

An Analytical Overview Of MSMED Act 2006 In Alleviating The Problems Of Micro, Small And Medium Enterprises

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Abstract: Micro, Small and Medium enterprises have remained critical to Indian Economy since Independence. After agriculture it is second largest employer for workforce apart from constituting the highest number of entities among all enterprises. This sector has also remained high on agenda for Government as well. Micro, Small and Medium enterprise development Act 2006 has been a reflection to this statement. MSMED Act tried to alleviate the impending demand from this sector to enact policy measures specifically directed to boost this sector. However this sector continues to be impacted with some inherent problems unique to this sector. By widening the ambit of MSME sector with inclusion of services sector has propounded the cosmopolites of the constitution of this sector further dampening the scope of isolating the problem of particular sector.

Keywords: MSME, MSMED Act, DC (MSME), Production, Investment, MSME Units

Introduction

Small Scale Industries (SSI) in India has been classified as Micro, Small and Medium Enterprises (MSME) as per the provisions of MSME development Act 2006. MSMEs in India has brought equitable distribution of wealth as well as brought about development of underprivileged areas of the country. For Capital starved economies MSMEs gains significance by being a comparatively less capital intensive as compared to large Industries. MSMEs role in becoming complementary to large industries as ancillary units has also been significant.

As a group it is estimated that in Micro, Small and Medium enterprises more than hundred million workforce are engaged. MSMEs accounts for 45% of total manufacturing output and 43% of total exports of the country. MSME product/Service after enactment of MSMED Act 2006 has widened, including spectrum of sectors like Repair and Maintenance work, Education, Hospitality, Food processing, Iron and Steel, and articles of iron and steel electrical, electronic equipment, pharmaceutical products, organic chemicals, pearls, precious stones and metals among others.

Provisions of MSMED Act 2006

Provisions of this act were aimed to support and progress by enhancing the capability and competitiveness of Micro, Small and Medium Enterprises. Through this act anomaly regarding categories of small sector undertaking was alleviated. The definitional aspects of small scale enterprises was laid was by considering the criteria of investment in Plant and machinery. Services sector was also brought under its ambit. The term Micro was used for the first time for tiny enterprises. Some of the salient features of the Act may be summarised as follows:

Establishment of Board:

In order to support and develop Micro, Small and Medium enterprises, a Board was constituted named as the National Board for Micro, Small and Medium Enterprises headquartered at Delhi.

The Board under the jurisdiction of Central Government is authorised through the provisions of the Act to examine different parameters impacting the MSMEs, review the policies and programmes undertaken by Central government for upliftment of MSMEs and make recommendations henceforth for ironing out the impediments.

Definition and Classification of Micro, Small & Medium Enterprises:

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, criteria were laid down to classify categories of erstwhile small scale Industries. As per new criteria investment in Plant and Machinery for manufacturing Units and investment in Equipment for services sector was made yardstick for categorisation of enterprises into Micro, Small and Medium.

- a) **Manufacturing Enterprises-** The enterprises engaged in the production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) The Manufacturing Enterprise are defined as per its investment in Plant & Machinery into
 - i. Micro Enterprises: Investment does not exceed twenty five lakh rupees.
 - ii. Small Enterprises: Investment falling within twenty five lakh rupees but does not exceed five crore rupees.
 - iii. Medium Enterprises: Investment in between five crore rupees but does not exceed ten crore rupees.
- b) **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment into:
 - i. Micro Enterprises: Does not exceed ten lakh rupees.
 - ii. Small Enterprises: Investment between ten lakh rupees but does not exceed two crore rupees.
 - iii. Medium Enterprises: Investment between two crore rupees but does not exceed five core rupees.

Measures for Promotion, Development and Enhancement of Competitiveness of Micro, Small and Medium Enterprises

Measures for promotion and development: The Central Government would periodically rectify from time to time such programmes, guidelines or instructions. These rectifications would be aimed towards development of Infrastructure and bring optimum level of backward and forward linkages, besides achieving other developmental objectives.

Credit facilities: Credit policy is to be prescribed in accordance to Reserve Bank of India guidelines. The objective for such credit facilities would be ensuring optimum level of credit for Micro, Small and Medium enterprises.

Procurement preference policy: For ensuring growth and development of MSMEs, Central Government or the State Government would bring notification for preference policies regarding procurement of goods and services, from micro and small enterprises for purchase in various departments of the Government.

Funds: Provision for a dedicated fund named accordingly as notification has been created wherein the central government is contributory to such fund has been created.

