

Subject- Entrepreneurship

Topics for Today's Class (18/04/2020)

- **Meaning of Micro, Small & Medium Enterprises (MSMEs)**
- **Benefits Available to MSMEs**
- **Challenges faced by msmes**
- **Opportunities in msmes**
- **Conclusion**

Micro, Small & Medium Enterprises (MSMEs)

Objective & Necessity of MSMED Act

A single comprehensive act for development and regulation of small enterprises had been a long outstanding demand of the Sector so as to free it from a plethora of laws and regulations and visit of inspectors, which it had to face with limited awareness and resources. The need has been emphasized from time to time by stake holders at different fora. In addition, recommendations to provide for a proper legal framework for small sector to relieve it of the requirements to comply with multiple rules and regulations were made by the Committees such as the Abid Hussain Committee (1997) and Study Group under Dr. S.P. Gupta (2000). While the small scale industries continued to be important for the economy, in the recent years the small scale services have also emerged as a significant sector contributing substantially to the economy and employing millions of workers. Therefore, it became necessary, as is the practice worldwide, to address the concerns of both the small scale industries and services together and recognize them as small enterprises. The worldwide as a composite sector. In a fast growing

economy like ours, the natural mobility of small enterprises to medium ones has to be facilitated through appropriate policy interventions and legal framework. With these objectives in view, the Government came with an exclusive legislation for micro, small and medium enterprises known as the Micro, Small and Medium Enterprises Development Act, 2006.

Micro, Small & Medium Enterprises

Definitions of Micro, Small & Medium Enterprises In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1. **Manufacturing Enterprises**-he enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are **defined in terms of investment in Plant & Machinery.**
2. **Service Enterprises**:-The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.**

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

The Major Highlights of MSMEs’?

Over the past five decades, Micro, Small and Medium Enterprises (MSME) has contributed enormously to the socio-economic development of the country. MSME has a got major share of jobs, production, and exports. They contribute nearly 8 % of the country’s GDP, 45 % (percent) of the manufacturing output and 40% (percent) of the exports. They provide the largest share of employment after agriculture. It’s the primary responsibility of the State Government to promote and develop MSMEs’.

As per the reports of the Ministry of Micro Small and Medium Enterprises, Government of India; the MSME sector is serving numerous benefits towards the inclusive growth of the Indian economy. Major contribution of MSMEs is as follows:

1. It provides opportunities at comparatively lower cost;
2. It helps in the industrialization of rural and backward areas;
3. Reduce Regional imbalances through the optimum utilization of their resources;
4. More equitable distribution of national income and wealth;
5. Major partner in the process of inclusive growth.

Benefits Available to MSMEs

- 1. Priority Lending:** Our first MSME benefit is priority lending. Whether you’re the proud owner of a cutting-edge technology business or a masala packing company, employing rural women, credit and loan is something that your business will inevitably require for long- and short-term financing. Banks, by virtue of the directions issued by the Reserve Bank of India, have certain earmarked funds that have to mandatorily be given to MSME businesses. Producing MSME certificate benefits to entitle one to avail this loan on a priority basis with fewer hassles.
- 2. Fewer interest rates and availability and access to greater credit:** In the absence of collateral security (any property/cash given as a security against a loan), many business owners may find it extremely hard to secure a loan for

starting in their industry. However, with an MSME Registration, all banks are specifically instructed to offer loans at interest rates lower than the usual and one may be able to avail this benefit from several banking institutions for their financing needs.

- 3. Income Tax exemption:** There are several MSME registration benefits that can save lakhs of the amount that may be assessable to tax in the absence of this certificate. The benefit of a presumptive basis of taxation is available to enterprises, which relieves one from maintaining detailed books of accounts and undergoing audit procedures.
- 4. Credit Linked Guarantee Scheme:** The Ministry of Micro, Small and Medium Enterprises and the Small Industries Development Bank of India (SIDBI) have established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) specifically to implement Credit Guarantee Fund Scheme for micro and small enterprises. This scheme allows collateral-free loans of up to 50 lakhs for individual MSMEs.
- 5. Market assistance from the government and Export Promotion:** The Government of India organizes several exchange programs, craft fairs, exhibitions, and trade-related events internationally. Being categorized as a micro, small or medium enterprise gives access to all of these platforms for international cooperation on trade-related aspects with different countries and fosters new business connections. The government also incentivizes the export of goods and services by MSMEs by way of subsidies, tax exemption, and technical support.
- 6. Capital and other grants for infrastructure development:** Since MSMEs is a sector generating employment and giving entrepreneurial ventures a boost, the government also identifies training sectors for MSME and gives

capital grants for improvisation of the infrastructure and support for entrepreneurial development.

- 7. Reimbursement of ISO Certification:** To promote the standards and certifications received by MSMEs in a bid to enhance their performance across sectors, all registered micro and small industries can avail an exemption of all expenses incurred for obtaining ISO 9000, ISO 14001 and HACCP certifications.

- 8. Exclusive purchases and sheltering from the competition:** As part of the MSME Market Development Assistance Scheme, the Central Government follows a Price and Purchase Preference policy. Wherein more than 358 items are listed under it for exclusive purchases by Central Government from the medium, micro and small units only.

- 9. Technology and quality up-gradation support to MSMEs:** In order to enhance the cost-effectiveness and promote clean energy use in manufacturing, the government reimburses project costs towards these goals for MSME sector units and also expenditure incurred for the implementation of clean technology, preparation of audit report and subsidies for licensing products according to national and international standards.

CHALLENGES FACED BY MSMEs

MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned Government Departments, banks, financial institutions and corporate. Presently, the Indian MSMEs are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. This proves hurdle in the growth path of the MSMEs. MSMEs problems can explain as follows:-

1. **Lack of credit from banks-** The MSME`S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSMEs. The loan providing process of the banks is very long and formalistic. The owners of the MSME`S has to produce different types of documents to prove their worthiness.

2. **Competition from multinational companies-** In present era of globalization, the MSME`S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.

3. **Poor infrastructure-**Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.

4. **Unavailability of raw material and other inputs-** For MSME`s required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.

5. **Lack of advanced technology-** The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.

6. **Lack of distribution of marketing channels-** The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels leads to a very poor selling.

7. **Lack of training and skill development program-**The training and development programs in respect of MSME`S development concern is very low

.So,skilled manpower is not being available to MSMEs.The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.

8. **Complex labor laws and red-tape-** All the laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult .The various decisions of factory“ are depend upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSMEs.

9. **Problems of storage, designing, packing and product display.**

OPPORTUNITIES IN MSMES

1. Less capital intensive
2. Most important employment generating sector. It provides 50% of private sector employment
3. Effective tool for promotion of balanced regional development
4. It is extensively promoted and supported by the Government
5. Finance and subsidies are provided by the government
6. Produced goods are purchased by the Government
7. 40% exports in India are through MSME channel
8. Procurement of machinery and raw material
9. Globalization has offered new opportunities for the MSMEs
10. Better customer satisfaction
11. Better Industrial Relations

CONCLUSION- The Micro, Small and Medium Enterprise (MSMEs) are an important sector and play a critical role in the Indian economy. MSMEs will continue to play a very important and vital role in our economy where the twin problems of unemployment and poverty constitute a major development challenge. There are several challenges in the sector of MSMEs. If the Government, Bank and Financial Institutions will take proper initiatives in the sector of MSME and they will take pride while servicing the MSMEs, these challenges can be solved and the economic growth rate of India will increase for the next decades.