UNIT - 4

VALUE PREPOSITION TO MSMES

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WHAT IS THE DEFINITION OF MSME?

- The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:
- Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
  - A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
  - A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore;
  - A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

WHAT IS THE DEFINITION OF MSME?

Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 are specified below.

– A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

– A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore;

– A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

INDUSTRIAL POLICY RESOLUTION, 1991

- The Government of India, for the first time, tabled the new small enterprise policy titled policy measures for promoting, strengthening and supplementing small, tiny and village enterprises in the Parliament on August 6, 1991.This policy widened the investment limit for the tiny sectors, removed the vocational restrictions and recognized business and industry related services as small industrial units on par with the tiny units.
- The Small and Ancillary Industries were exempted from licensing for all articles of manufacture, which were not covered by the public sector. The investment of 0.5 million and other location conditions was withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location, were recognized as small industrial units.
- A new scheme of integrated infrastructural development for small industrial units was provided with the participation of State Government and Financial Institutions.

THE NEW INDUSTRIAL POLICY, 1999

- The annual turnover limit for calculation of working capital limit for small industrial units was raised to Rs. 5 crores from Rs. 4 Crores.
- The maximum ceiling limit for Composite Loan Scheme was increased to Rs. 5 lakhs.
- To increase the flow of credit to small industrial units, a new credit insurance scheme was launched.
- Small Industrial units producing goods in rural areas are allowed excise exemption on third party branded goods.
- The definition of small and ancillary industrial units was revised by reducing investment limit in plant and machinery to Rs. 1 crore from Rs. Three crores.
- Special package for the development of small and village industries in North Eastern regions was announced. The industrial units in the North Eastern Region were given exemption from excise duty for ten years from the date of commencement of production
- Special emphasis was given to the units which have high export potential.

SCHEMES FOR FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES

Reimbursement For Iso-9000 Certification Scheme

- The scheme was started in March 1994, and it provides up to Rs. 75,000 per small industrial unit which acquired ISO-9000 Certification. Since the inception of the scheme of ISO-9000 reimbursement, 4101 small industrial units to the tune of Rs. 1944 crore have been benefited up to Nov -2006

Laghu Udyami Credit Card Scheme

- Laghu Udyami Credit Card Scheme (LUCCS) introduced in November 2001, has been implemented by the banks for providing borrower friendly credit facilities to small business.

Credit Guarantee Fund Trust Scheme For Micro And Small Industries

- The scheme covers collateral free credit facility extended by eligible lending institutions to new and existing Micro and Small Enterprises up to Rs. 50 lakh per borrowing unit.

DISINVESTMENT IN INDIA MEANING

- Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources.
- In some cases, disinvestment may be done to privatise assets. However, not all disinvestment is privatisation. Some of the benefits of disinvestment are that it can be helpful in the long-term growth of the country; it allows the government and even the company to reduce debt.
- Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India.

MAIN OBJECTIVES OF DISINVESTMENT IN INDIA

- Reducing the fiscal burden on the exchequer
- Improving public finances
- Encouraging private ownership
- Funding growth and development programmes
- Maintaining and promoting competition in the market

ARE DISINVESTMENT AND PRIVATISATION RELATED?

The government, whenever it so desires, may sell a whole enterprise, or a majority stake in it, to private investors. In such cases, it is known as privatisation, in which the resulting ownership and control of the organisation does not rest with the government. The government usually avoids doing this. The government mostly retains more than half of the stake in the public sector enterprise so that the control remains in its hands. But when it doesn't, then the ownership is transferred to the private sector, which results in privatisation. It is also known as majority disinvestment or complete privatisation wherein 100 per cent control goes to the private sector.

DEFINITION OF SPECIAL ECONOMIC ZONES (SEZs)

- ***Wei Ge*** has defined special economic zones as "characterized in general terms as a geographic area within the territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the countries."
- Now the term Special Economy Zones ("SEZ") covers a broad range of zones, such as free trade zones, export-processing zones, industrial parks, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones, and others.

The following are the main characteristics of Special Economic Zones (SEZ):

- Geographically demarked area with physical security.
- Administrated by single body/authority.
- Enjoying financial and procedural benefits
- Streamlined procedures
- Having separate custom area
- Governed by more liberal economic laws.

OBJECTIVES OF SEZs

SEZs are normally established with the aim of achieving one or more of the following objectives:

- To enhance foreign investment, especially to attract foreign direct investment (FDI), thereby increasing GDP.
- Increase shares in Global Export (international Business).
- As experimental laboratories for the application of new policies and approaches- China's large-scale SEZs are classic examples.
- Generation of additional economic activity, or in support of wider economic reform strategy, which reduces anti-export bias while keeping protective barriers intact. The SEZs of China, The Republic of Korea, Mauritius, Taiwan, and China, follow this pattern.

