MSMED Act, 2006- A Promotional Tool for MSMEs in India

Updesh Khinda, Ph.D Research Scholar, Department of Research, Innovation and Consultancy, Punjab Technical University, Jalandhar, Punjab, India
Gagandeep Kaur, Ph.D Research Scholar, Department of Research, Innovation and Consultancy, Punjab Technical University, Jalandhar, Punjab, India
Dr. Nachattar Singh, Principal, Agriculture Cooperative Staff Training Institute, Jalandhar, Punjab, India
Dr. H.S. Sandhu, Principal, CKD Institute of Management and Technology, Amritsar, Punjab, India

Abstract
All over the map, MSMEs are acknowledged as a conspicuous constituent of national economies as these contribute significantly to GDP, employment generation, utilization of local skills and resources, equitable distribution of income and wealth and poverty alleviation. As MSMEs employ labour intensive technology, these absorb larger population of highly populated country like India. It was unearthed that in India, the total number of operating MSMEs is 447.73 lakh and these units provide employment opportunities to 1012.59 lakh (Annual Report, MSMEs, 2012 -13). It has been identified that MSMEs contribute nearly 8 percent of the country’s GDP, 45 percent of the manufacturing output and 40 percent of the exports (Report of Ministry of MSME, Government of India (GOI), 2014). Being cognizant about the crucial role of MSMEs, Govt. enforced MSMED Act, 2006 which redefines the meaning of MSMEs. In India, prior to the enactment of this act, small industries were comprised of tiny, cottage, traditional, and village enterprises. This Act not only attempts to expedite the development and global competitiveness of MSMEs but also introduces expanded advisory functions. It legally recognizes the concept of “enterprise” which comprises both manufacturing and service entities. It seeks to integrate the three tiers of these enterprises, namely, micro, small and medium (Ministry of MSME, GOI). In present study an effort is being made to have an overview of MSMED Act, 2006 and its impact and to sketch various schemes and programmes of government for the promotion of MSMEs. This paper also highlighted the key challenges and problems comprising financial constraints, poor technology and poor marketing facilities faced by MSMEs in India and it finally recommended some suggestions to policy makers to make MSME Industry more competitive and efficient at global level in this highly competitive era. The data used for analysis in present study is secondary in nature and collected from various reliable published sources of govt. such as Statistical abstracts of India, Fourth All India Census of MSMEs, Annual Reports of various departments of GOI, Annual reports of Ministry of MSME, Report of World Bank Group (International Financial Corporation) etc.

Keywords: MSME Act 2006, GDP, GOI, Small Industries, Promotion, Employment, Poverty alleviation.

Introduction
"Imparting greater vitality and growth impetus to the Micro, Small and Medium Enterprises (MSME) in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness.”

-Development Commissioner (MSME, GOI)

Micro, Small and Medium Enterprises sector has emerged as a strong pillar of the Indian economy. MSMEs are playing climactic role in Indian economy in terms of employment generation, employing low level of Investment, marking down regional disparities, contributing significantly to GDP and augmenting equal distribution of income and wealth. The Role of MSMEs in the development of the country is well realised. As quoted by K H Maniyappa, Union Minister MSMEs “The MSME sector is the nursery of entrepreneurship and has been recognised as the engine of growth. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments through various initiatives. The MSMEs also have a vital role in the dispersal of industries and generation of employment opportunities” (Economic Times, 2013). Over the years, the small scale sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipment’s, etc. As per the quick estimates of 4th All-India Census of MSMEs number of Manufacturing Enterprises 7.3 million, number of Service Enterprises is 18.8 million, number of Women Enterprises is 2.1 million (8%), number of Rural Enterprises is 14.2 million (54.4%), Employment is 59.7 million and Per unit employment is 6.24. This sector has a high growth potential as it requires less amount of Investment, practices labour intensive techniques and having low gestation period. The Office of Development Commissioner (MSME) is the apex body to advise, coordinate and formulate policies and programmes for the upliftment and promotion of the MSME Sector (DC, MSME). SME sector has acquired significant place with the enactment of Micro, Small and

**MSMED Act, 2006:**
The Parliament of India has enacted the Micro, Small and Medium Enterprises Development Act, 2006 to provide various facilities to MSMEs comprising: skill and training development, technology upgradation, improved credit delivery, marketing support, setting up of common facility centres, etc. It aims at enhancing, promoting and developing the MSMEs to make them competent in this fast changing and highly competitive economic environment. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into following two Classes Manufacturing Sector and Service Sector.

