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## CASE STUDY ON POLICY MEASURES FOR MSME IN INDIA (Micro, Small and Medium Enterprises)

**Dr. Nalla Bala Kalyan**

Associate Professor  
 Department of Management Studies  
 Sri Venkateswara College of Engineering  
 Karakambadi Road, Tirupati-517507

**Dr. N. Naveen Kumar**

Department of Computer Applications  
 Madanapalle Institute of Technology & Science  
 Angallu (Village), Madanapalle-517325  
 Chittoor District, Andhra Pradesh, India

### Abstract

*The Micro, Small and Medium Enterprises (MSMEs) are fittingly regarded as the vertebrae of the Indian economy. The current critique deals with micro, small and medium enterprises policy initiatives in the Indian circumstance. Worldwide, the Micro Small and Medium Enterprises (MSMEs) have been conventional as the engine of economic enlargement and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. The Government of India has undertaken several initiatives and instituted policy measures to foster a culture of innovation and entrepreneurship in the country. Government announces various schemes and benefits for promoting the entrepreneurship in India.*

**Key words:** Development, India, MSME (Micro, Small and Medium Enterprises), Policy, Schemes

### Introduction

The 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. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture.

MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

### 1.1 Role of MSMEs in Indian Economy

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) Product (GDP), at current prices for the last five years is as below:

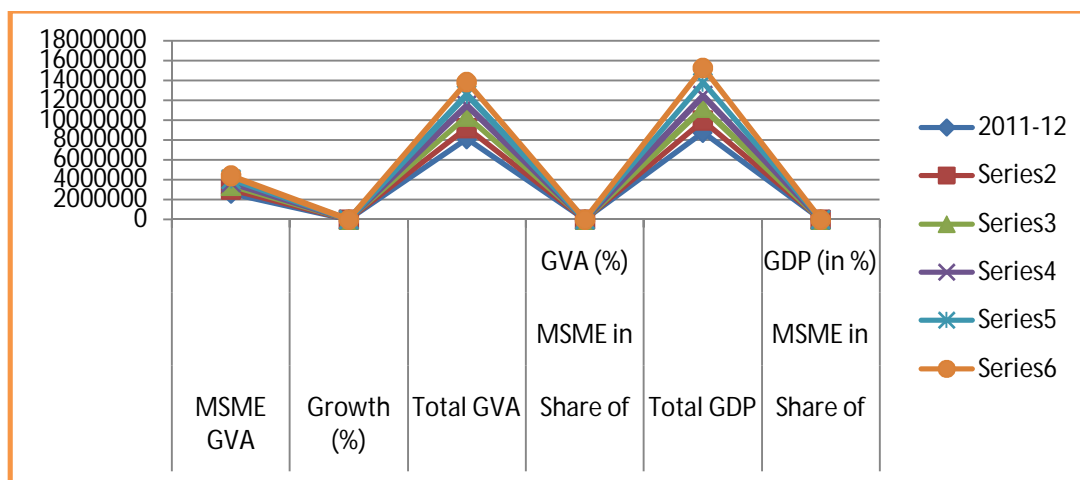
and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) Product (GDP), at current prices for the last five years is as below:

**Table 1**  
**Contribution of MSMEs in Country's Economy at Current Price**  
 [Figures in Rs. Crores adjusted for FISIM at current prices]

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

**Source:** Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

**Graph 1**



**Micro Small and Medium Enterprises Development Act, 2006**

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMEs) Act, 2006 on June 16, 2006 which was notified on October 2, 2006.

With the ratification of MSMED Act 2006, the paradigm shift has included the services sector in the definition of micro,

small and medium enterprises, apart from extending the scope to medium enterprises.

The MSMEs Act, 2006 has modified the definition of micro, small and medium enterprises as those that are engaged in manufacturing or production and providing or rendering of services.