OBJECTIVES OF SEZs (CONT.)

- Creation of employment opportunities and to serve as "pressure valves" to alleviate large-scale unemployment. SEZ programs of Tunisia and the Dominican Republic are frequently cited as examples of programs that have remained enclaves and have not catalyzed dramatic structural economic change, but remained robust, job-creating programs.
- In support of a wider economic reform strategy. In this view, SEZs are a simple tool permitting a country to develop and diversify exports. Zones reduce anti-export bias while keeping protective barriers intact. The SEZs of China, The Republic of Korea, Mauritius, Taiwan, and China, follow this pattern.
- Development of infrastructure facilities.
- Exposure to technology and global market.

BENEFITS AND INCENTIVES OF SEZs

- Tax benefits (Tax holidays, income tax exemptions etc.)
- Liberal Labour Regulations.
- Exemption from excise and customs duty on procurement of capital assets, consumable stores, raw-materials from domestic market.
- Exemption from sales tax, import duty, income tax, minimum alternative tax and dividend distribution tax
- Streamlined procedures (online/single window).
- Liberal approach in foreign direct investments.
- Increased capital account convertibility.
- Relaxed export regulation.
- Profits could be repatriated fully.
- Reimbursement of central sales tax paid on domestic purchases.
- Non-applicability of related environmental laws.

ROLE OF SEZS IN INTERNATIONAL BUSINESS

- One of the main objective of SEZ is to enhance exports, i.e. to have a prominent role in international business. A main factor in determining the success of SEZ is growth in the exports made by them. The purpose behind their establishment is to provide an internationally competitive environment to increase export, by making available goods and services free of tax and duties supported by convergent infrastructure.

In order to stimulate the exports, normally, related enactments were provisioned with the following:

- Long-term and stable policy framework with minimum regulatory regime.
- Expeditious and single window approval mechanism.
- Import and export movements of goods are based on self-declaration.
- No routine examination is made unless specific order from concerned authority.
- Packages of incentives to attract foreign and domestic investments for promoting exports-led-growth.

In order to stimulate the exports, normally, related enactments were provisioned with the following: **(Cont.)**

- Exemption from custom duty on goods imported into the SEZ by the developers to carry out their authorized operations.
- Exemption from customs duty on goods exported from the SEZ by the developer or SEZ units.
- Free Trade and Warehousing Zones, to create trade related infrastructure to facilitate import and export of goods and services and to create world-class infrastructure for warehousing with all amenities.
- Freedom to carry out trade transaction in free currency.
- “Deemed Export” Facilities in the SEZ.

WORLD TRADE ORGANIZATION

- The **World Trade Organization** (WTO) is an intergovernmental organization which regulates international trade. The World Trade Organisation officially commenced on 1 January 1995 under the **Marrakesh Agreement**, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade(GATT), which commenced in 1948.

- The World Trade Organization is a Multi-lateral organization which facilitates the free flow of goods and services across the world and encourages fair trade among nations. The result is that the global income increases due to increased trade and there is supposed to be overall enhancement in the prosperity levels of the member nations.

FEATURES OF WORLD TRADE ORGANISATION

- It is an international organization to promote multilateral trade.
- It promotes free trade by removing tariff and non-tariff barriers in international trade.
- It has fixed set of rules and regulations and it has a legal status. Its rules and regulations are mutually designed and agreed upon by member nations.
- Agreements agreed by member-countries are binding on all members of WTO and if any member does not follow such agreements, then its complaint can be lodged with the Dispute Settlement Body of WTO.
- It includes trade in goods, trade in services, protection of intellectual property right rights, foreign investment etc.
- Unlike International Monetary Fund(IMF) and the World Bank. WTO is not an agent of United Nations.
- Unlike IMF and World Bank, there is no weighted voting (on the basis capital). Rather all the WTO members have equal voting rights (One Country, One Vote).
- WTO has large Secretariat and huge organizational set up.

OBJECTIVES OF WORLD TRADE ORGANISATION

- The primary aim of WTO is to implement the new world trade agreements.
- To promote multilateral trade i.e. trade among many nations.
- To promote free trade by abolishing tariff and non tariff barriers.
- To promote world trade in a manner that benefits every member country.
- To ensure that developing countries get a better share in the advantages resulting from the expansion of international trade corresponding to their development needs.
- To remove all hurdles to an open world trading system and use world trade as an effective instrument to boost economic growth.
- To enhance competitiveness among all trading partners so as to benefit consumers.
- To expand and utilize world resources in the most optimum manner.
- To improve the level of living for the global population and speed up economic development of the member nations.
- To take special steps for the development of poorest nations.

