

Micro, Small and Medium Enterprises

The Micro, Small and Medium Enterprises (MSMEs) Sector contributes significantly to the Indian Economy in terms of Gross Domestic Product (GDP), Exports and Employment generation.

As per the Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MOSPI), the Share of MSME **Gross Value Added (GVA)** in total GVA during 2016-17 was 31.8%.

As per the Directorate General of Commercial Intelligence and Statistics (Ministry of Commerce and Industry) the Share of MSME related Products in **total Export** from India during 2018-19 is 48.10%.

As per 73rd Round of National Sample Survey (NSS), conducted by the Ministry of Statistics & Programme Implementation during the period 2015-16, the estimated **number of workers** in non-agriculture MSMEs in the country are 11.10 crore.

The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

The MSME sector has the advantage of generating significant employment opportunities at low capital costs and thus provides one of the most viable avenues for absorbing the large surplus population engaged in the agriculture sector.

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities

Classification of MSMEs

Currently, the classification of MSMEs is done based on investment in plant & machinery/equipment in accordance with the provision of Section 7 of MSME Act, 2006, as indicated below:

Classification	Manufacturing Enterprise (Investment in Plant and Machinery)	Service Enterprise (Investment in Equipment)
Micro	Upto ₹25 lakh	Upto ₹10 lakh
Small	Above ₹25 lakh to ₹5 crore	Above ₹10 lakh to ₹2 crore
Medium	Above ₹5 crore to ₹10 crore	Above ₹2 crore to ₹5 crore

Changes in Classification of MSMEs

Ministry of Micro, Small and Medium Enterprises has issued Gazette notification on 01-06-2020 to pave way for implementation of the upward revision in the definition and criteria of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020.

(i) A **micro enterprise**, where the investment in Plant and Machinery or Equipment does not exceed one (1) crore rupees **and** turnover does not exceed five (5) crore rupees;

(ii) a **small enterprise**, where the investment in Plant and Machinery or Equipment does not exceed ten (10) crore rupees **and** turnover does not exceed fifty (50) crore rupees;

(iii) a **medium enterprise**, where the investment in Plant and Machinery or Equipment does not exceed fifty (50) crore rupees **and** turnover does not exceed two hundred and fifty (250) crore rupees.

After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmnirbhar Bharat package on 13th May, 2020.

This will help the MSME Sector to grow. Basically, low threshold was being a dampener for an urge to grow.

The existing criterion of definition of MSMEs is based on the MSMED Act, 2006. It was different for manufacturing and services units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. Now, there will be no difference between manufacturing and service sectors. Also, a new criterion of turnover is added.

As part of new definition, Exports will not be counted in turnover for any enterprises whether micro, small or medium. It will encourage the MSMEs to export more and more without fearing to loose the benefits of a MSME unit.

Number of MSMEs

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were **633.88 lakh non-agriculture MSMEs** in the country engaged in different economic activities.

31% MSMEs were found to be engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services.

The **Micro sector** with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector

with 0.05 lakh estimated MSMEs accounts for 0.52 % and 0.01 % of total estimated MSMEs, respectively.

Out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) are in **rural area** and 309 lakh MSMEs (48.75%) are in the urban areas.

Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were **proprietary enterprises**.

State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20 % of MSMEs in the country. West Bengal comes as close second with a share of 14% again.

Major issues concerning the MSME sector

1. Problems of delayed payments

As per MSME Act 2006, The buyer must make payment to the supplier within 45 days otherwise he shall be liable to pay compound interest with monthly rests to the supplier.

Despite such rigorous provisions, MSMEs face problems of delayed payments because of low bargaining power. Most large corporates operate with MSMEs only on a credit basis. When the buyer does not honour the invoices on time, MSMEs face a financial crunch in the business. Their interest burden increases, cash flow becomes stressed and business continuity is impacted. Such MSMEs hesitate to file complaint as loss of future business is feared.

2. Lack of availability of adequate and timely credit at a reasonable cost

Due to their informal nature, MSMEs lack access to formal credit as banks face challenges in credit risk assessment owing to lack of financial information, historical cash flow data, etc.

Lack of appropriate data leads to lender doing detailed analysis and hence delaying the credit decision.

Despite several measures taken by the RBI in recent times, the interest rates charged by banks on MSME loans continue to be on higher side. Credit to the sector should be available at a cheaper rate for enhancing its competitiveness.

The traditional bank lending system by banks is based on financial statements and collateral of the borrower. In June 2019, the report of the RBI's expert committee under Sri U. K. Sinha on micro, small and medium enterprises (MSME) recommended that banks need to move towards cash flow-based lending.