**Definition of Micro, Small and Medium Enterprises**

The Act has also defined medium enterprises for the first time. The enterprises are further classified into Micro, Small and

Medium categories. The investment limits of these enterprises are as follows:

**Manufacturing Enterprises:**

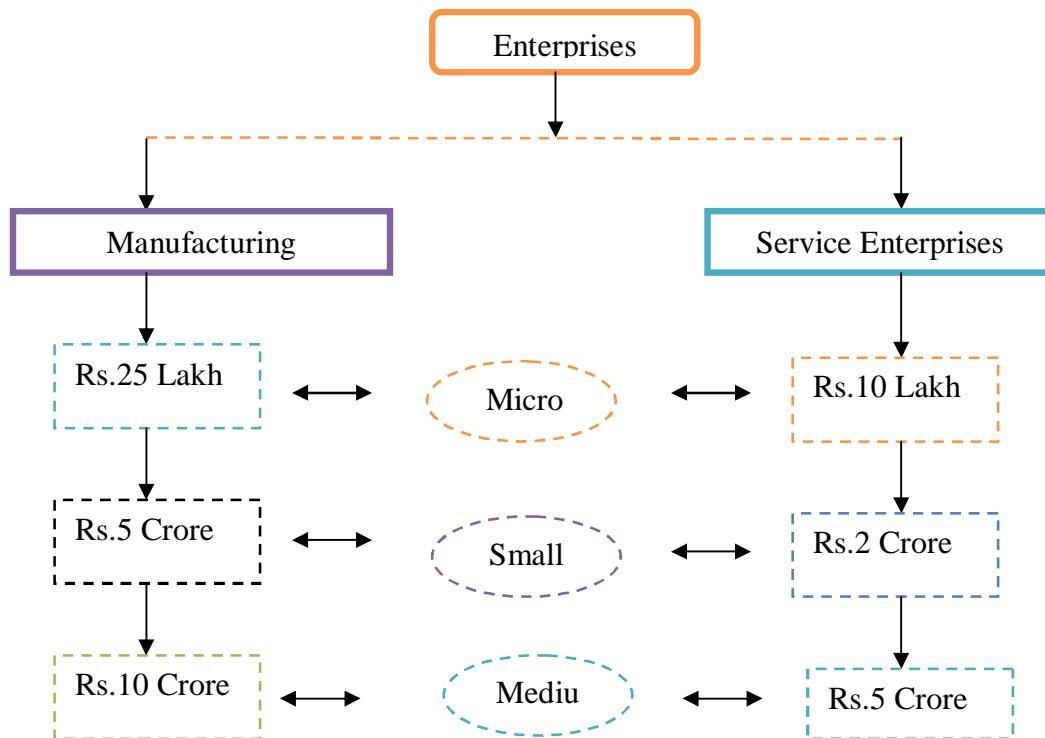
- i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs.25 lakh;
- ii) A small enterprise is an enterprise where investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore: and
- iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

**Service Enterprises:**

- i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakh;
- ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2crore: and
- iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

(The investment limits of these enterprise Are as shown in figure1)

**Figure 1**  
**Classifications of Micro, Small and Medium Enterprises**



(As per Micro, Small and Medium Enterprises Development Act, 2006)

The Micro, Small and Medium Enterprises constitute the overall industrial sector of the country.

**Policy Initiatives in Micro Small and Medium Enterprises**

India has a long history of conceiving policies of protecting the small industrial units. Since independence, several policy initiative and measures have accordingly been taken by the government during the year to enable the micro, small and medium

enterprises enhance their competitive strength, Address the challenges of competition and avail of the benefits of the global market.

