UNIT-I: MSMEs IN INDIA

- Concept of Entrepreneur & Entrepreneurship,
 - Qualities of Successful Entrepreneurs
 - MSMEs: Definition (2020),
 - Features,
 - MSME Registration,
 Steps involved in setting up MSMEs,
 Performance ,

Role & Importance of MSMEs in India and Key Challenges

ENTREPRENEUR

Entrepreneur is a person having specific traits, who to get economic profit initiates non-repetitive activities. Thus in this type of venture(s) there is inherent risk & that is the reason it is known as an industrial venture / enterprise.

The word 'entrepreneur' first appeared in the French language & was applied to leaders of military expeditions in the beginning of the 16th century.

It was extended to cover construction and other civil engineering activities in the 17th century.

It was only in the 18th century the word was used to refer to economic activities.

RICHARD CANTILLON, a French banker applied the word to mean a person who bears uncertainty and risk.

RICHARD CANTILLON, was the first person to use the term 'entrepreneur' to refer to economic activities. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell its products at uncertain prices in future.

According to <u>DRUCKER</u>, entrepreneur is a person who always search for a change, react to it, & takes it as an opportunity. Entrepreneurs are not risk focused, they are 'opportunity focused'.

In the words of <u>J B SAY</u>, a French economist, "the entrepreneur is an economic agent who unites all means of production."

JOSEPH A. SCHUMPETER

The entrepreneur in an advanced economy is an individual who introduces something new in the economy – a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material, or of new markets & the like.

Entrepreneur's function is to — " reform or revolutionize the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity."

Briefly, an entrepreneur is one who innovates, raises money, assembles inputs, chooses managers & sets the organization going with his ability to identify them.

Innovation occurs through -

- the introduction of a new quality in a product.
- a new product.
- a discovery of a fresh demand & a fresh source of supply, &
- by changes in the organization & management.

PETER DRUCKER

One who always searches for change, responds to it, & exploits it as an opportunity. Entrepreneurs innovate. He observed that Innovation is the specific tool of Entrepreneur, the means by which they exploit changes as an opportunity for a different business or a service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneur need to search purposefully for the sources of innovation, the changes & their symptoms that indicates opportunities for successful innovation. They need to know & to apply the principles of successful innovation.

According to Drucker systematic innovation consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic & social innovation.

Three conditions are to be fulfilled:

- ■Innovation is a work. It requires knowledge. It makes great demands on diligence,
 - persistence & commitment.
- ■To succeed innovation must build on strengths.
- ■Innovation always has to be close to the market indeed market-driven.

NEW CONCEPT OF ENTREPRENEUR

One who detects & evaluates a new situation in his environment & directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiatives, grit, & determination in bringing his project to fruition, & in the process, performs one or more of the following:

- Perceives opportunities for profitable investment;
- Explores the prospects of starting such a manufacturing enterprise;
- Obtains necessary industrial licenses;
- Arranges initial capital;
- Provides personal guarantees to the financial institutions;
- Promises to meet the shortfalls in the capital;
- Supplies technical know-how.

VASANT DESAI

The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain scared and inspire him to serve betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development.

The entrepreneur is a visionary & an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top priority to R & D. He always works for the well-being of the society.

More importantly, entrepreneurial activities encompasses all fields / sectors & fosters a spirit of enterprise for the welfare of mankind.

WEBSTER - " One who assumes the risk was an agement of business."

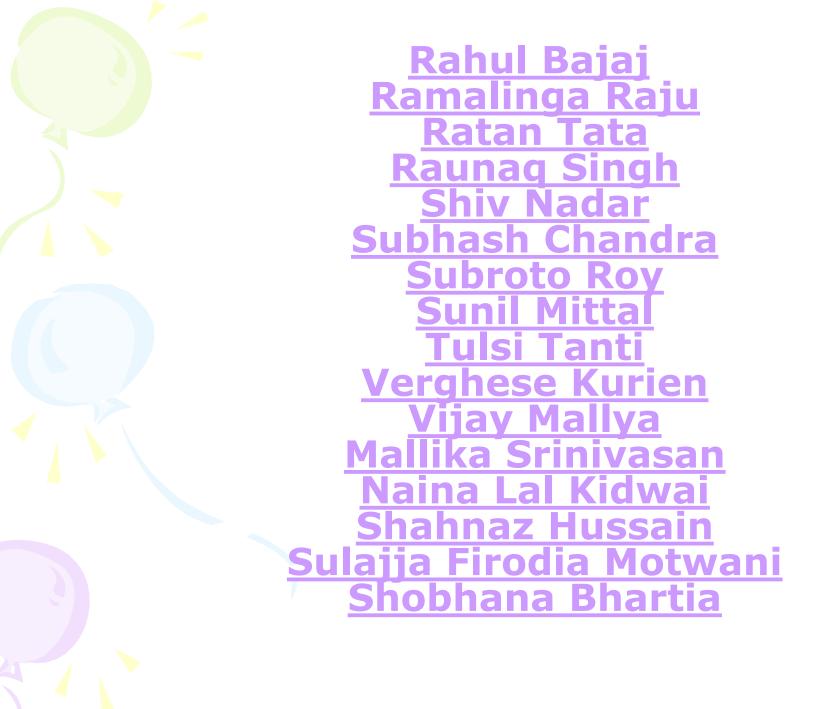
According to <u>EVANS</u>, "entrepreneurs are persons who initiates, organise, manage, & control the affairs of a business unit that contributes the factors of production to supply goods & services, whether the business pertains to agriculture, industry, trade or profession".

Indian entrepreneurs

 Indian entrepreneurs are making waves all across the world. Indian business firms are making acquisitions abroad and spreading their tentacles in various corners of the world. Indian Entrepreneurs have proved all doomsday prophecies wrong and on the contrary have flourished under globalisation.



Dhirubhai Ambani J R D Tata Adi Godrej **Anil Ambani** Dr. K. Anji Reddy Azim Premji **Bhai Mohan Singh B.M.** Munjal **Ekta Kapoor Ghanshyam Das Birla** Karsanbhai Patel Kiran Mazumdar Shaw K.P. Singh Kumar Mangalam Birla Lalit Suri M.S. Oberoi Mukesh Ambani Nandan Nilekani Narayana Murthy Naresh Goyal Dr. Pratap Reddy



- A. M. Murugappa Chettiar, founder of the Murugappa Group
- Anant Koppar, founder, and former president, of Kshema Technologies
- Brijmohan Lall Munjal (1923-), founder of The Hero Group, which owns Hero Motors
 - <u>Dhirubhai Ambani</u> (1933-2002), founder of <u>Reliance Industries</u>
- Ghanshyam Das Birla (1894-1983), prominent member of the Birla family, founder of Lakshmi Mills
 - Capt. G. R. Gopinath, founder of Air Deccan, vice-chairman of Kingfisher Red
- <u>Jamsetji Tata</u> (1839-1904), pioneering Indian industrialist, founder of the <u>Tata Group</u> of companies, co-founder of the <u>Mahindra Group</u>
 - Karsanbhai Patel (1945-), founder of the Nirma Group
 - <u>Kasturbhai Lalbhai</u> (1894-1980), textile baron, founder of <u>Arvind Mills</u>
 - K. C. Mahindra, co-founder of the Mahindra Group
- <u>Kiran Mazumdar-Shaw</u> (1953-), founder of <u>Biocon</u>, the first <u>biotechnology</u> compnay in India
 - N. R. Narayana Murthy (1946-), co-founder of <u>Infosys Technologies</u>
- Raj Anand (1982-), founder of the Kwiqq and winner of Business Week Europe's Young Entrepreneur 2007

(1958-), Social Entreprenur, founder of <u>Agastya International Foundation</u>

<u>Sabeer Bhatia</u> (1968-), co-founder of <u>Hotmail</u>

Sam Pitroda (1942-), inventor, entrepreneur, policymaker

Subhash Chandra (1950-), chairman of the Essel Group, launched Zee TV, the first Hindi satellite television channel

<u>Suhas Gopinath</u> (1986-), notable for founding Globals Inc., an <u>Information</u> <u>Technology</u> (IT) company, at age 14

Sunil Mittal (1957-), chairman and managing director of Bharti Enterprises

T. V. Sundaram Iyengar (1877-1955), founder of the TVS Group

Vijay Mallya (1955-), chairman of the United Breweries Group and Kingfisher Airlines, member of the upper house of the Indian Parliament, and owner of several sports franchises and teams

Vishal Gondal (b. 1976), founder of Indiagames

Aditya Jha, Canadian Entrepreneur, Philanthropist and Philosopher; Active in Canadian public affairs

<u>Purnima Varadrajan</u>, founder and CEO of <u>iPOTTgroup</u> of companies

<u>Ujwal Makhija</u>, founder and CEO of <u>Phonon</u>, an Indian pioneer in hosted telephony services such as click-to-call.