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

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in plant &amp; machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed twenty five lakh rupees</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than twenty five lakh rupees but does not exceed five crore rupees</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than five crore rupees but does not exceed ten crore rupees</td>
</tr>
</tbody>
</table>

**Service Sector**

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in equipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed ten lakh rupees;</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than ten lakh rupees but does not exceed two crore rupees</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than two crore rupees but does not exceed five crore rupees</td>
</tr>
</tbody>
</table>

*Source: Ministry of MSME, GOI, 2007*

**Objectives:**
a) To trace out the MSMED Act, 2006
b) To study the promotional and developmental activities of MSMED Act, 2006
c) To study the impact of MSMED Act, 2006
d) To highlight the problems and challenges of MSMEs in India
e) To recommend some suggestive measures for MSMEs

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

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

**Entrepreneurship Skill and Training Development:**
In this present aeon of emulous, the Entrepreneurs should equip themselves with Professional and Technical training. For this, the government plans to set up 100 incubators under the auspices of engineering and technology institutions by 2015. There is also a proposal to expand services of MSME Development Institutes and technology incubators to provide hand-holding and advisory support to enterprises. The Ministry of MSME launched a special programme, namely, 'Outreach Programme for Skill Development in Less Developed Areas' in September, 2006. Under this programme, the field officers of the Ministry organize short-term skill development programmes in the less developed areas. Such short-term courses are tailor-made for these areas so as to enable trainees to get employment or start self-employment ventures. These programmes are of short duration of 1-3 weeks and the activity selected for trainees are relevant to the local requirement.

GOI has established various Institutes exclusively for the Training, Skill Development, Entrepreneurship Development, Organising Exhibitions, Conferences, Seminars etc.

a) National Institute for Entrepreneurship and small Business Development (NIESBUD)
b) National Institute for Micro, Small and Medium Enterprises (NIMMSME)
c) Indian Institute for Entrepreneurship (IIE)

**MSME-Technology Development Centre, Agra:**
“Quality is not an act, it is a habit.” - Aristotle

MSME-TDC, Agra, (GOI) provides a comprehensive range of services to the small scale industrial sector in
terms of technical assistance, provision of workshop facilities, training and other general consultancy services. Among them Six Sigma Green Belt is considered as a mark of quality excellence in industries. MSME-TDC, Agra organises training programmes all over India.

**Market Linkages and Marketing Support:**
Scanty market linkages are considered one of the indispensable constraints for MSMEs, which leads towards industrial sickness. Poor marketing facilities and ignorance about those facilities is the major problem of MSMEs. GOI has implemented various policies to escalate market linkages of MSMEs.

**The National Manufacturing Competitiveness Programme (NMCP):**
In the 2005-06 Budget, GOI has announced formulation of The National Manufacturing Competitiveness Programme (NMCP), specifically to support the Small and Medium Enterprises (SMEs) to make them globally competitive. The following four areas would be covered:

a) Manufacturing and Engineering  
b) Marketing  
c) Financial and general Management  
d) Information Technology

**Building Awareness on Intellectual Property Rights for the Micro, Small & Medium Enterprises (MSMEs):**
The scheme for “Building Awareness on Intellectual Property Rights (IPR), for the Micro, Small & Medium Enterprises (MSMEs) has been set into motion to capacitate the MSME sector in terms of effectively handling the tools of Intellectual Property Rights (IPR). The main features of the scheme are:

a) Awareness/Sensitization Programmes on IPR  
b) Pilot Studies for Selected Clusters/Groups of Industries  
c) Interactive seminars/Workshops;  
d) Specialised Training  
e) Assistance for Grant on Patent/GI Registration  
f) Setting up of IP  
g) Facilitation Centre (IPFC)  
h) Interaction with International Agencies

**Technology Adoption:**
Most of the MSMEs are employing obsolete technologies and they don’t have much access to modern and latest technology. Due to this they usually fail to meet the qualitative standards of international Enterprises. So Government of India revised guidelines on Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of MSMEs on April 20, 2006, which aims at facilitating technology upgradation by providing upfront capital subsidy to MSMEs, including tiny, khadi, village and coir industrial units for modernisation of their production equipment (plant and machinery) and techniques.

