

Challenges, Opportunities and Growth

- Mr. Atul Kumar Labh



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Micro Small & Medium Enterprises (MSMEs) play a significant role in the social, economic and political growth of a country. MSME sector not only generate the global value of the products and services, it creates various employment opportunities in the country too. The sector receives more governmental focus as their role in the economic and social growth is inclusive and employment oriented. MSMEs have the inherent characteristics of being innovative and quickly responsive to changing market conditions and it is because of these qualities, MSMEs contribute substantially to any economy and are widely acknowledged as the engine of economic growth.

Basics

In our Country, MSMEs are legally governed by Micro, Small and Medium Enterprises Development Act, 2006 and falls under the Ministry of Micro, Small & Medium Enterprises (www.msme.gov.in). It broadly covers the business activities falling under the "Manufacturing" and "Services" Sector only.

However, in terms of Circular dated 27-06-2017 certain activities, viz, Forestry and logging / Fishing and aquaculture / Wholesale and retail trade and repair of motor vehicle and motorcycles / Wholesale trade except of motor vehicles and motor cycles / Retail Trade Except of Motor Vehicles and motor cycles / Activities of households as employees for domestic personnel / Undifferentiated goods and services producing activities of private households for own use / Activities of extraterritorial organization and bodies; are not covered under MSME Amusement Parks fall under Service Sector as it is a part of the Tourism Industry.

Now-a-days, holidaying, leisure and recreation related tourism constitutes major part of the domestic tourism and are always an attraction point especially amongst the children and young generations. It has a huge potential to attract investments and generate employment at a large scale. The entities involved in this sector may squeeze numerous benefits by getting themselves registered as MSME unit.



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Registration

The Government has revised the definition criteria for treating a unit as Micro, Small or Medium Enterprises and this has widened the scope of coverage of the business units so that most of the units can avail the different type of benefits as offered to MSMEs from time-to-time.

Business units falling under Manufacturing and Service Sectors and fulfilling both the criteria as mentioned below may apply for registration of its unit under the respective eligible category, w.e.f. 01-07-2020:

Enterprises	Investment in Plant & Machinery	Turnover
Micro Enterprises	<= Rs. 1 Crore	<=Rs. 5 Crore
Small Enterprises	<= Rs. 10 Crore	<= Rs. 50 Crore
Medium Enterprises	<= Rs. 50 Crore	<= Rs. 250 Crore

MSME : Growth & Opportunities: The Growth engine of New India

The MSME sector of India is a significant driving component for the development of Indian economy. These Micro, Small and Medium Enterprises help in lowering the unequal income dissemination among the individuals by the method of providing more employment opportunities and industrialization of these areas.

The MSME sector consists of more than 5.11 crore companies employing more than 11.7 crore people during the period 2015-2016 (source : Reserve Bank of India, 2017).

In the following tables / charts, the growth of MSME in last few years can be easily analysed:

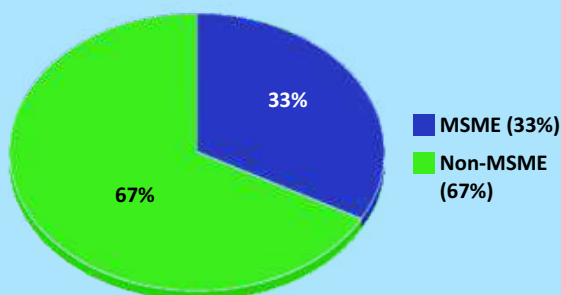
(A) Share of MSME in All India GDP

Year	MSME Growth (%)	Share of MSME in All India GDP (in %)
2014-2015	---	29.34 %
2015-2016	10.97 %	29.48 %
2016-2017	10.90 %	29.25 %
2017-2018	12.98 %	29.75 %
2018-2019	12.88 %	30.27 %