Entrepreneurship, like many other economic concepts, has long been debated. It has been used in various ways and in various senses. It is elusive concept that cannot be defined precisely. The word 'entrepreneurship' has been derived from a French root which means 'to undertake'. Today, people call it by various names, e.g. 'adventure', 'risk-taking', 'thrill seeking', 'innovating', etc.

According to <u>A. H. COLE</u>, "Entrepreneurship is a purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain, or aggrandize profit by production or distribution of economic goods & services,"

According to <u>B. HIGGINS</u> Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw material, finding site, introducing a new technique and commodities, discovering new sources of raw materials and selecting top managers of day-to-day operations of the enterprise.

Entrepreneurship is described as a function of handling economic activity, undertaking risk, creating something new and organizing and coordinating resources.

WILLIAM DIAMOND

Entrepreneurship is equivalent to 'enterprise' which "involves the willingness to assume risks in undertaking an economic activity particularly a new one. It may involve an innovation but not necessarily so. I t always risk-taking and decision-making, although neither risk nor decision making may be of great significance."

Entrepreneurship is used to refer to the qualities required to innovate, start a new enterprise, accept the challenge and bear the risk. Few individuals have these qualities and, therefore, entrepreneurs are found in limited numbers in any society.

Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity & through the communicative & management skills to mobilize human, financial & material resources necessary to bring a project to fruition.

Entrepreneurship can be viewed as a creative & innovative response to the environment & an ability to recognize, initiate & exploit an economic opportunity.



ENTREPRENEURIAL COMPETENCIES

Some Terminology

- Instinct: In born tendency
- Perception: Act of perceiving, insight/ intuition, understand knowledge concept by perceiving
- Attitude: A way of feeling or thinking, mental set
 - Thinking -- Feeling -- Action
- Trait: A distinct quality / peculiar feature
 - as a part of personality
- Skill: Ability to do the task
- Competence: One is good at job

1.INITIATIVE

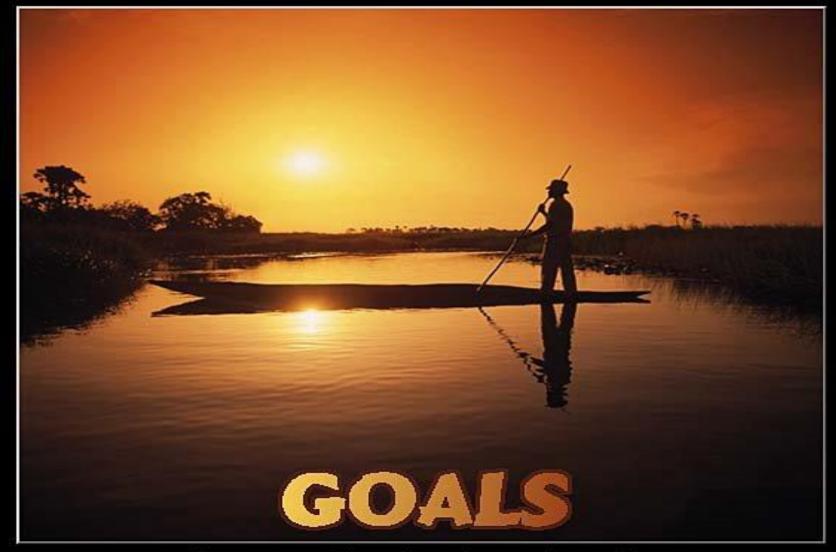
- Does the things before being asked
- Act to extend the business in to new areas, product, or services



2. Sees & Act on Opportunities

- Opportunity means positive situation at proper time
- Seizes unusual opportunity to obtain financing, equipment, land, work space, or assistance





Keep your head and your heart in the right direction and you'll never have to worry about your feet.

"Luck is what happens when preparation meets opportunity"

-Darrell Royal



3. Persistence

- Take repeated
 or different action to
 over come
- Take action in the face of a significant obstacle

 Work with Body, Brain-& Heart

Love work





-PERSISTENCE-

There is no GIANT step that does it.

It's a lot of LITTLE steps.

Peter A. Cohen

through the property of the common or



4.Information seeking

- Does personal research
- Consults experts for business
- Seeks information or ask question to clarify what is needed
- Personally undertakes research, or investigation ontacts or information

5.Concern for high Quality of work

- States a desire to produce work of high quality
- Compares own work or company's work with others



6.Commitment to work contract

- Difference between 99%& 100%
- Responsibility
- Accountability

Approach

- Attack oriented
- Defend oriented
- Task oriented





- Speed
- Knowledge
- Experience
 Hard working w/o
 knowledge
- Creativity

- In put< Out put
- Cost <Benefit
- Risk < Reward



8. Systematic Planning

- Plans by breaking a large task down in to sub task
- Plan that anticipates obstacles

- Evaluates alternatives
- Takes a logical & systematic, approach



9. Problem Solving

- Problem Creative
- Problem Avoiding
- Problem Solving

Approach

- Over shadow
- Ignorant





10.Self Confidence: has a strong belief in self & abilities

- = to trust in,
- The feeling you have before, you really under stand the situation
- Stick to his goal
- Handle the risk
- Self Image
 Poor, Illusionative,
 Idealistic
 Balanced

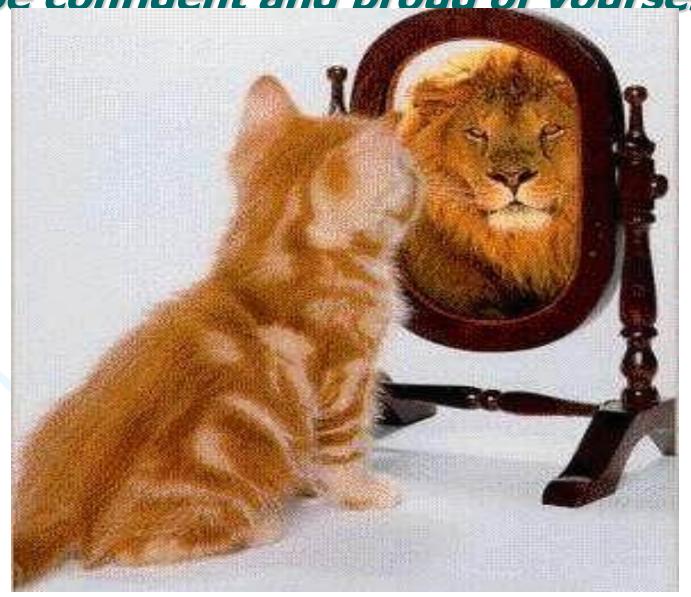




SELF-CONFIDENCE IS THE FIRST REQUISITE TO GREAT UNDERTAKINGS.