**Cluster Development:**
The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GOI) has adopted the cluster development approach as a main strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs). Clustering of units also enables providers of various services to them, including banks and credit agencies to provide: infrastructural facilities in the new and existing industrial, financial facilities, marketing facilities and training facilities and redressal of grievances of MSMEs more economically and timely, thus reducing costs and improving the availability of services for these enterprises.

**Exhibitions/ Workshops/ Seminars/ Conferences:**
Department of MSMEs of GOI organises various Exhibitions/ Workshops/ Seminars/ Conferences to train and making people aware about various Govt. Sponsored Programmes and Schemes.

**Credit Guarantee Fund:**
The objective of CGF is to make credit available to micro and small enterprises without collateral/third party guaranties. The scheme is being operated through the credit guaranty fund trust for MSMEs set up jointly by the government of India and SIDBI

**Enhanced Credit Flow to the MSMEs:**

**Finance Availability:**

a) The government provides financing support to the MSME sector through the Small Industries Development Bank of India (SIDBI);  
b) SIDBI provides wholesale financing support to small financial institutions such as NBFCs that operate in the MSME sector.  
c) SIDBI also provides retail finance support to MSMEs, particularly in the growth stage through schemes such as Growth capital and Equity assistance for MSME (GEMS).  
d) In addition to providing debt finance, SIDBI has also set up SIDBI Venture Capital Limited to supply equity to the MSME Sector
National Small Industries Corporation (NSIC):
Facilitating the growth of small Enterprises by fulfilling their requirements in areas of Marketing, Finance and Technology etc. by following ways:

a) Establishing Marketing Intelligence Cell
b) Marketing Development Assistance (MDA) Scheme
c) Bank Credit Facility
d) Technology and Training
e) National and International Exhibitions
f) Raw Material Assistance

task Force on MSMEs:
The Government set up a Credit Guarantee Fund to provide relief to those micro and small entrepreneurs who are unable to pledge collateral security in order to obtain loans for the development of their entrepreneurs who are unable to pledge collateral security in order to obtain loans for the development of their enterprises. The Task Force submitted its Report in record time and has made recommendations in the areas of credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology, skill development, taxation and development

National Board for Micro, Small and Medium Enterprises (NBMSM):
a) To facilitate coordination and inter-institutional linkages among various Ministries, State Governments, Banks, Financial Institutions, MSME- Industries Associations, etc., the NBMSME has been constituted as the apex, statutory, advisory body to advise the Government on all issues pertaining to the MSME sector by constituting:
b) Marketing Intelligence Cell
c) Marketing Development Assistance (MDA) Scheme

The National Board for Micro, Small and Medium Enterprises (NB-MSME):
The Government established NB-MSME under the Micro, Small and Medium Enterprises Development Act, 2006. Its core functioning areas include: promotion and development of MSMEs, review of existing policies and programmes and make recommendations to the Government in formulating and implementing the policies and programmes for MSMEs.

Office of Development Commissioner (O/o DC, MSMEs):
The Micro, Small and Medium Enterprises – Development Organisation (MSME-DO) earlier known as SIDO, is headed by the Additional Secretary & Development Commissioner (MSME), being an apex body for formulating and overseeing the implementation of the policies for the development of MSME in the country, is playing a very positive and constructive role for strengthening this vital sector. It provides following services:

a) Advising the Government in policy formulation for the promotion and development of MSME
b) Providing techno-economic and managerial consultancy
c) Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of MSME’s

O/o DC (MSMEs) functions through a network of:
a) MSMEDISs Regional Testing Centres,
b) Footwear Training Institutes,
c) Production Centres
d) Field Testing Stations and specialized institutes.

Over All Profile of Micro, Small and Medium Enterprises (MSMEs):

<table>
<thead>
<tr>
<th>Number of MSMEs</th>
<th>26.1 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Manufacturing Enterprises</td>
<td>7.3 million</td>
</tr>
<tr>
<td>Number of Service Enterprises</td>
<td>18.8 million</td>
</tr>
<tr>
<td>Number of Women Enterprises</td>
<td>2.1 million (8%)</td>
</tr>
<tr>
<td>Number of Rural Enterprises</td>
<td>14.2 million (54.4%)</td>
</tr>
<tr>
<td>Employment</td>
<td>59.7 million</td>
</tr>
<tr>
<td>Per unit employment</td>
<td>6.24</td>
</tr>
<tr>
<td>Per unit fixed investment</td>
<td>Rs.33.78 lakh</td>
</tr>
<tr>
<td>Per unit original value of Plant &amp; Machinery</td>
<td>Rs.9.66 lakh</td>
</tr>
<tr>
<td>Per unit gross output</td>
<td>Rs.46.13 lakh</td>
</tr>
<tr>
<td>Employment per one lakh fixed investment</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Source: Quick Estimates of Fourth All India Census of MSMEs, 2006-07
Distribution of Working Enterprises by Sector

