

A Study on Legal Framework and Policies For Micro Small and Medium Enterprises in India

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ABSTRACT

The value of the small business-MSME is recognized in socio-economic development worldwide irrespective of an economic development stage. At global level the legal framework for potential design and enhancing MSE an International Framework for SMSE was made at OECD Ministerial conference held at Bologona of Italy in July 2000. The MSME playing the vibrant role in the economic development of the country by providing employment, export earning, industrial development, latent use of resources and man power, decentralization of enterprises, balanced regional growth and equal distribution of income. The growth of this industrial sector is needs in developing countries like India which is in transition stage of economic development with problems such as: unemployment, lack of entrepreneurship, poverty, inadequate infrastructure, economic individual and regional growth inequality and lack of modern technology etc. MSMEDA 2006 is the first legal frame work for the development of MSME in India. With this context the paper is an attempt to analyze the Legal framework and development policies for the development of MSME in India. The study is based on the secondary data taken from the MSME annual reports, books and research articles. The findings of the study are; the legal framework for MSME is the drastic step in the history of the small scale industrial development policies at global and national level. There has been increase its share in the GDP, enterprises, and entrepreneurs in rural-urban and social category-wise, inclusion of medium and service sector, Ministry of MSME at national and DIC at district level are initiating the schemes and progarammes for the development of MSME. In spite of drastic changes in its structure and growth, it has various problems like power, finance, ICT, Skill, marketing, and awareness programme.

KEY WORDS: Small Business, SMES, Small Scale Industries

INTRODUCTION

The development of the Govt. Policy framework and support measures can be broadly grouped into three periods. The first period was from 1948-1991, second period was 1991 to 1999 and 1990 onwards till 2016. During these three periods the industries were classified into SSI, tiny industries, ancillaries on the basis of Investment Limit and number of persons employed. Similarly for the development of these industries SIDO was set up as approximately body, NSIO, KVIC, Coire Board, SISI, DIC, IID etc. The Ministry of Small Scale Industries and Agro and Rural Industries were replaced by the new Act Micro Small and Medium Enterprise Development Act 2006 for restructure and formation of new framework for the development of MSME in India.

LITERATURE REVIEWER

MuhammedKhalique, Abu Hassan (2015) their study state that, in a knowledge based economy the role of SME is very critical for the economic development and challenges faced by them in

Malaysia. The study based on review of literature suggested that knowledge of the current issues relating with SME is need in intellectual capital prospective.

PalukuKazimoto (2014). His paper assessed the challenges facing by SME towards international marketing standards with context to the Arusha region of Tanzania. The findings of the study are; unawarnes of regulations and standards, luck of financial support from the govt, poor understanding of consumer needs and services, lack of basic skill and week networking structure to penetrate into international marketing. The study concluded that important of information system available to owner, accessibility to financial facilities at reasonable rate of interest; organize more seminars, conference and workshops for encouraging advertisement, data technology of marketing standards and market network structure. Though there steps the MSE helping the improve the GDP of Tanzania.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To know the global legal framework of the MSME.
2. To know the legal framework of the MSME in India.
3. To know the policy initiatives of the Govt. for the develop MSME

RESEARCH METHODOLOGY

This paper is based on the secondary data obtained from MSME annual reports, articles from research journals and books. The govt. of India so far have conducted four industrial census. The first SSI census was in 1973-74, second in 1990-91, third in 2002-03 and the latest fourth MSME census in 2006-07 which was published in 2010-11. Data up to 2006-07 covered SSI only and from 2006-07 Census specifically conducted for MSME data/for analysis. Since September 2015 UdyogAadhaar Memorandum replaced the EM-II file the MSME. For current analysis this data was used.

MSME LEGAL FRAMEWORK AT INTERNATIONAL LEVEL.

The first OECD Ministerial conference on SME's was offered by Italy in June 2000 to define the potential design and development of an international network for SME's i.e International Small and Medium Enterprises-INSME. The net work has taken the form of a non-profit legal entity such as an international Association in 2004. At present the INSME is designed to work as hub of networks and structure as of services aimed at strengthening and enhancing the dissemination and quality of information service supply and partnership opportunities for SME's.