SAMUEL JOHNSON

Be confident and proud of vourself



11. Assertiveness

- = declare strongly
- No flight, no fight
- Positive attitude creates positive people

12.Persuasion

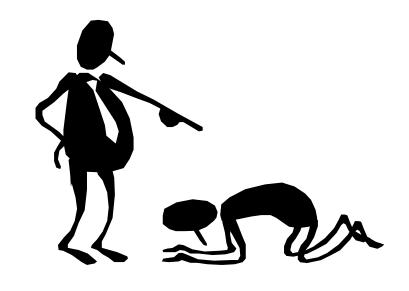
Win- Win approach



13.Use of Influence Strategies, Effectiveness,

- Acts to develop business contacts, net work,
- Use influential people as agent to accomplish own objectives
- Economy
- Fidelity
- Integrity
- Personality

Trust is like virginity.
U lose it once & that's it.



QUALITIES OF A SUCCESSFUL ENTREPRENEUR

- VISION
- INNOVATION
- ORGANISING
- ABILITIES
- MOTIVATION
 - PRIDE
- RISK-TAKING
- DYNAMISM
- APTITUDE
- **■** FOR CHANGE
- ADAPTABILITY
- FLEXIBILITY
- DETERMINATION
 - WILL POWER
 - CREATIVITY
- TACTFULNESS
- SELF-CONFIDENCE
 - INTELLIGENCE
 - KNOWLEDGE
 - INBUILT VALUES
 - COMMITMENT
 - DREAMER
- FAMILY CLOSENESS
 - INSTINCT

- Need for Achievement
- Innovation & Creativity
 - Initiative
 - Moderate risk-taker
 - Perseverance
 - Analytical ability
 - Foresight
 - Optimism
 - Managerial ability
 - Dynamism
 - Independence
 - Positive self-concept
 - Stress-taker
 - Broader perspective

ATTRIBUTES NEEDED TO BECOME A SUCCESSFUL ENTREPRENEUR

- Self Motivation
- Decision Making
- Self Confidence
 - Discipline
- A Good Motivator
 - Determination
 - Communication
- Sales & Marketing

DECISION MAKING

As an employee your decision-making abilities are applied differently from that of a small business owner. An employee often doesn't have to make important businesschanging decisions, they are made for them. Decisions which do have to be taken are usually easier to make because he gets paid at the end of the month. If you wish to be your own boss could you make a decision, which will determine whether your profit and loss statement. Can you make decisions quickly and decisively? Being indecisive is the kiss of death for a business.

SELF CONFIDENCE

Have you ever dealt with someone who clearly lacks confidence in what he's doing? This lack of confidence quickly rubs off onto you and, although you may buy a product from him, the chance of you going back a second time is slim. If you are to attract and retain customers you must be brimming with self confidence – confidence both in your skills and your product. This attribute links in with decision making – having made a decision you need the self confidence to stick by it and not question yourself, so encouraging self doubt. Have you got the self confidence to make your customers feel confident in you.

SELF MOTIVATION

Is your urge to start up in business just a fad or is it a deep down need?

Understanding your motivation will help in assessing your commitment to success. The stronger your motivation, the greater your chances of success.

Self motivation is one attitude you definitely need.

Being an entrepreneur is about more than just starting a business or two, it is about having attitude and the drive to succeed in business. All successful Entrepreneurs have a similar way of thinking and posses several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field.

All successful entrepreneurs have the following qualities:

Inner Drive to Succeed Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

Strong Belief in themselves Successful entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often been seen by others flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about unconstructive criticism.

Search for New Ideas and Innovation

All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

Openness to Change

If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

Competitive by Nature

Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

Highly Motivated and Energetic

Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

Accepting of Constructive Criticism and Rejection
Innovative entrepreneurs are often at the forefront of their
industry so they hear the words "it can't be done" quite a bit.
They readjust their path if the criticism is constructive and useful
to their overall plan, otherwise they will simply disregard the
comments as pessimism. Also, the best entrepreneurs know that
rejection and obstacles are a part of any leading business and
they deal with them appropriately.

True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline The great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

Becoming an entrepreneur is not an easy task! There are certain qualities that are absolutely necessary if you would like to become successful in your business ventures. Some of these qualities are built-in parts of your inherent personality, and some of them get developed over time. Knowing these characteristics and identifying your weak ones - those, which need strengthening - will, eventually, help you become a successful entrepreneur.

Common Sense

Studies show that most successful businessmen consider common sense as the foundation of their success. Common sense is defined as an ability to make sound judgments on the issues, which you encounter in everyday situations.

Good judgment depends on acquired knowledge and past experience.

The combination of these two creates necessary prerequisites in developing common sense in a person. Common sense allows you to

understand complex issues in simpler terms and get into the core of a problem.

• Specialized Knowledge of your field

It is easier to start a successful business, if you have deep knowledge of the business field that you decide to pursue. About half of all home-based start-ups are launched by people who

half of all home-based start-ups are launched by people who decide to use the knowledge, which they gained from their previous work experience of a particular niche area

- Self-confidence
- Self confidence is a key entrepreneurial skill for success. It is easy to become demoralized, frustrated and resentful if you lack self-confidence.
- Self-confidence is concerned with how a person feels about his ability. A successful entrepreneur believes in his abilities. He is not scared to explore un-chartered territories, take risk and take difficult decisions.
- Self-confidence, however, is not a personal trait that either you have or you don't. A person can have high self-confidence in one situation and totally lack in another. This is one of those skills that can be developed by training.

Ability to get things done

Successful entrepreneurs are persistent and hardworking. They master self-discipline to such extent that if a work is important and related to their goals, they will, eventually, complete it. Getting things done is the vital link between motivations and their

outcome. At times, entrepreneurs force themselves to choose work

over fun, a boring job against a pleasant one, working on tax papers rather than reading a glamour magazine. This requires a self-control that many people simply fail to develop in them.

Creativity is the ability to use your insights and come up with new solutions to old problems, get things done in a different way or find a totally different approach for conventional things to work together. Entrepreneurs need creative thinking ability virtually in everything. Each new product, each new marketing method, each business decision - all these are fertile ground for creative thinking.

Often, entrepreneurs become immensely successful thanks to one single creative idea!

Ability to lead

Successful entrepreneurs are capable of leading people and get work done by them. They use a combination of various methods

effective motivation, planning, coaching and evaluation - to lead people. They are concerned about the wellbeing of others and easily get along with people.

Self reliance

Successful entrepreneurs try to take full responsibility for their actions. They know that what they are today, and what they are going to be tomorrow, depend solely on themselves, as it is the outcome of their own choices and decisions. They are proactive people, who set goals, walk an extra mile to achieve them and rely, primarily, on their own resources and abilities.



DEFINITION OF MSMEs IN INDIA

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Investment Ceiling for Plant, Machinery or Equipments*@		
Manufacturing Enterprises	Service Enterprises	
Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)	
Above Rs.25 lakh (\$50 thousand) & upto Rs.5 crore (\$1 million)	Above Rs.10 lakh (\$20 thousand) & upto Rs.2 crore (\$0.40 million)	
Above Rs.5 crore (\$1 million) &	Above Rs.2 crore (\$0.40 million) &	
upto Rs.10 crore (\$2 million)	upto Rs.5 crore (\$1 million)	
	Equipments*@ Manufacturing Enterprises Upto Rs.25 lakh (\$50 thousand) Above Rs.25 lakh (\$50 thousand) & upto Rs.5 crore (\$1 million) Above Rs.5 crore (\$1 million)	

Definitions before 2nd October 2006

Classification	Investment Ceiling for Plant & Machinery or Fixed Assets*		
	Manufacturing Enterprises	Service Enterprises	
Micro	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)	
Small	Above Rs.25 lakh (\$50 thousand) & upto Rs.1 crore	_	
Medium	(\$0.20 million) Not defined	Not defined	

Definition (2020)

MSMEs Redefined

A proposal was made to redefine MSMEs by the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, to classify them as manufacturing or service-providing enterprises, based on their annual turnover.