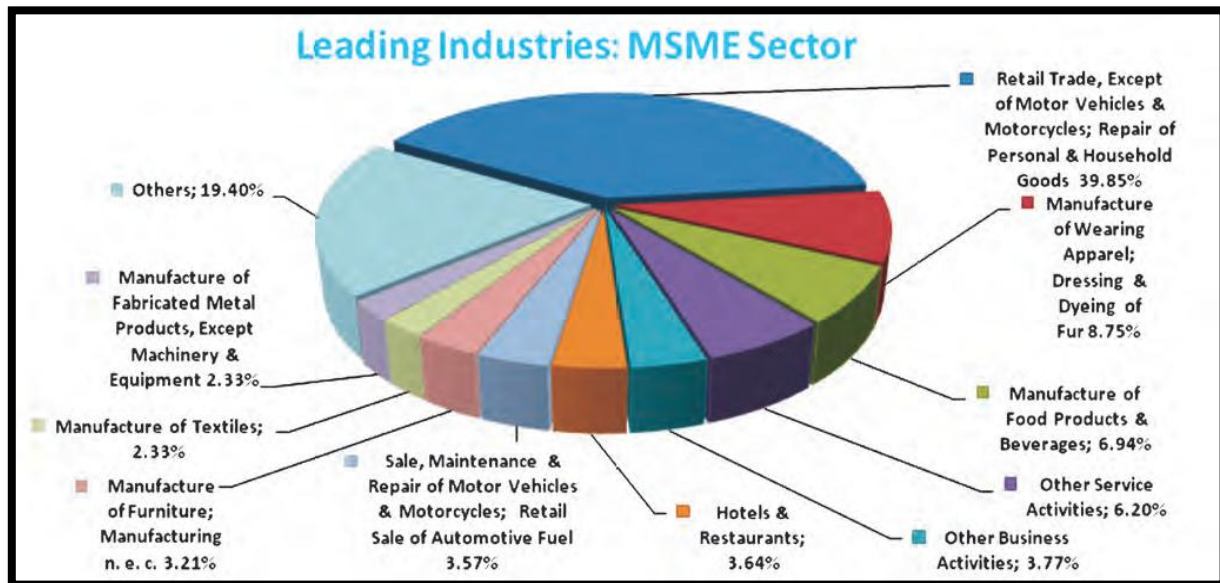
Grants by Central Government: The central government as per the requirement would provide Grant to fulfil the aim and objective of the act. The fund released through grant is to be used dedicatedly for the purpose as mentioned in sub-section (1) of section 9 of the MSMED Act.

Administration and utilisation of Fund or Funds: The Central Government shall be responsible for the coordination and ensuring timely utilisation and release of sums in accordance with such criteria as may be prescribed.

Delayed Payments to Micro and Small Enterprises: Prior to enactment of MSMED Act, delayed payments by clients of Micro, Small and Medium Enterprises was adversely affecting the sustainability and competitiveness of units. The aforementioned bottleneck has been addressed by making the buyer liable to make payment. As per the notification of the Act the buyer of Goods and Service is liable to make payment within forty five days provided if mentioned otherwise as per agreement. Wherein if the buyer fails to make payment of the amount due on him the supplier is mandated to pay compound interest with monthly rests to the supplier from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank.

Establishment of Micro and Small Enterprises Facilitation Council: Through the provisions of the MSMED Act 2006 a platform for enterprises were facilitated allowing the MSMEs to raise the matter of disputes related to Non Payment. It is aimed towards alleviating the bottleneck of non payment by clients of MSMEs. Any party to a dispute with regard to any amount due under section 17 can make appeal to the Micro and Small Enterprises Facilitation Council. The Council upon receiving such complain shall either conduct conciliation by itself or ask for the assistance from other institution or centre providing alternate dispute resolution services for conducting conciliation and the provisions of sections 65 to 81 of the Arbitration and Conciliation Act, 1996.

Chart 1: Purview of MSMED Act 2006 in Spectrum of Sectors:



Source: Annual report 2014-15.Govt.of India, Ministry of Micro, Small and Medium Enterprises. Micro, Small and Medium Enterprises Development Act 2006 has included Services sector. First time Micro enterprise was also introduced. This has increased the spectrum of sectors under its umbrella. In chart 1, the ambit of MSME sector is demonstrated. MSME sector extends from manufacturing sector comprising of Manufacture of Metal products, Textile products to Food Products and Services sector including Hotels, Restaurants and Maintenance work.