FUNCTIONS OF WORLD TRADE ORGANISATION

- Laying down code of conduct aiming at reducing tariff and non-tariff barriers in international trade.
- Implementing WTO agreements and administering the international trade.
- Cooperating with IMF and World Bank and its associates for establishing coordination in Global Trade Policy-Making
- Settling trade related disputes among member nations with help of its Dispute Settlement Body (DSB).
- Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body (TPRB).
- Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.
- Acting as form for trade liberalization.

IMPACT OF WTO AGREEMENTS ON INDIAN ECONOMY

Increase In Export Earnings

- Estimates made by World Bank, Organization for Economic Co-operation and Development (OECD) and the GATT Secretariat, shows that the income effects of the implementation of Uruguay Round package will be an increase in traded merchandise goods. It is expected that India's share in world exports would improve.

Agricultural Exports

- Reduction of trade barriers and domestic subsidies in agriculture is likely to raise international prices of agricultural products. India hopes to benefit from this in form of higher export earnings from agriculture. This seems to be possible because all major agriculture development programmes in India will be exempted from the provisions of WTO Agreement.

Export Of Textiles And Clothing

- With the phasing out of MFA (Multi – Fiber Arrangement), exports of textiles and clothing will increase and this will be beneficial for India. The developed countries demanded a 15 year period of phasing out of MFA, the developing countries, including India, insisted that it be done in 10 years. The Uruguay Round accepted the demand of the latter. But the phasing out Schedule favours the developed countries because a major portion of quota regime is going to be removed only in the tenth year, i.e. 2005. The removal of quotas will benefit not only India but also every other country'.

IMPACT OF WTO AGREEMENTS ON INDIAN ECONOMY

Multilateral Rules And Disciplines

- The Uruguay Round Agreement has strengthened Multilateral rules and disciplines. The most important of these relate to anti – dumping, subsidies and countervailing measures, safeguards and disputes settlement. This is likely to ensure greater security and predictability of the international trading system and thus create a more favourable environment for India in the New World Economic Order.

Growth To Services Exports

- Under GATS agreement, member nations have liberalized service sector. India would benefit from this agreement. For e.g.- India's services exports have increased from about 5 billion US $ in 1995 to 96 billion US $ in 2009-10. Software services accounted for about 45% of service exports.

Foreign Investment

- India has withdrawn a number of measures against foreign investment, as per the commitments made to WTO. As a result of this, foreign investment and FDI has increased over the years. A number of initiatives have been taken to attract FDI in India between 2000 and 2002. In 2009-10, the net FDI in India was US $ 18.8 billion.

IMPORTANCE OF MSMES FOR INDIAN ECONOMY

- **Employment:** It is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
- **Contribution to GDP:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities.
  - MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a $5 trillion economy.
- **Exports**: It contributes around 45% of the overall exports from India.
- **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
  - For example: Khadi and Village industries require low per capita investment and employs a large number of women in rural areas.
- **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
- **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

FACTORS WHICH LED TO GROWTH OF MSMES

- **Campaigns** like Skill India, Startup India, Digital India and Make in India aim to provide MSME players with a level playing field and a definitive push towards enhanced productivity.
- **Digitization:** Increasing internet penetration, customer's familiarization with digital payments fuelled by B2C ecommerce players facilitate MSME sector growth.
- Tie-ups with new-age **non-banking finance (FinTech) companies** allowed access to timely collateral free finance to MSMEs.
- **Changing employment patterns:** Younger generation shifting from agriculture towards entrepreneurial activities creating job prospects for others.

GOVERNMENT SCHEMES TO PROMOTE MSMES

•**Udyami Mitra Portal :** launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.

•**MSME Sambandh :** To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.

•**MSME Samadhaan** -MSME Delayed Payment Portal — will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.

•**Digital MSME Scheme :** It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure

•**Prime Minister Employment Generation Programme** : It is a credit linked subsidy program under Ministry of MSME.

GOVERNMENT SCHEMES TO PROMOTE MSMES (CONT.)

- **Revamped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI)** : organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.

- **A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)** : creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.

- **National Manufacturing Competitiveness Programme (NMCP)** : to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.

- **Micro & Small Enterprises Cluster Development Programme (MSE-CDP)** - adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSEs.

- **Credit Linked Capital Subsidy Scheme (CLCSS**) is operational for upgradation of technology for MSMEs.

WAY FORWARD . . .

- Today enterprises need to adopt best practises and follow international standards to go forward for offering innovative solutions.
- Focus should be on transfer of information and skill development to effectively use the transferred technology.
- There is an urgent need to upgrade infrastructure utilities (like water, power supply, road/rail) for any enterprise to run its operations successfully.
- Entrepreneurs need to develop quality conscious mindsets embedded in the organisational culture.
- Sensitisation and handholding of MSMEs at different and upgraded level of certification is the need of the hour.