	Manufacturing	Services	All enterprises
	Investment towards plant & machinery	Investment towards equipment	Annual Turnover
Micro	25 lacs	10 lacs	5 Cr
Small	25 lacs to 5 Cr	10 lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

Benefits of the above-proposed reclassification According to the proposed reclassification or the new classification, there would be no need for frequent inspections to check the investment in plant and machinery. Also, the operations of MSMEs would be transparent, non-discriminatory, and objective in nature.

UPDATE: New MSME definition based on investment and turnover (June 2020)

On 1st June, Monday, the Union Cabinet headed by Prime Minister Narendra Modi officially revised the MSME definition. The recent changes in the definition of micro, small, and medium-sized enterprises made as a part of the Atmanirbhar Bharat Abhiyaan relief package were approved. The investment and turnover figures were changed to larger values, thereby resulting in a larger number of medium-sized enterprises.

Updated MSME Definition

Type of enterprise	Investment	Turnover
Micro	Rs 1 crore	Rs 5 crore
Small	Rs 10 crore	Rs 50 crore
Medium	Rs 50 crore	Rs 250 crore

The new MSME definition (May 2020)

Investments will no longer characterize MSMEs. On 13th May, Wednesday, the center officially revised the MSME definition.

In October 2019, Union Minister Nitin Gadkari had said that the revised definition of micro, small, and medium enterprises may grant a unified description for all things related to taxation, investment, and more.

The changed definition was to be implemented via an amendment that would further refine the business scenario for Indian enterprises. The Union Cabinet had approved the amendment to change the criteria to classify MSMEs from "investment in plant and machinery" to "annual turnover."

On 13th May 2020, Finance Minister Nirmala Sitharaman added the additional principle of turnover along with the investment.

Revised MSME Classification

Composite criteria: Investment and annual turnover

Classification	Micro	Small	Medium
Manufacturing & services	Investment < Rs 1 crore and turnover < Rs 5 crore	Investment < Rs 10 crore and turnover < Rs 50 crore	Investment < Rs 20 crore and turnover < Rs 100 crore

MSME definition – why the change

As Finance Minister Nirmala Sitharaman made the announcement about the change, she also addressed the reasons behind it. She said the new definition will bring about many benefits that will aid MSMEs to grow in size.

This was made under Atma-nirbhar Bharat Abhiyaan Economic Package to assuage India's economic predicament amidst the pandemic.

Combined with all previous economic stimulus efforts, the total amount of the relief package comes to a whopping Rs. 20 lakh crore.

Key announcements of Atma-nirbhar Bharat Abhiyaan

- Rs 3 lakh crore collateral free automatic loans for MSMEs
- Rs 50,000 crore equity infusion through MSME Fund of Funds
- Rs 20 crore subordinate debt for MSMEs
- Extension of registration and completion date of real estate projects under RERA
- Immediate pending refunds issuance to all non charitable trusts
- Extension of the due date for ITR for FY'19-20 to November 30, 2020

Highlights of new MSMEs

'Atma Nirbhar Bharat Abhiyan' or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs.

Following are a few highlighting features of new MSMEs –

- 1. A provision of Collateral Free Loans to MSMEs
- 2. An arrangement of loans to MSMEs MSME worth of Rs. 3 lac crores
- 3. An offer for MSMEs to get a Moratorium period of 12 months
- 4. Consideration of Manufacturing and Service MSMEs as the same entities
- 5. MSM is a granted a repayment Tenure of 48 months
- 6. MSMEs are assured a 100% Credit Guarantee
- 7. Reclassification of MSMEs will benefit approximately 45 Lac units.

FEATURES

Following are some of the essential elements of MSMEs –

- 1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
- 2. MSMEs provide credit limit or funding support to banks.
- 3. They promote the development of entrepreneurship as well as upgradation of skills by launching specialized training centers for the same.
- 4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
- 5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.
- 6. They also offer modern testing facilities and quality certification services.
- 7. Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

MSME REGISTRATION

Every global multinational corporation today started small. They would have been a micro, small or medium sized enterprise at some point in their journey. MSME (Micro, Small and Medium Enterprises) have no dearth of ambition or growth plans. The founders of such companies do not lack zeal, passion, dedication and discipline. Financial aid and technological know-how can help such enterprises to scale up.

Have you Registered Your Business as an MSME?

If you are thinking, why should you do it and what are its benefits, we have written this post just for you.

Very few enterprises are aware of the benefits and the financial aid that is available to a Micro, Small, Medium Enterprise (MSME). The founders of such companies raise capital at very high costs as they rely on banks wherein, they have their current account or rely on local moneylenders for quick working capital loans.

Many entrepreneurs are not even aware of what category their enterprise falls in. You need not worry if you are one such entrepreneur. We have listed down the difference between Micro, Small and Medium Enterprises here.

To promote and develop MSMEs:

the MSMED Act of India enables incentive schemes and subsidies. It is important to register your MSME in order to obtain the benefits under MSMED act. The enterprise could be a sole proprietorship, partnership firm, limited liability partnership, private sector company or a public sector company.

Did You Register as an MSME in the First Place?

The process is easy but if you still require convincing as to why it is required, the following lines would be interesting:

MSME Registration Process:

If you think the process of getting registered as an MSME is time-consuming and tedious, we would like to list down the steps to let you know how easy it is.

All you need to do is follow the steps mentioned below:

- •The owner or founder of the micro, small or medium scale enterprise must fill a single form to begin MSME registration. The form can be filled online and offline as well.
- •Through an individual registration, a person can register for more than one industry
- •The form to register your MSME can be found https://udyogaadhaar.gov.in/ or https://msme.gov.in/.

Document Required for the MSME Registration:

- Personal Aadhar number
- •Industry name
- Address
- •bank account details and some common information.
- •The owner of the enterprise can provide self-certified certificates for the same.
- •The owner will get a registration number upon filling and successful upload of the form.
- •There are no registration fees required for this process.

Do also glance through the documents required for registration as below:

•Address Proof of the Enterprise: In case the premise is owned by the owner of the enterprise, all you need is the allotment letter, possession letter, and property tax receipt or lease deed. Rent receipt and No Objection Certificate from the landlord would suffice in case your enterprise is operating out of a leased space.

•Sale Bill or Purchase Bill: The enterprise needs to submit copies of the bill of the products/services it sold and a copy of purchase bills for the raw material it purchased.

Partnership Deed, MoA and AoA:

If the business is a partnership firm, it must submit its partnership deed and registration certificate in case it is a registered entity. In case the enterprise is a company, a copy of Memorandum of Association and Articles of Association, and certificate of incorporation must be submitted. A copy of the resolution passed at the latest general meeting and a copy of the board resolution authorizing a director to sign the MSME application must also be submitted.

Licenses and Bills of Machinery:

In few cases, the owner of the enterprise might have to submit a copy of industrial license received from the government. The owner may also have to submit copies of bills and licenses related to purchase and installation of machinery, equipment etc if required.

Benefits of MSME Registration in India:

Enterprises which register themselves as an MSME can avail many benefits ranging from lending options to cluster financing to the adoption of latest technology and quality management standard. Some of the key benefits include:

1. 50% Subsidy on Patent Registration:

As an entrepreneur, you may be aware of the hefty fee that an enterprise must shell out to get a patent registered. Have you faced such an issue? With MSME registration, the patent registration will come to you at a 50% subsidy. Safeguard your IP today and accelerate your dream of becoming a renowned corporation of tomorrow.

Collateral Free Loans:

An enterprise that is registered as an MSME can enjoy collateral free loans options which are facilitated through <u>banks and NBFCs</u>. Isn't it great to avail a working capital loan or a credit line without having to put some of your assets at stake?

3. Exemption of interest on Overdraft:

As a registered MSME, an enterprise can enjoy a 1% exemption on interest on an overdraft facility. Even a slight decrease in the cost of funds is extremely beneficial for small businesses and MSMEs are no different.