Objective of study:

1. To analyze the growth of Micro, Small and Medium enterprises in Post MSMED Act 2006 period.
2. To ascertain the effectiveness of MSMED Act 2006 in alleviating the Problems of Micro, Small and Medium Enterprises.
3. To evaluate the impact of inclusion of Services sector in realm of MSME sector on growth parameters.

Methodology:

Descriptive research has been undertaken. Research Methodology has adopted Secondary research tools for fulfillment of objectives of Research. Secondary data has been analyzed to ascertain contribution and development of MSMES in Indian Economy after enactment of Micro, Small and Medium Enterprises Development Act of 2006. Data has been summarized with the help of tables, charts and graphs.

Regression equation used for forecasting the dependant variables with respect to independent variable is

$$\hat{y} = b_0 + b_1x$$

The syntax used for this method has been:

- =FORECAST (B192, \$C\$182:\$C\$191, \$B\$182:\$B\$191) for Production.
- =FORECAST (B138, \$C\$128:\$C\$137, \$B\$128:\$B\$137) for Investment.
- =FORECAST (B22, \$C\$22:\$C\$36, \$B\$22:\$B\$36) for Employment.

Growth and Performance of Micro, Small and Medium Enterprises-Analysis

Forecasting technique through linear regression equation has been conducted for analyzing variables. The focus has been on the relationship between Number of Units as dependent variable and Production, Investment and Employment level as independent variables. More specifically, by using forecasting technique of regression analysis effort has been made to ascertain how the typical value of the dependent variable viz Production, Investment and Employment changed when independent variable more specifically Number of Units has varied. The trend for Production, Investments employment generation by MSMES in Pre MSMED act 2006 period corresponding to Number of Units was used to arrive at the forecasted figures for Production, Investments and employment level that could have been provided by MSMES in Post MSMED act 2006 if the macro environment for MSMEs was not intervened through the provisions of the Act.

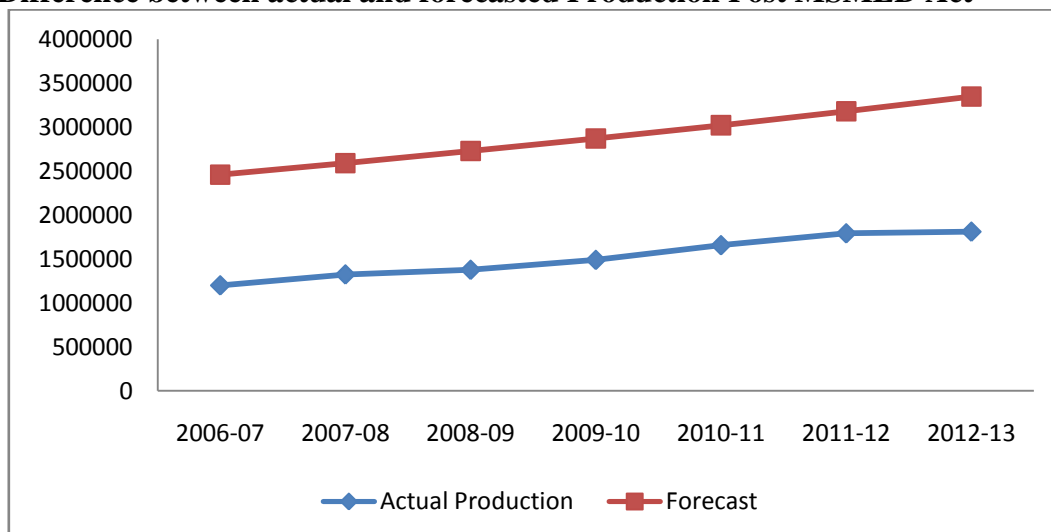
Table 1: Performance of MSME: Actual Production and Forecasted Production Post MSMED Act 2006.

Year	No. of Units(In lakh Units)	Actual Production(Rs in Crore)	Forecast(Rs in Crore)
2006-07	361.76	1198818	2459731
2007-08	377.36	1322960	2590636
2008-09	393.7	1375699	2727751
2009-10	410.8	1488390	2871244
2010-11	428.73	1655581	3021702
2011-12	447.66	1790805	3180551
2012-13	467.56	1809976	3347539

Source: Production Data taken from Annual reports .Govt. of India, Ministry of Micro, Small and Medium Enterprises.