OBJECTIVES OF INSME

Since the existing service providers at the international, national and regional level do not often network with their customers sufficiently the govt. of Italy from this Association with following objectives.

1. To finance and promote a feasibility study, need assessment, define the design, and to setup a internet portal
2. To connecting, extending and maximizing the use of the existing networks for SMES operating on a geographical, sectoral and functional basis.

3. To improve the quality quantity and updating of products, information and service available online and promoting international integration and co-operation.
Strengthening the co-ordination among the networks for SME and for the intermediary bodies operating at local level.
4. Promoting the development of new networks for SME's by creating new websites, Internet portals in the countries where the network is lagging behind.

COMPOSITION OF INSME

As a result of the bologna conference, the Italian ministry of industry with the support of the institute for industrial promotion, the INSME Steering Group was established in July 2000. The eligibility to become its members are be a member of public administration ,International Organization or NGO working towards the MSME policy issues, expert in network for SME's, expert in internet applications, planning and managing internet portals, members of OECD and Non-OECD.

MEMBERS OF INSME-SG

At present 41 countries, 17 international organizations and networks have joined. The ongoing work of the INSME secretarial hosted by INSME-SG establishing a formal community of political and technical holders forces on innovation and technology transfer services. By taking an advantage of the INSME will act as an information hub, a facilitator and catalyst of existing Internet intermediaries. India is a member country of the INSME Steering Group.

LEGAL FRAME WORK FOR MSME IN INDIA ORGANIZATIONAL STRUCTURE

The Office of Development Commissioner-Micro Small and Medium Enterprise is functioning as a nodal development Agency under the Ministry of MSME. It is the Apex body to advise, Co-ordinate and formulate Policies and Programmes for the development and promotion of the MSME sector. It is also maintains liaison with central Ministries and other Central State Govt. agencies, organizations and financial Institutions. (Flowchart : 2)

The emergence of a large service sector assisting the small industries also warrants a composite and comprehensive legal view over the previous Act which was not competitive to the present system of globalization and liberation. The Government of India presented a Bill in 2005 in Parliament i.e. Known as the Micro, Small and Medium Enterprises Development Bill, 2005. This Bill was passed by both the Houses of the Parliament and took the assent of the President of India on 16th June, 2006 and became a law governing Micro, Small and Medium Enterprises Development in India.

MANUFACTURING ENTERPRISE

The enterprises engaged in the Manufacture or production of goods, pertaining any industry specified in the first schedule of the industries development and regulation act 1951. As per the MSMED Act 2006 manufacturing enterprise are sub- classified on the basis of investment in plant and machinery.

- (a). Macro Manufacturing Enterprise: MME's are those where the investment limit up to Rs. 25 lakh.
- (b). Small Manufacturing Enterprise: MME's are having the investment limit on plant and machine is more than Rs. 25 lakh but not exceed Rs.5 crore.
- (c). Medium Manufacturing Enterprise: there unit are having investment limit Rs.10 crore on plant and machine is more than Rs 5 crore but does not exceed Rs.10 crore.

SERVICE ENTERPRISE

Service Sector defined on the basis of investment limit on equipment only. The enterprises engaged in providing or rendering service having investment in equipment from Rs. 10 lakh to Rs.5 crore. As in manufacturing sector this sector has also three sub enterprises.

- a. Micro Service Enterprises: The enterprises having investment limit on equipment upto Rs.10 lakh are comes under this category.
- b. Small Service Enterprises: It is enterprises have the investment limit on equipment is from Rs. 10 lakh but does not exceed Rs.2 crore.
- c. Medium Service Enterprises; The enterprises in which the investment limit is more than Rs.2 crore but does not exceed Rs. 5 crore.

MAJOR POLICIES SCHEMES FOR THE DEVELOPMENT OF MSME'S

Today the Ministry of Micro, Small and Medium Enterprises govt. of India design polices and promotes programmes, projects and scheme and monitors their implementation with a view to assisting MSME's and help them to scale up.