4. Reservation Policy:

MSMEs are a labour-intensive group that generates a lot of employment and hence enjoy some special privileges from the government. The government has given exclusive rights to manufacture certain products to MSMEs. Under the Government Stores Purchase Program, the central government has reserved around 300 products exclusively for the MSME sector.

5. Technological Upgradation for MSME's:

The government, under the Capital Aid for Technological Upgradation Scheme, is enabling MSMEs to upgrade their equipment through latest technology. To do so, the government is encouraging more MSMEs to upgrade their technology and infrastructure and is enabling them to get low-interest loans from banks.

6. Protection against delayed payments:

The biggest advantage of an MSME registration is the protection received from the government for delayed payments. If an MSME supplies a product or delivers a service, the buyer must pay on or before the date of payment. In case there is no date mentioned, the payment must be made within 15 days of acceptance of the product or service, failing which the buyer is required to pay a fine to the MSME registered company. This enables them to maintain free cash flow and keep bad debts to a minimum.

GOVERNMENT POLICIES AND SUPPORT MEASURES: BRIEF HISTORY

The evolution of the policy framework and support measures of the Government can be broadly grouped into the *three periods*:

1948-1991:

In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. MSMEs Development Organisation [earlier known as SIDO] was set up in 1954 as an apex body for sustained and organised growth of micro, small and medium enterprises.

Within next two years, the NSIC, the KVIC and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the **Government Purchase Programme and** 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development.

MSME – Development Institutes [earlier known as SISI] were set up all over India to train youth in skills/entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, DICs were set up all over the country.

1991-1999:

The new Policy for Small, Tiny and Village **Enterprises of August, 1991 laid the framework for** government support in the context of liberalisation, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measuresconcentrated on improving infrastructure, technology and quality. Testing Centres were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The SIDBI and a **Technology Development and Modernisation Fund** were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.

1999 onwards:

The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector.

- The new Policy Package announced in August, 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively.
- A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1 crore (\$0.25 million) and a Market Development Assistance Scheme for MSEs was introduced.
- At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year.

In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March, 2007, a third 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.

PERFORMANCE OF MICRO & SMALL ENTERPRISES

Production: The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

Employment: SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the smallscale sector generates employment for four persons.

Generation of Employment - Industry Groupwise: Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Nonmetallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%).

In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%. In all other industries the contribution was less than 5%.

Per unit employment: Per unit employment was the highest (20) in units engaged in beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu. Next came Cotton textile products (17), Non-metallic mineral products (14.1), Basic metal industries (13.6) and Electrical machinery and parts (11.2.) The lowest figure of 2.4 was in Repair services line. Per unit employment was the highest (10) in metropolitan areas and lowest (5) in rural areas.

However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas. In urban areas highest employment per unit was in Beverages, tobacco products (31 persons) followed by Cotton textile products (18), Basic metal industries (13) and Non-metallic mineral products (12).

Location-wise Employment Distribution-Rural:
Non-metallic products contributed 22.7% to
employment generated in rural areas. Food
Products accounted for 21.1%, Wood Products
and Chemicals and chemical products shared
between them 17.5%.

<u>Urban</u>: As for urban areas, Food Products and Metal Products almost equally shared 22.8% of employment. Machinery parts except electrical, Non-metallic mineral products, and Chemicals & chemical products between them accounted for 26.2% of employment.

In metropolitan areas the leading industries were Metal products, Machinery and parts except electrical and Paper products & printing (total share being 33.6%). **State-wise Employment Distribution: Tamil Nadu (14.5%)** made the maximum contribution to employment. This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%. Per unit employment was high - 17, 16 and 14 respectively - in Nagaland, Sikkim and Dadra & Nagar Haveli. It was 12 in Maharashtra, Tripura and Delhi. Madhya Pradesh had the lowest figure of 2. In all other cases it was around the average of 6.

Export: SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian **Exports is contributed by SSI Sector. Direct exports** from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO.

Major Export Markets: An evaluation study has been done by M/s A.C. Nielsen on behalf of Ministry of SSI. As per the findings and recommendations of the said study the major export markets identified having potential to enhance SSIs exports are US, EU and Japan. The potential items of SSIs have been categorised into three broad categories.

- Opportunity: The opportunities in the small-scale sector are enormous due to the following factors:
- ·Less Capital Intensive
- ·Extensive Promotion & Support by Government
- ·Reservation for Exclusive Manufacture by sss
- ·Project Profiles
- ·Funding Finance & Subsidies
- ·Machinery Procurement
- ·Raw Material Procurement
- ·Manpower Training
- ·Technical & Managerial skills

- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing Export Potential for Indian products
- Growth in Requirements for ancillary units due to the increase in number of greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the smallscale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures.

The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalisation coupled with Government support will therefore, attract the infusion of just these things in the sector.

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KEY CHALLENGES

•Access to finance:

The present domestic market conditions do not provide enough opportunities for the MSME sector for raising low cost funds. To improve the flow of credit there is a need to provide low cost finance to the MSME sector, which has limited working capital and is dependent exclusively on finance from public sector banks. The cost of credit in the Indian MSME sector is higher than its international peers. A transparent credit rating system, simplification/reduction in documentation for accessing finance, providing interest rate subvention to the MSME sector must be taken into consideration in order to maintain the growth of the MSME sector.

The Government is taking proactive steps to ensure better access to credit. Bank lending to the sector will grow at a rate of 20 per cent on a year-on-year (y-o-y) basis, along with 10 per cent annual growth in number of micro enterprise accounts, with 60 per cent of the share of MSME credit directed towards micro enterprises. These and other such measures will ensure that credit flow to the sector, especially micro and small enterprises, is adequate.

Despite such measures banks are reluctant to lend to MSMEs due to their higher risk profile owing to zero collateral or their limited years of operations. In a recent study published by the Indian School of Business (ISB), it was found that large Indian firms (the firms above the MSME threshold by the official definition) obtained about 47 per cent of their total funding from internal sources, 19 per cent from banks and financial institutions (FIs), and 5 per cent from capital markets. The remaining 29 per cent came from alternative sources.

In case of MSMEs, only 15 per cent of funding came from internal sources, 25 per cent from banks and Fls, and 10 per cent from capital markets. Around 50 per cent of the funding has been sourced through alternative funding sources including friends and family, trade credit etc. Alternative sources are typically far more expensive and are dependent on prevailing market conditions and are rarely guaranteed source. This clearly implies that MSMEs face very high interest cost due to the lack of availability of adequate credit.

Access to markets:

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance its contribution towards output, employment generation and exports.

MSMEs contribution should be seen not only in terms of output, employment, income, investment or exports but also in terms of qualitative indicators such as the synergies they promote with large industries, their contribution towards balanced regional growth, participation in nurturing entrepreneurial spirit, innovation and in providing a nation-wide pool of skilled and trained manpower.

Even today, most small businesses in India are set up by first generation entrepreneurs. They often have a product or service idea and some fervor to work hard. However, the limited market access namely capital access, brand promotion solutions, marketing support, logistics and sales support, and information and communication technology (ICT) support stalls the fervor to take the enterprise to next level.

A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs. According to the study, less than 6 per cent of Indian MSMEs with access to personal computers advertise online and a majority of these enterprises use traditional media. Many Indian MSMEs are also unaware of the effectiveness, measurability and predictability of using online advertising to reach the target audience.

The study highlighted that a huge opportunity exists for SMBsto reach their desired financial goals by optimising their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.

Therefore, there arises a need for the sector to build capacities to develop ICT and other tools in order to cater the growing marketing needs. An understanding of the market, competitors, technology, marketing tools and business environment are determinants of success of the MSME sector.

Some of the evolved marketing strategies like niche marketing, database marketing, cluster specific marketing, guerrilla marketing and relationship marketing are vital for flourishing the business without any significant hit to the bottom-line. These marketing strategies, if implemented, can give the MSMEs a platform to go beyond the generic marketing applications, create greater acceptance, strengthen the brand, devise a focused approach and compete globally.