Forecasted Data in Table 1 was prepared using Linear Regression Equation. The trend for production corresponding to Number of Units in Pre Micro, Small and Medium Enterprises Development Act 2006 was used to arrive at the forecasted production level by MSMES in Post Micro, Small and Medium Enterprises Development Act 2006. The yearly figure for Number of Units was Independent variable while Production level was dependent variable. This forecasted figure for production obtained henceforth was used to analyse the effect of MSMED act on macro environment for Micro, Small and Medium Enterprises. It also indicated the Production figure that could have been achieved had the provisions of the act maintained the eco system for Micro, Small and Medium enterprises engaged in manufacturing products.

Chart 2: Difference between actual and forecasted Production Post MSMED Act



Source: Prepared from table showing data for actual production and forecasted production Post MSMED Act 2006.

In chart 2, forecasted trend line is above the actual production. It indicated that inclusion of services sector has adversely affected the productivity of MSME Sector. Had the MSME sector's growth in number of units been with manufacturing enterprises the Production figure would have been more than actual production achieved in post Micro, Small and Medium Enterprises development Act 2006.

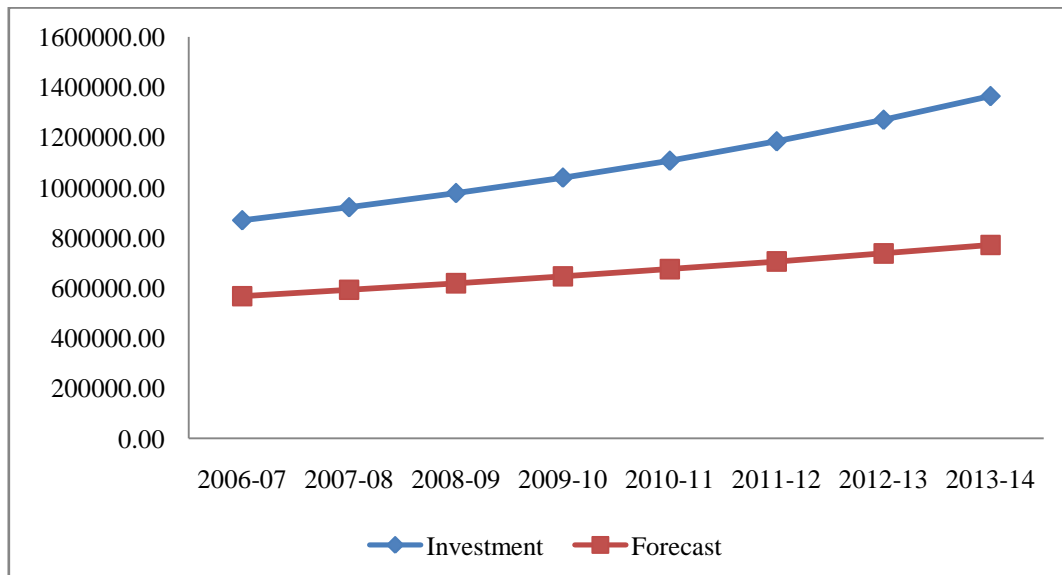
Table 2: Performance of MSME: Actual Investment and Forecasted Investment Post MSMED Act 2006.

Year	No. of Units (In lakhUnits)	Investment(Rs in Crore)	Forecast(Rs in Crore)
2006-07	361.76	868544	567139
2007-08	377.36	920460	592126
2008-09	393.7	977115	618299
2009-10	410.8	1038546	645689
2010-11	428.73	1105934	674408
2011-12	447.66	1183332	704729
2012-13	467.56	1269338	736604
2013-14	488.46	1363701	770081

Source: Investment Data taken from Annual reports .Govt. of India, Ministry of Micro, Small and Medium Enterprises.

Forecasted Data in Table 2 was prepared using Linear Regression Equation. The trend for Investments made by MSMES corresponding to Number of Units was used to arrive at the forecasted Investments for MSMES in Post MSMED act 2006.The yearly figure for Number of Units was Independent variable while Investments was dependent variable.

Chart 3: Difference between actual Investment and forecasted Investment Post MSMED Act 2006.



Source: Prepared from table showing data for actual Investment and Forecasted Investment Post MSMED Act 2006.

In chart 3, Forecasted trend line for investment by Micro, Small and Medium enterprises is lower than actual investment. It suggested that previous to MSMED Act the cost of production for small scale industries was relatively lower than Post MSMED Act2006.The gap is more pronounced in later years.