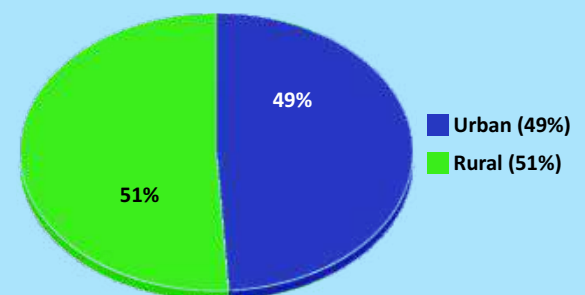
Source: CSO

(B)

Contribution in Country's total Manufacturing GVO (2014-2019)



MSME: Activities Spread



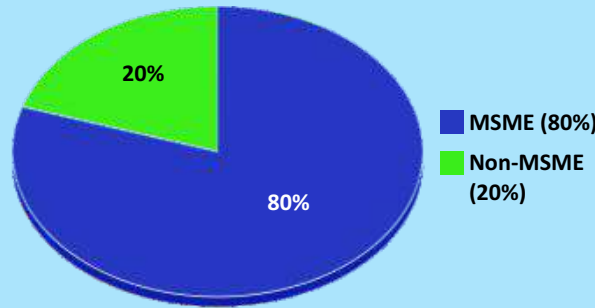
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(C) Estimated Number of MSMEs (in Lakhs)

Sector	Rural	Urban	Total	Share (%)
Manufacturing	114.14	82.50	196.65	31
Other Services	210.71	226.49	437.20	69

Source : CSO

(D) Tourism Industry Entities

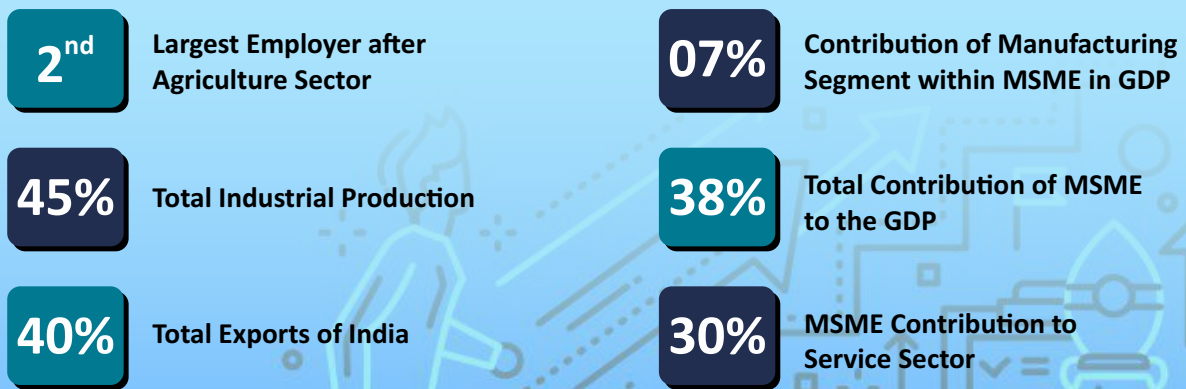


(E) MSME : Tourism Wave

Tourism Sector size (in '000 INR CR)		CAGR (till 2020) in millions (2014)	Current Employment	Opportunity Areas for MSMEs
2014	2020			
537	760	6%	40.00	Equipment, Supplies and Services E-commerce platforms
				Budget Hotels, Customer Services

(Source: IBEF, 2014)

(E) Key Facts & Figures :



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Benefits

Priority Lending: Banks, by virtue of the directions issued by the Reserve Bank of India, have certain earmarked funds that have to mandatorily be given to MSME businesses.

Bank Loan (Collateral free): Both old as well as the new MSME enterprises can claim the benefits. A trust named The Credit Guarantee Trust Fund Scheme was introduced by the GOI (Government Of India), SIDBI (Small Industries Development Bank Of India) and the Ministry of Micro, Small and Medium Enterprise to make sure this scheme is implemented (Credit Guarantee Scheme) for all Micro and Small Enterprises.

O/D interest rate exemption: MSME registered businesses or enterprises can avail a benefit of 1% on the Over Draft as mentioned in a scheme (differs from bank to bank).