Brands like Nirma, Moov, Hi-Design and Fevicol started off as MSMEs in the recent past and have successfully reaped the benefits of strategic marketing to enter, compete and gain market share from the likes of Unilever, GSK and P&G. In 1959, a small time glue manufacturer thought of marketing his products to the masses and taking his business to the next level.

With successful product strategies, marketing efforts and operational efficiencies, the brand has today created a strong foothold in the market. The company's most successful brand Fevicol and its sub-brands such as Feviwik, Fevibond, Fevigum, Fevistick and Fevicryl have consistently commanded over 70 per cent of the total market share. The company has also been able to stay ahead of its competitors in both the organised and unorganised segments. MSMEs can also use proven traditional STP marketing strategies viz. segmentation, positioning and targeting for B2C and B2B ecosystems.

Technology tools like SMS, digital newsletter and electronic direct mail can be used efficiently to target segmented population. Broadly classified as push marketing, these media tools are cost efficient and easily accessible. To add to this, websites, yellow pages, directory listings help pull the prospective buyer with rational efforts

Trade fairs form another important platform for MSMEs to venture into new territories and develop businesses. The sector is required to look beyond India and innovate to market their products internationally. MSMEs possess enormous potential required to expand to international market.

To acquire a competitive edge, MSMEs must tap opportunities in the international arena in the fields of technology and research and development and engage themselves in international trade. International trade fairs are an important source of market intelligence, technological advancements and innovations. Every year, industry specific trade fairs are held in the US, Canada, UK, Singapore and Dubai to create a meeting ground for sellers and buyers.

Therefore, it is imperative for MSMEs to ensure that their business offerings are in sync with the cultural, political, economic and environmental dynamics. This can be achieved by creating an in-depth study of product feasibility and viability along with competition mapping and facilitates MSMEs to reengineer their products and services accordingly. Therefore the company adopted a cohesive global strategy which enabled successful completion of numerous diversification projects into Africa, Europe and South East Asia.

Access to infrastructure :

Industries form the backbone for national development and are one of the important components for the growth of national economy and growth of the MSME sector at a healthy rate is crucial for the overall growth of the industry. However, lack of proper infrastructural facilities can cause serious damages to an enterprise's value chain process, like production, consumption and distribution of the products, Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs.

Hence, there is a need of infrastructural development of the industries in general and MSMEs in particular which should include all types of infrastructural facilities like railways, waterways, roadways and airways, proper channels of telecommunication, adequate supply of power and other supporting facilities like Tool Rooms, Testing Labs, Design Centers, etc.

Access to people:

The Indian economy is now the second fastest growing economy of the world. In such a visible growth environment, tremendous efforts are being made by SMEs (Small and Medium Enterprises) to make their presence felt and to convert their growth plans into reality. In essence, last few years have seen the exponential growth of SMEs. While big players enjoy economies of scale to control prices, SMEs enjoy agility in bringing the product faster to the market.

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Human Resource is one of the most essential growth indicators for organisations today. Large firms who are targeting high growth rates scour the market for talent and MSMEs can never outplay large companies in terms of salary. The other challenge faced by MSMEs is to preserve the horizontal structure that was prevalent when they were young. As the organisation grows, the cohesiveness present at the start slowly starts to fade away.

MSMEs will need to ensure that they undertake effective HR planning and ensure that the plan supports a growth aspiration, be geared to increasing the firm's flexibility and responsiveness and help the company develop its change management capabilities. However, there are certain challenges faced by MSMEs in achieving the above mentioned HR plan objectives.

Access to technology & environmental constraints

Technology plays a vital role in an economy, particularly in its development phase. In this era of globalisation, the MSME sector needs to compete not just at the local or the national level but also at the global level. Access to modern technology is acting as a serious threat to the growth of the sector.

The technology transfer issues pertaining to MSMEs in developing nations are very different from those being faced in the developed countries like the US and UK. The absence of an enabling ecosystem which is much required for facilitating an active interaction in the technology transfer process is a major inhibitor for the sector. Other issues such as 'limited interaction' between technology providers and technology seekers, minimal knowledge about upcoming technologies, and the cultural and the regional differences in the developing nations adversely affect productivity of the MSME sector.

The competitiveness of any economy depends on how efficiently all the resources in the process of production are utilised and how efficiently these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. This improvement can come through the use of latest technology.

MSME Growth impacted by Multiple Constraints

Although the MSME sector has been growing at a faster rate than the overall industrial sector, MSMEs experience multiple constraints that threaten to derail the sector's growth trajectory.

Some of key hindrances that MSMEs face are:

Inadequate market linkages:

Except in the case of cluster-linked and ancillary MSMEs that have natural linkages with large enterprises, MSMEs tend to have poor market access. The non-cluster MSMEs are fragmented, and as a result, are unable to organize themselves in order to reduce procurement cost from large enterprises or streamline the output supply chain. What is worse, in the absence of adequate market linkages, any demand disruption in the supply chain can severely impact operations because the enterprise capital of these businesses tends to be locked in illiquid inventory and receivables.

Lack of infrastructure:

Limited access to infrastructure such as power, water and roads increases operational costs for MSMEs and makes their businesses uncompetitive. Inadequate access to support infrastructure discourages these units from adopting newer technologies, where available. In addition, poor infrastructure forces small and medium businesses to operate in select geographies, increasing the demand for natural resources in that region.

Inadequate finance:

MSMEs consider challenges in access to finance as one of the biggest constraints in growth. A study on the MSME sector also suggests that the multiple growth constraints (like those mentioned above) can be largely linked to inadequate access to finance. The Report of Working Group on Rehabilitation of Sick MSMEs by RBI also finds lack of adequate and timely access to working capital finance is one of the key reasons for sickness in the sector.

Lack of managerial competence:

Micro and small enterprises in particular largely comprise first-generation entrepreneurs, who have had a limited structured training on resource planning, capital management and labor management. As a result, lack of managerial competence often shows in poor book-keeping and a limited knowledge of formal financial institutions, which further inhibits the growth of these enterprises.

Obsolete technology:

While industries such as automotive, forging, software development sector require advanced technologies in operations, the majority of the small and medium enterprises do not have that kind of technological edge. A low technology base results in low productivity, which makes these enterprises uncompetitive. Financial institutions associate lack of technology with uncompetitive businesses and therefore are wary of financing enterprises which are not technologically up-to-date in operations. These enterprises too have limited awareness about new technologies, or the technology financing schemes.

SETTING UP A MICRO, SMALL AND MEDIUM ENTERPRISE

The main steps involve in setting up a MSME are as below:-

- (a) Project Selection
- (b) Technology and Machinery
- (c) Arranging Finance
- (d) Unit Development
- (e) Filing of Entrepreneurs' Memorandum
- (f) Approvals
- (g) Clearances
- (h) Quality Certification

How to Setup a Project?

Project Selection: "... Our best business missions are based on those ideas that often emerge out of our deepest personal motivations and interests."

-Warren Avis in "Take a Chance to Be First"

It all begins with an Idea: The overriding reason for anyone to think of establishing a MSME unit can be summarised in one word - opportunity. An opportunity to provide a product or service, which can generate sufficient surplus. This is all the more true if one is a believer in the maxim, "Small is Beautiful".

However, ideas need to be filtered through a multi-layer sieve. This model is shown in the following flow:

- Does the idea fire up your motivation?
- Is it a viable business proposition in your area?
- Does it match the needs of your clientele?
- Check it out with basic market research
- Test it out at market place
- Consult with the experts
- Look out for competition in the field
- Is it a sunrise industry?
- Your business opportunity
- Project conceptualisation

Once the ideas are screened and a viable business opportunity emerges the project has to be conceptualised in all its dimensions.