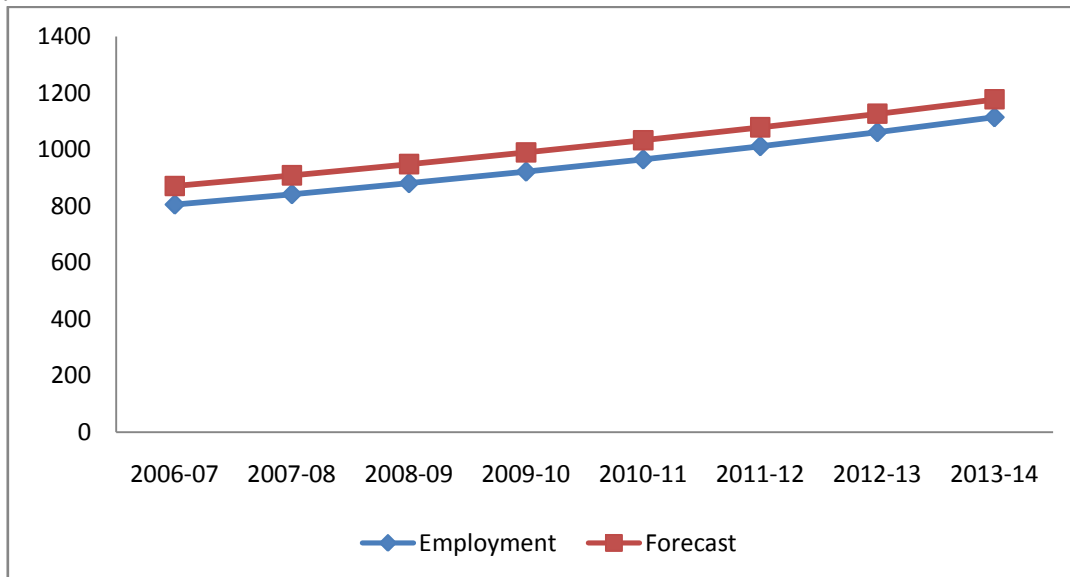
Table 3: Performance of MSME: Actual Employment and Forecasted Employment Post MSMED Act 2006

Year	No. Units (In lakh Units)	Employment(In Lakh)	Forecast(In Lakh)
2006-07	361.76	805.23	870.37
2007-08	377.36	842	908.1
2008-09	393.7	880.84	947.61
2009-10	410.8	921.79	988.97
2010-11	428.73	965.15	1032.33
2011-12	447.66	1,011.80	1078.11
2012-13	467.56	1,061.52	1126.23
2013-14	488.46	1,114.29	1176.77

Source: *Employment Data taken from Annual reports .Govt. of India, Ministry of Micro, Small and Medium Enterprises.

Forecasted Data in Table 3 was prepared using Linear Regression Equation. The trend for employment generation by MSMES corresponding to Number of Units was used to arrive at the forecasted figures for employment that could have been provided by MSMES in Post MSMED act 2006 if the macro environment for MSMEs was not intervened through the provisions of the Act. The yearly figure for Number of Units was Independent variable while Employment generated was dependent variable.

Chart 4: Difference between Actual Employment and Forecasted Employment Post MSMED Act 2006.



Source: Prepared from table showing data for actual Employment and Forecasted Employment Post MSMED Act 2006

According to chart 4, forecasted trend line for Number of employment is above the actual employment generated by Micro, small and medium enterprises after MSMED Act. However the gap between actual and forecasted figure is less pronounced than Production and Investment. Manufacturing sector being labour intensive than services sector would have generated more employment.

Conclusion:

The inclusion of Services sector has widened the scope of Ministry of Micro, Small and Medium Enterprises. The Micro, Small and Medium Enterprises Development Act 2006 encompasses wide and diverse spectrum of Sectors. This has increased the year on year growth of Number of units in MSME sector after the enactment of the development Act. The cost of production for small scale industries was lower in Pre MSMED act period than Post MSMED Act2006. However the upward trend in Production has also not been corresponding to Growth in Number of Units.



The Government of India has in order to overcome the hindrances for Manufacturing units come with proposed Micro, Small and Medium Enterprises (Amendment) Bill, 2015. The bill has been introduced in the Lok Sabha by the Minister for Micro, Small and Medium Enterprises on April 20, 2015. The Bill makes encouraging amendments in view of the current financial scenario in the Micro, Small and Medium Enterprises Act, 2006. The proposed bill has provisions to increase the concessions allowed for manufacturing units. Keeping in view the considerations of inflation, limit of investment in plant or machinery for enterprises engaged in the manufacture or production of goods has been revised. However the impact of the provisions of the bill can only be assessed with suitable passage of time to conduct impact analysis and when it comes into force.

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