- Micro = 94.94%
- Small = 4.89%
- Medium = 0.17%

Source: Quick Estimates of Fourth All India Census of MSMEs, 2006-07

Percentage Distribution of Enterprises by gender of Owner in Rural areas

- Female = 15.27%
- Male = 84.37%

Source: Quick Estimates of Fourth All India Census of MSMEs, 2006-07

Growth and Performance of MSMEs in India (2001-02 Onwards)

Performance of SSIs/MSMEs based on factors:
- Total Working Enterprises, Employment, Gross Output

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>Total Working Enterprises (In Lakhs)</th>
<th>Employment (In Lakhs)</th>
<th>Gross Output (In Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2001-02</td>
<td>105.21</td>
<td>249.33</td>
<td>2822.00</td>
</tr>
<tr>
<td>2</td>
<td>2002-03</td>
<td>109.49</td>
<td>260.21</td>
<td>3148.00</td>
</tr>
<tr>
<td>3</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>3645.00</td>
</tr>
<tr>
<td>4</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>4297.00</td>
</tr>
<tr>
<td>5</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>4975.00</td>
</tr>
<tr>
<td>6</td>
<td>2006-07</td>
<td>351.76</td>
<td>805.23</td>
<td>1351383.45*</td>
</tr>
<tr>
<td>7</td>
<td>2007-08</td>
<td>377.37</td>
<td>842.23</td>
<td>1435179.26</td>
</tr>
<tr>
<td>8</td>
<td>2008-09</td>
<td>393.70</td>
<td>881.14</td>
<td>1524234.83</td>
</tr>
<tr>
<td>9</td>
<td>2009-10</td>
<td>410.82</td>
<td>922.19</td>
<td>1619355.53</td>
</tr>
<tr>
<td>10</td>
<td>2010-11</td>
<td>428.77</td>
<td>965.09</td>
<td>1721553.42</td>
</tr>
<tr>
<td>11</td>
<td>2011-12</td>
<td>447.73</td>
<td>1012.59</td>
<td>1834332.05</td>
</tr>
</tbody>
</table>

II. Trends in MSMEs Growth since Enactment of MSME Act, 2006

Source: Annual Report 2012-13, GOI, Ministry of Micro, Small and Medium Enterprises

III. Trend of Annual Growth Rate:

Source: Annual Report 2012-13, GOI, Ministry of Micro, Small and Medium Enterprises
Data Analysis:
It is clearly identified that the number of Total Working Enterprises before MSMED Act, 2006 was significantly lower as compared to after the enactment of Act. In 2005-06 the Employment generated by SMEs was 294.91(lakh) and after MSMED Act, 2006 number of people employed in MSMEs became 842.23. The Gross output in 2005-06 was 497842.00 and increased multifold times i.e. 1351383.45 in 2006-07. The growth of MSMEs has shown an increasing trend from 1.74 (lakh) to 2.82 (lakh) during 2006-07 to 2011-12. The annual growth rate increased at increasing rate during 2007-08 to 2011-12. It is observed that MSME Sector has shown a tremendous improvement in terms of Employment, growth rate and productivity in the past 6-7 years. Thus it is inferred that MSME Act, 2006 has a strong positive effect on Micro, Small and Medium Enterprises.

Key Challenges and Problems of MSMEs in India:
By analysing various reports and published material of GOI, it came to light that MSMEs face following problems in general:

a) Poor supply of raw material,
b) Rising cost of inputs
c) Lack of adequate marketing facilities
d) Entry of large players due to globalization poses challenges for MSME sector.
e) Obsolete technology
f) Lack of skilled and trained Manpower
g) Lack of Entrepreneurship Education
h) Ignorance of govt’s Policies and Plans on the part of Entrepreneurs
i) Problem of Designing and packaging
j) Problem of Warehousing
k) Inappropriate Infrastructure
l) Insufficient Banking and Credit facilities

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

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