In CFL, loan requirement is based on actual revenue generation and capacity to repay. Moreover, the repayment schedule is based on the timing of the MSME's cash inflows. The advantages of CFL are loan amount and repayment are based on the MSME's actual cash generation, reduction in credit risk, reduced monitoring costs for banks, reduction in turn-around times (TAT) for loan processing and ability to serve entities that don't have adequate collaterals.

3. Limited access to equity capital

MSMEs in India largely rely on informal sources for equity, i.e. own saved funds and funding from family & friends. Debt has been preferred mode of borrowing for entrepreneurial activity in India through products such as Loan Against Property (LAP) and Jewel Loans, while equity as source of finance is being utilised by very few enterprises.

One of the critical constraints on the growth of MSMEs is its inability to raise equity funds/risk capital. This is mainly because the Indian equity markets have been averse to funding smaller and early stage businesses. At present, the sources of equity funds/risk capital for the MSMEs are very limited. One of the main reasons for this is the absence of a Stock Exchange for MSMEs or a separate platform of an existing stock exchange for the MSMEs. These enterprises are, therefore, unable to access capital market.

4. Inadequate infrastructure facilities

Cost of land has increased considerably in past few years, challenges in conversion of agricultural land for industrial use, Delay in getting access to electricity and water connection, Lack of a cost effective and efficient logistics/supply chain infrastructure.

5. Multiplicity of labour laws and complicated procedures for compliance of such laws;

Labour laws should be simplified, especially those applicable to enterprises in the MSME sector, since the transaction costs for complying with these laws is disproportionately high for these units.

6. Lack of marketing expertise

MSMEs because of their size are unable to achieve economies of scale or hire a marketing specialist who can guide the respective industries about the new trends in marketing.

The MSEs also face problems in operations in the smaller markets due to ingress of branded products backed by strong advertising campaign.

While large industries/enterprises have sufficient resources for Advertisement and Publicity, MSMEs have scarcity of resources which restricts them for making publicity/advertisement of their products.

They also lack resources for constant innovation/improvement in product designing, packaging and marketing. They are unable to spare sufficient resources for brand creation/development and hence remain relatively unknown.

7. Procurement of raw materials at a competitive cost;
8. Problems of storage, designing, packaging and product display;
9. Lack of access to global markets;
10. Low technology levels and lack of access to modern technology;
11. Lack of skilled manpower for manufacturing, services, marketing, etc.;
12. Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily;

Major Govt Support for MSME Sector

Public Procurement Policy

As per the MSMED Act 2006, Government has notified public procurement policy wherein Central Ministries/PSUs/Departments have to make 25% of their annual procurement from Micro and Small enterprises (MSEs). To further strengthen the procurement mechanism, the Government has also launched the Government e-Marketplace (GeM) portal. Government e Marketplace facilitates online procurement of common use Goods & Services required by various Government Departments / Organisations / PSUs.

PSBLoansIn59Minutes.com

PSBLoansIn59Minutes is an online marketplace, which enables in-principle approval for MSME loans up to ₹5 crore in 59 minutes from Banks.

Trade Receivables Discounting System (TReDS)

RBI introduced TReDS in 2014 in order to solve the problem of delayed payments to MSMEs, TReDS is an electronic platform where receivables of MSMEs drawn against buyers (Large corporates, PSUs, Government Departments, etc.) are financed through multiple financiers at competitive rates through an auction mechanism.

Priority Sector Lending

MSME sector comes under RBI Priority Sector Lending guidelines. As per Priority Sector Lending guidelines, Banks are required to lend 40% of their loan to priority sector. Out of 40%, 7.5% must go to Micro enterprises.

COVID-19 relief package

On 13th May 2020, Finance Minister announced measures for relief and credit support related to businesses, especially MSMEs to support Indian Economy's fight against COVID-19. Some of them are:

- Rs 3 lakh crore Guarantee free and collateral free Emergency Working Capital Facility to more than 45 lakh MSMEs
- Indian MSMEs and other companies have often faced unfair competition from foreign companies. Therefore, Global tenders will be disallowed in Government procurement tenders upto Rs 200 crores.
- Upward revision of MSME definition

CHAMPIONS portal (01-06-2020)

Prime Minister Shri Narendra Modi launched CHAMPIONS portal www.Champions.gov.in, a Technology driven Control Room-Cum-Management Information System.

The system utilising modern ICT tools is aimed at assisting Indian MSMEs march into big league as National and Global CHAMPIONS.

The CHAMPIONS stands here for Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength. Accordingly, the name of the system is CHAMPIONS.

As the name suggests, the portal is basically for making the smaller units big by solving their grievances, encouraging, supporting, helping and handholding. It is a real one-stop-shop solution of MSME Ministry.

Others

2 percent interest subvention on loans to all **GST registered MSMEs**. It provides incentives to MSMEs for on boarding on GST platform which helps in formalization of economy, while reducing the cost of credit.