The Office of Development Commissioner (Micro, Small and Medium, Enterprises) headed by the special secretary and DC-MSME), being an apex body for formulating and overseeing implantation course of the policies for the development of MSME's in country, is playing a very positive and constructive role for strengthening this vital sector. It functions through a network of MSME-DIs, regional testing centers, footwear training institutes, production centers, field testing station and specialized institutes. It renders services such as advising the government in policy formulation for the promotion and development of MSMEs; providing techno-economic and managerial consultancy, common facilities for technology up gradation, modernization, and quality improvement quality improvement and infrastructure; developing human resources through training and skill up gradation etc.

FINANCIAL INSTITUTIONS

For implementing the scheme and programmes for the development of MSMES the special financial institutions are operating in India. They includes SFC,SIDO, NSIC,SIDBI, NIESBUD and MUDRA BANK.

INSTITUTIONAL SUPPORT FOR MSME

Ministry of MSME at Apex level and DIC at district level are supporting the MSME. The other institutions are: Industrial Estate, KVIC, Coir Board, TCO, NIMSME.

PERFORMANCE OF MSME IN INDIA

The performance of MSME in India is presented from the key factors like number of working enterprises, AGR, share in GDP, generation of employment and Market value of fixed assets, regional destitution, gender and social category owned enterprises.

NUMBER OF WORKING MSMES

Table1 shows the working units of MSME were 361.76 lakh in 2006-07 and this number rose to 510.57 lakh in 2014-15. The growth rate was 11.77% and it was drastically increase to 17.18% it during the same period. But there was a fluctuating growth during middle two years that was in 2011-12 and 2012-13.

SHARE OF MSME TO GDP

Table 2 indicates the share of MSME it GDP. It was 35.13%. in 2006-07 and rose to 37.50% in 2012-13. Sector wise share has also increases. The service sector share in GDP was 27.40% in 2006-07 and it increases and 30.50% in 2012-13. Similarly the share of manufacture sector sustained at 7% during the same period. It is clear, that the total share in GDP has increase but the share from service sector is more than the manufacturing sector.

GENERATION OF EMPLOYMENT

Table 1 reveals that the employment provided by MSME is large. The number of persons employed was 805.21 lakh in 2006-07 and this increased to 11143 lakh in 2013-14. The labor intensive MSME sector is almost 4 times higher than the large enterprises (Mishra and Puri).

MARKET VALUE OF FIXED INVESTMENT

There is a controversy issue about the efficiency between SSI/MSME and large scale industries for a long period in India. But from the point of view of employment potentiality in labor supply economy like India the efficiency of MSME is effective. According to the census report, the organized sector needs an investment of Rs.5 lakh to generate employment to a person where as the SSI sector provide employment to 7 persons with the same investment (Mishra and Puri) Table 1 shows that the fixed market asset was Rs. 868543.79 corer in 2006-07 and it increases to Rs. 1038546.08 corer in 2009-10 and Rs. 1421912.94 corer in 2014-15. The investment increase due to govt. initiatives across the country at large scale.

DISTRIBUTION OF ENTERPRISES BY SUB SECTORWISE.

Table 2 is emphasis the distribution of enterprises by sub sector wise. The share of Micro-enterprises was 89.43 % and small enterprises accounts 10.17% while less than 1% is shared by medium enterprises. It means Micro enterprises are dominated in MSME and missing the Middle or medium enterprises.

REGIONAL AND SOCIAL CATEGORY WISE CONTRIBUTION

Large scale industries concentrated in big cities and towns where the commodities of that region benefited and at the same time the people of villages and rural regions are deprived from

industrialization. Further it leads to industrial slums congestion and pollution, But historically and empirically proved that the small enterprise help in solving the problem of regional growth disparity and imbalanced growth of the socially backward community by encouraging them to establish Small Business and thereby rise income and standard of living which is ultimate purpose

of the plan objective. Therefore it is need to analyze the regional distribution, category wise ownership and gender managed MSME in India.

Table 3: shows the regional wise distribution of MSME as on 2014-15. As much as 55.33 % enterprises are working in rural areas and remaining 44.66 % were working in urban areas. It means more than 50 % of enterprises located in rural areas. But the number of registered units in urban areas is more over the rural areas.

