inclusive and sustainably. Every year around 12 million young people enter the market to seek job opportunities. To absorb such large share of people, the micro, small and medium enterprises are expected to be the key players in the market.

The MSMEs are engaged in activities like handicrafts and handloom industry, soap and paper industry, cotton, honey industries etc. Many of these enterprises are directly dealing with agriculture and farm products,

hence it is the responsibility of these enterprises to use the resources judiciously and with proper care so that it does not lead to pollution or extinction of any resource. Also, to promote energy saving in MSMEs in India, SIDBI and other non-banking financial institutions are providing financial assistance to MSMEs. The main motive of such assistance is to make sure that MSMEs invest in energy saving plant and machinery to reduce the emission of greenhouse gases and pollution thereby minimizing the carbon footprint and enhancing profitability. The financial assistance even caters to the establishment of Common Effluent Treatment Plant (CETP) facilities and other emission reduction measures. ([sidbi.in](http://sidbi.in))

### **Conclusion**

Today Millions of people depend upon MSMEs sector for employment. The main advantage of this sector is employment generation and creating regional balance but the challenges like low level of infrastructure, lack of timely and adequate finance, competition from foreign market are the major impediments to its growth. The various schemes like Pradhan Mantri Mudra Yojana, SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises, Procurement Preference Policy, Khadi and Village Industries Commission, TREAD for helping women in this sector, Schemes for National Small Industries Corporation (NSIC), NABARD, reduced tax rates under Budget 2017 for enterprises with annual turnover of up to INR 50 crores etc. shows that the Government all around the country is very serious for the growth and development of this sector and is taking steps from time to time to promote this sector. Since this sector forms a major part of our economy so it is important for this sector to grow sustainably and use the resources judiciously without harming the environment.

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