The 4 Ps of Project Conception is:

- PRODUCT (Shape, Size and Nature)
- PROCESS (Technology to produce the product)
- PLACE (Location of Plant)
- PARTNER (Technological or Financial Collaborator)

Making a Product Choice: In a project conceptualisation stage while making a product choice following factors are related to product need to be considered:

- Product Line Depth, Width
- Packaging
- Branding
- Warranties
- After Sales Service

Some other factors that one should consider while finalising the product choice are:

- Ease of availability of raw-material
- Process Technology
- Accessibility to the market
- Incentive and support from Government

Market information is also important for product selection. Products, which are likely to have a number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

In case the entrepreneur is looking for a product, which has export potential, the following additional questions need to be asked:

- What should be the contents of exportproduct portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a specific country?
- Are any WTO conditionalities involved e.g. "child labour free", ISO 9000 certified, GMP followed etc.

The development of export-product portfolio can be done by considering 4 parameters viz.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

Analysis can be conducted using this four dimensional model. The obvious choice is a product which scores a high rating on first two parameters and low rating on last two parameters.

EXIM (Export Import Bank of India) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters viz.

- Supply Capability In Product Group
- Domestic Environment
- Export Market Attractiveness

- This analysis gives rise to product groups with high potential or low potential.
- With regard to special packaging requirements one has to be careful about laws of the country one is exporting to. For instance, while exporting to Australia, woodenpackaging cannot be done.
- Product adaptations for country's specific needs look into things like whether voltage supply is 220V or 110V for electric appliances and for automobiles whether left-hand drive or right-hand drive is appropriate.
- It has now become important to understand the implications of the various agreements which form part of WTO.

Technology and Machinery

Process Selection: Choices of process technology emerge once the product is finalized. For some complex products, process know how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defense Research Labs and some of this technology can now be bought. Indigenously developed process know-how has intrinsic benefits such as appropriateness and relative inexpensiveness.

- While checking out on a process technology, the following things need to be considered with utmost care:
- -Whether process requires very high level of skilled workers or complex machines?
- -Whether process requires large quantities of water and/or power?
- -Whether any process or product patent needs to be honoured while utilising the selected process technology.
- -Any special pollution or environmental regulations.
- -Finally, the appropriateness to the indian environment and conditions. Machinery and equipment.

One of the major deficiencies in the MSMEs scenario is the prevalence of outdated production and management methods hindering the efficient operation of micro, small and medium-scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of investible funds. The main objective of National micro, small and medium enterprises (NMSME) is to provide machinery and equipment to small industrial units offering them long repayment period with moderate rate of interest.

NSIC procedures for hire purchase of machinery

- •The hire purchase application is to be made on the prescribed form.
- •The Director of Industries of the State under whose jurisdiction the applicant falls, forwards the application to the head office of the NSIC at Delhi with his recommendation and comments.
- •All applications for indigenous or imported machines are considered by acceptance committees comprising of the representatives of the Chief Controller of Imports, Development Commissioner, micro, small and medium enterprises and other concerned departments.

- •Decision of these committees is conveyed to the parties concerned with copies to the regional offices of the NSIC and the concerned Directorate of Industries.
- •Once all these formalities are completed by the hirer, instructions are sent to the suppliers to dispatch the consignment (duly insured for transit risk) to the hirer and to send the R/R or C/R as the case may be, to the regional office.
- •The NSIC after ensuring that all dues have been paid by the hirer, releases the R/R or C/R to him for taking delivery of the machines.

•In case of imported machines, the procedure is slightly different in as much as the shipping documents are sent to the clearing agents for clearing the consignment from the Customs and dispatching it to the hirer.

Value of machines that can be supplied- Rs. 7.5 Lacs, F.O.R. or landed cost as the case may be.

Earnest Money: 5% or 10% of the value of machinery depending on whether the equipment is imported or indigenous. In the case of furnaces and a few other items of equipment, the rate of earnest money is different. Interest 9 per cent per annum with a rebate of 2 per cent on prompt payment. This interest is calculated on the value of machines outstanding after deducting payment of earnest money.

Administrative Charge: 2 per cent on the sales value of machines and its recovery by the NSIC is spread over the total installment period.

Period of Repayment: The value of the machines, after deducting the earnest money received, called the Balance Value, is payable alongwith interest and administrative charge in 7 years. The first installment is payable after one year and six months from the delivery of machines &- the second and subsequent installment are payable half-yearly thereafter.

Gestation Period: In case of certain type of machines which become operative immediately on installation in the service sector industries and job order establishment, a gestation period of only 6 months shall be allowed both to the new and existing units.

A rebate of 2% per annum is allowed on the interest rates, in case an installment is paid on or before the due date.

In case the payment of installment is not made within one month of the specified due date, interest @ 2% per annum over and above the normal rate is charged on the defaulted amount from the date of default to the date of actual payment. Remission in interests is allowed in case one or more than one installment is paid in advance of the due date(s).

Now the <u>Place</u> and Right Partner has to be selected and <u>Project Report</u> has to be prepared.

Arranging Finance

No MSME unit can take off without monetary support. This need for finance can be classified into following types:

- Long and medium term loans
- Short term or working capital requirements
- Risk Capital
- Seed Capital/Marginal Money
- Bridge loans

Financial assistance in India for MSME units is available from:

- (i) Commercial/Regional Rural/Co-operative Banks.
- (ii) SIDBI: Small Industries Development Bank of India (refinance and direct lending)
- (iii) SFCs/SIDCs: State Financial Corporations /State Industrial Development Corporations.

Long and medium term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

For loans from FIs and CBs a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

Documentation for Loan Application

- B/S and P/L Statement for last 3 consecutive years of firms owned by promoters
- Income Tax Assessment Certificates of Partners
 /Directors
- Proof of Possession of Land/Building
- Architect's estimate for construction cost
- Partnership deed/ M/A and A/A of Company
- Project Report
- Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/Banks.

Subsequently, loan is disbursed according to the phased implementation of the project. In today's environment there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and nongovernment finance companies.

Unit Development

- After deciding the issues of product and process, the next important question is where to set the unit up?
- For many tiny units and service-based units, the home is perhaps the best starting point.
- Setting up an establishment is much more than putting a signboard up and waiting for customers to walk in. It requires negotiating a favourable plot or shed purchase, organising for proper construction of building, design of interiors and finding good deals for equipment and machinery.

Construction of Building: Once an industrial plot for the unit is secured, then the next job is that of finding a suitable architect. Design of factory building has to be in consonance with the type of industry and have an appropriate plant layout.

An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

Getting the Utility Connections: Among the utilities of prime importance are power and water. In many cases getting power connection causes delay in setting up of plant. Therefore it is imperative to commence work on these aspects with diligent follow up. Power connections are generally of either LT (Low Tension) or HT (High-tension) type. If connected load is upto 75 HP, LT connection is provided. For connected loads of 130 HP or higher only HT connection is provided.

A formal application needs to be made in a specified form to the state electricity board. An electrical inspector is deputed for evaluation of application to factory site, after which the load is sanctioned. In areas of power shortage, it is advisable to augment the power supply with a captive generating set.

Water connection is also obtained likewise by applying in advance in formal forms. The water supply can be augmented by installation of tubewell.

Getting 3M's Right

Men: Projections for manpower and staffing are made in the project report. However it is necessary to time the induction of manpower in a planned manner. The engineers and operatives must be available before the installation of the machinery.

Machinery: Choosing and ordering of right machinery is also of paramount importance. In many cases technology or process provides us with specifications which is not provided, then an extensive technoeconomic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur must also consult experts, dealers / suppliers as well as users, prior to making a selection of equipment and machinery. The advice of DIC, MSMEI and NSIC can also be sought.

Materials: Materials procurement and planning are critical to success, of a start-up with a MSME unit. Inventory management can lead to manageable cash flow situations; otherwise if too much is ordered too soon considerable amount of working capital gets locked up. On the other hand, non-availability may result in production hold-ups, and idle machine and manpower. For essential imported raw material whose lead-time is large proper planning is all the more essential.