STATE WISE DISTRIBUTION

Table 3 : indicates the statewise distribution of MSME in India. The share of five states was accounts 67.10 % enterprises, Bihar stood first with 24.57. It is followed by in 14.22% in U.P, 10.52 % in Tamil Nadu, 9.35 % in Maharashtra and 8.14 % in Gujarat. Similarly The bottom state's having less than one their share to total enterprises are Chandigarh, Assam, Arunachal Pradesh, Meghalaya, Mizoram and Nagaland. It is clear that in spite of govt. initiatives till there is a disparity in the distribution of MSME's

OWNERSHIP OF MSME BY SOCIAL CATEGORY

Table 3: is shows the ownership of MSME by social category. 12 % enterprises owned by SC, 4 % by ST, 38% by OBC and 46 % by others. It is visible that the ST community is behind in entrepreneurship compared to others. Similarly combining SC, ST only 16 % enterprises are managed where as 84 % owned by others. It implied that till the category wise distribution of enterprise is not satisfactory.

GENDER WISE OWNERSHIP

Table 3 is reveals that gender wise ownership of INSME as on 31st December 2016 about 92 % of MSME were owned by male and only 7.36 % enterprises were owned by female. It means till the male dominance in INSME ownership is visible in India. It need the effective awareness about MSME among the women is needs in the country.

PROBLEMS OF MSME

The Indian MSMEs are facing various problems. Based on the study reports and data analysis the major problems of MSME are listed as below:

- Lack of marketing resistance at International level.
- Lack of Finance for high risk projects like new innovations, R and D.
- Lack of awareness about the SMEs among young generation.
- Frequent power cut is a severe problem to operate efficiently and effectively.
- Competition from multinational companies.

- Insufficient availability of advance technology.
- Lack of training and skill development program.

SUGGESTIONS FOR IMPROVEMENT OF MSMES.

Following are the important suggestions for the improvement and development of the MSMEs:

- Training and development awareness program.
- Sufficient availability of finance.
- Suitable and adequate technology.
- Involvement of stake holders.
- Conduct of survey.
- Venture capital interaction with R and D.
- Improve the strength of competitiveness.

FINDINGS OF THE STUDY

Following are the important findings derived from the analyses.

1. The MSME legal framework at international level was began with the establishment of INMSME Association which is working with 100 members in 40 countries for developing the MSME.
2. In India the legal framework was made by the Micro Small and Medium Enterprise Development Act 2006. Now the Office of the Development Commissioner Ministry of Micro Small and Medium Enterprise, Govt. of India
3. Since 2006 under the MSME Development Act 2006 all the small business enterprises classified into manufacturing and service sectors in single window MSME.
4. The working number of MSME has been increases from 361.8 tin 2006 -07 to 510.60 in 2013-14. The AGR was 11.77% and it rose to 17.18% in 2013-14
5. The contribution to GDP has rose from 35.13% in 2006-07 to 37.50% in 2013.14
6. The employment generation has increases from 805 lakh in 2006-2007 to 11143 lakh in 2013-14
7. On the basis of investment limit on plant and machinery the all manufacturing enterprises are classified into micro, small and medium enterprise.
8. The service sector unit classified on the basis of investment unit on equipment only on micro small and medium enterprises.
9. The fixed invest and has above also increases from Rs. 868543.79 crore to in 2006-07 to 1421912.94 crore in 2014-15.
10. The region wise, rural areas having more than MESME in the country.
11. The state wise destitution shows that 67.10% MSME located in 5 state and 33.50% of enterprises and scattered in other states. It means the large SME's are in few states.
12. Sub-sector wise of MSME the micro enterprise sharing 89.43% and small enterprise account 10.17% but the medium enterprises are missing in the growth.
13. By social catagarywise the MSME are managed by OBC with 38%; and others by 46% But; only 12% and 4% managed by SC and ST community. It impend that till the deprived community not in position to get enterpriship ability.
14. By gender, 92.64% of the enterprises owned by male and only 7.36 managed by women. Till the women are backward in SME's.

CONCLUSION

Micro, small and medium enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

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