Subsidy on Patent Registration: 50% subsidy to the registered MSMEs.

ISO Certification Charges Reimbursement: The registered MSME enterprises can claim the reimbursement of the expenses that were spent for the ISO certification.

Delayed Payments: If the buyer delays the payment for more than 45 days after accepting the products or services then the buyer has to pay compound interest along with interests (monthly) on the amount that was agreed to be paid. The interest rate is three times the rate that is notified by the Reserve Bank of India. Further, as per Section 23 of the MSMED Act, interest paid or payable by buyer to the MSME supplier shall not be allowed as deduction under the provisions of Income Tax Act, 1961.

TReDS: Delay in getting payments is one the perennial problems faced by MSMEs. To address this issue, the Reserve Bank introduced the Trade Receivables Discounting System (TReDS) in 2014. TReDS is an electronic platform where receivables of MSMEs drawn against buyers (large corporates, PSUs, Government departments) are financed through multiple financiers at competitive rates. This is done through

an auction-based mechanism. It is mandated that all companies registered under the Companies Act, 2013 with a turnover of more than Rs. 500 Crore (Rupees Five Hundred Crore) as per the last available audited financial statements and all Central Public Sector Enterprises (CPSEs) to get themselves registered on the TReDS Platform to ensure cash liquidity for MSME Suppliers

Tax Benefits: Limit for Tax Audit enhanced from Rs.5 crore to Rs. 10 crore thereby providing relief from compliance burden which will be spread to a large section of MSMEs.

Reporting Benefits: All companies are required to file a half yearly return to Ministry of Corporate Affairs (MCA) showing the payment o/s for more than 45 days to MSMEs suppliers / service providers. Similarly, all companies are required to furnish the payment o/s to MSMEs with ageing period in their financial statement to be filed with Income Tax / ROC office.

Government Schemes: There are various type of schemes run by the Ministry for MSMEs and the eligible MSMEs fulfilling the criteria may avail benefits of such schemes to boost its business further.

Some of such major schemes are as follows:

- Prime Minister Employment Generation Programme and Other Credit Support Schemes
- Technology Upgradation and Quality Certification
- Marketing Promotion Schemes
- Entrepreneurship and skill Development Programme
- Infrastructure Development Programme
- Scheme of Information, Education and Communication

MSME : Budgetary Outlay (2021-2022)

Budget Allocation for FY 2021-22 for the MSME has become more than doubled to Rs.15700 crore vis a vis Rs.7572 crore in 2020-21. Rs. 10000 crore corpus created towards provision of guarantee for borrowings and which is a huge relief to this sector.

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MSME : Post COVID

- Rs 20,000 crore Subordinate Debt for MSMEs.
- Rs 3 lakh crores Collateral free Automatic Loans for business, including MSMEs.
- No global tenders for procurement up to Rs. 200 crores (GeM portal). Of the total number of vendors registered on Government-e-marketplace (GeM), 26% are MSMEs.

Challenges: Irrespective of all the above, MSMEs are facing certain challenges as pointed below and in order to boost the sector it is necessary to address the issues at various levels at the earliest:

- Poor productivity from inefficient processes and unskilled workforce
- Lack of access to working capital
- Excess Regulatory Compliances
- Lack of Financial Solutions
- Low production capacity
- Constraints on modernisation & expansions
- Lack of coordination among the various organizations involved in the promotion of MSMEs, including organizations of the State Governments, and poor linkages with the institutional stakeholders in the private sector. There is also duplication of programmes run by various Ministries for the same target group.
- Lack of access to markets
- Lack of Financial Expertise
- Technology
- Ineffective marketing strategy

Conclusion: In India, capital is scarce and labour abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. Not only do MSMEs generate the highest employment per capita investment, but they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment. Efforts should be taken by all to boost the economy by inculcating the seeds of entrepreneurship in the society for which units under MSME sector might play a pivot role for supporting and flourishing the new entrepreneurs.

IAAPI is thankful to Mr. Atul Labh for sharing useful information on MSME - Challenges, Opportunities and Growth.

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