Filing of Entrepreneurs Memorandum

- •Section 8 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provides for filing of memorandum by a Micro, Small or Medium Enterprise. Subsection (2) of section 8 stipulates that the form of the Memorandum, the procedure of its filing and other matters incidental thereto shall be such as *notified* by the Central Government.
- The memorandum may be filed by all three categories of enterprises with the DIC in the jurisdiction of which the enterprise is (or, is proposed to be) located,
- •The procedure for filing it has been outlined in Schedule. II of the Notification for the format of EM.

Features of the Scheme

- •The memorandum may be filed by all three categories of enterprises with the District Industries Centre in the jurisdiction of which the enterprise is (or, is proposed to be) located,
- •The procedure for filing it has been outlined in Schedule. II of the Notification for the format of EM

Procedure for Filing Memorandam: Features of the present procedures are as follows:

- •Form of the Entrepreneurs Memorandum can be downloaded from the Internet, the address of which can be obtained from Directorate dealing with MSMEs of the State Governments/ UTs. or the hard copies of the same can be obtained from the DICs.
- Any person who intends to establish a MSE, at his discretion; or a medium enterprise engaged in providing or rendering of services may, at his discretion or a medium enterprise engaged in the manufacture or production of goods shall file the Memorandum of Micro, Small or as the case may be, of Medium Enterprise with DIC of its area.

- •The DIC shall fill all the codes in the form of the Memorandum and issue an acknowledgement after allotting an EM number, date of issue and category of the unit within five days of the receipt of the form of Memorandum by post or same day, if the form of Memorandum is submitted in person as well as online.
- •Before issuing the acknowledgement, the DICs shall make sure that the form is complete in all respect and particularly the form is signed and is accompanied with an undertaking, which is a part of the form of Entrepreneurs Memorandum.

•The DIC shall maintain record of all the Entrepreneurs Memorandum so filed in respect of MSMEs engaged in providing and rendering services. DICs shall forward a copy of the Entrepreneurs Memorandum so filed with EM number allotted to the SISIs of their State/Jurisdiction. •The DIC shall maintain record of all the Entrepreneurs Memorandum so filed in respect of medium enterprises engaged in production/manufacturing of products and forward one copy each of the Entrepreneurs Memorandum with EM number allotted to SISIs of their State/Jurisdiction and to Joint Development Commissioner (MSME Pol.) in the Office of the D C (SSIs).

- •The form of Memorandum is in two parts. Any person who intends to establish a micro, small or medium enterprise engaged in providing or rendering of services may file or those who want to establish medium enterprise engaged in the production or manufacture of products shall file Part 1 of the Entrepreneurs Memorandum to DIC.
- •Once the above enterprises start production or start providing or rendering services, they should file Part II of the Entrepreneurs Memorandum to DIC.

- •In case of non-filing of Part II of the Entrepreneurs Memorandum within two years of the filing of Part I, the Memorandum (Part I) filed by the entrepreneur will become invalid.
- •In case of change in the investment in plant and machinery or in equipment, the enterprises who have already filed Entrepreneurs Memorandum should inform the DIC of the same in writing within one month of the change in investment.

- •In case of change of products and that of services or addition in products or services, the enterprises who have already filed Entrepreneurs Memorandum should inform the DIC of the same in writing within one month of the change.
- •The DIC shall, in addition of keeping a record, in writing, shall also maintain records electronically on computer.

The following form basis of evaluation:

- •The unit has obtained all necessary clearances whether statutory or administrative. e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- •Unit does not violate any locational restrictions in force, at the time of evaluation.
- •Value of P&M is within prescribed limits.
- •Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

Approvals: Every SSI unit has to comply with various regulations in force. These include regulatory, taxation, environmental and certain product specific clearances. This section looks into the methodology of obtaining these approvals and clearances. Exemption from Compulsory Licence: Licensing in the

Industries sector is governed by the licensing exemption notification issued by Govt. of India in July 25 1991 under the IDR Act, 1951. In SSI, there are virtually no licensing restrictions. No industrial license is required except in case of 6 product groups included in compulsory licensing (these products groups mainly cover products that can only be made in large sector.)

But if a small-scale unit employs less than 50/100 workers with/without power then it would not require a license from the Govt. of India even for the 6 product groups covered in licensing under Schedule II of the notification. Subject to this, an entrepreneur can set up a SSI unit anywhere in the country without any restriction. The units are, of course, subject to the locational/land use and zoning restrictions in force under the local laws.

<u>Clearances</u>: An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

Product Specific Clearances

- •Establishing a Printing Press District Magistrate
- •License for Cold Storage Construction Designated Official in State
- •Pesticides Central/State Agricultural Deptt Ministry of Agriculture
- •Drugs and Pharmaceuticals Drug license from State Drug Controller
- •Safety Matches/ Fireworks License under Explosives Act from Directorate of Explosives,
- •Household Electrical Appliances License from Bureau of Indian Standards
- •Wood Working Industry within 8 km from forest District Forest Officer
- •Milk Processing & Milk products manufacturing units Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

Environment & Pollution Related Clearances: The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors, in all other cases SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent:- Fertilizer (Nitrogen/ Phosphate), Sugar. Cement, Fermentation & Distillery, Aluminium, Petrochemicals, Thermal Power, Oil refinery, Sulphuric Acid, Tanneries, Copper smelter, Zinc smelter, Iron & Steel, Pulp & Paper, Dye and Dye intermediates, Pesticides manufacturing and formulation & Basic Drugs and **Pharmaceuticals**

Regulatory or Taxation Clearances

- •Registration under Sales Tax Act Commercial Tax officer of area concerned
- •Registration under Central Excise Act Collector of Central Excise or his nominee for area
- Payment of Income Tax ITO of the area concerned
- •Registration of Partnership deed Inspector General of area concerned
- •Calibration of weights & measures Weights and Measures Inspector of State
- •Power Connection Designated Officer of State Electricity Board
- •Employee strength exceeding 10 with power connection or 20 without power Chief Inspector of Factories

Quality Certification

Quality certification has become extremely important in competitive markets and especially in gaining foothold in exports. To avail the certification of ISO-9000, a unit has to undertake significant costs; the small scale industries have been found wanting mainly on account of resource crunch to implement quality systems to obtain this certification. However, as a paradigm shift, SSI must make 'Quality' a way of life. It has been decided to push the quality upgradation programme in the SSI Sector in a big way.

A scheme has been launched to give financial incentive to those SSI units who acquire ISO-9000 certification, by reimbursing 75% of their costs of obtaining certification, subject to a maximum of Rs. 0.75 lacs per unit. In order to promote modernisation and technology upgradation in SSI, the units are assisted in improving the quality of their products.

A new scheme has been launched to assist SSI units in obtaining ISO-9000 or an equivalent international quality standard. Subject to an upper ceiling of Rs. 075 lacs, each unit is given financial assistance equal to 75% of the costs incurred in acquiring the quality standard. The SSI units are also encouraged to participate in quality awareness and learning programmes organised specially for their benefit.

ROLE OF MSMEs IN INDIAN ECONOMY

Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas.

MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development.

MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.

With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

IMPORTANCE OF MSMESs IN INDIA

Across the globe, MSMEs are accepted as a means of economic growth and for promoting equitable development. They are known to generate the highest rate of growth in the economy. MSMEs have driven India to new heights through requirements of low investment, flexible operations, and the capacity to develop appropriate native technology.

- •MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.
- •With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.
- •MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a \$5 trillion economy

- Contributing around 45% of overall Indian exports
- •MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.
- •MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.
- •MSMEs promote innovation by providing an opportunity to budding entrepreneurs to help them build creative products hey and thereby boost competition in business and fuel the growth.

The Indian MSME sector provides silent support to the national economy and acts as a defense against global economic shock and adversities. Hence, we can say that India is propelling towards a robust global economy through a silent revolution powered by MSMEs.