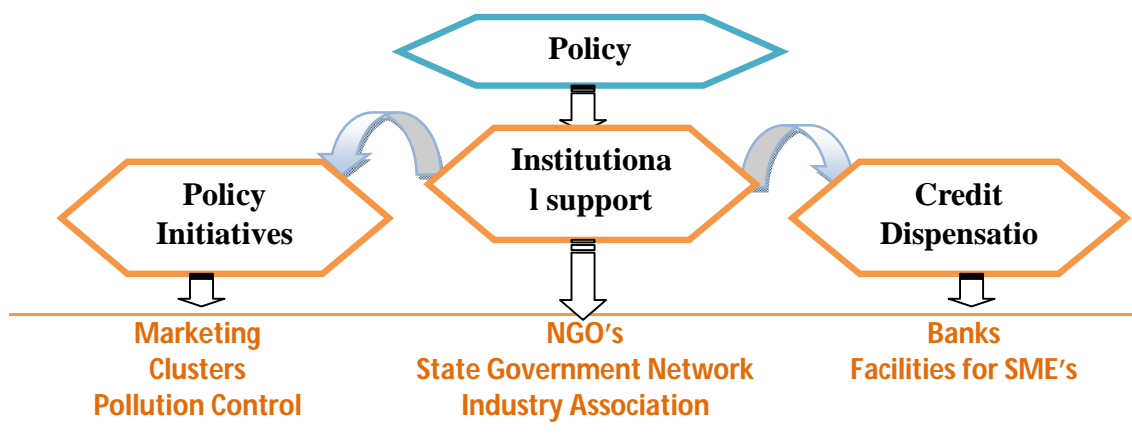
The main objective of Industrial Policy Resolutions was to promote industrial growth and also to determine the pattern of state assistance to small industrial units for

fulfilling socio-economic objectives. Industrial development plays a crucial role in India's development strategy. The progress of industrialization over the last fifty years has been a striking feature of the Indian economic development. Industrial policies lay stress on the strategy of development. In increasing industrial production, diversifying the base of industrial production as well as increasing employment opportunities, industrial have been playing important role in India. The promotion of industries has been regarded as an important element of the development strategy underlying Five Year plans. The industrial policy would indicate the respective roles of the public, private, joint and co operative sectors and also of the large, medium and small scale sector and will underline the national priorities. The advent of planned economy from 1951 and the subsequent industrial policy followed by government of India, both government and

planners earmarked a particular position of Micro, Small and Medium Enterprises in the Indian economy.

Government's objectives and intentions towards industry including small scale industry were announced through industrial policy resolutions (IPRs). There resolution was announced in 1948, 1956,1977,1980,1990 and 1991. Through the ministry, government has brought about changes in policies and development support that have enable rapid and substantial development of MSMEs in India and give them a competitive edge over their global countries. Some programmes and policies have been outlined here. The facilities can be categorized into three: Policy initiatives, Institutional support and credit dispensation. The following chart shows three categorized policies.

**Chart 1**  
**Policies of MSMEs**



**Policy Initiatives**

Small scale industries constitute a key link in the process of socio economic transformations of underdevelopment social structures. The Ministry Of MSMEs and other Government Departments are still working hard to pull the sector out of the recession and overcome some inherent problems. MSMEs to promote the development of micro, small and medium

enterprises in the country saw success this year. For accelerating the flow of credit to MSMEs, the RBI and Government have taken the following pro active initiatives. Reserve Bank of India (RBI) incorporated the definition of micro, small and medium enterprises, as defined, in the MSME Development Act into the revised guidelines on priority sector issued to SCBs on April 30, 2007.

- Based on the Finance Minister's policy package announced in August 2005, public sector banks were advised to fix their own targets for funding MSEs and achieve a minimum 20% year-on-year growth in credit to MSEs and double the credit flow from Rs. 67,600 crore in 2004-05 to Rs. 1,35,200 crore in 2009-10.
- Public sector banks should operationalise at least one specialized SME branch in every district and center having cluster of SME units to ensure uninterrupted credit flow to this sector.
- In August 2009, RBI advised banks not to insist on collateral security for loans up to Rs. 500,000 to MSE sector.
- Union budget 2008-09 announced MSE Refinance Fund and MSE Risk Capital Fund, which were established with SIDBI in June 2008. SCBs failing to achieve their priority sector lending targets would contribute to these Funds.
- Union Budget 2009-10 announced a special fund of Rs.4000 crore to SIDBI to facilitate the credit flow at reasonable rates to MSE sector. The fund will incentivize banks and SFCs to lend to MSEs by refinancing 50% of incremental lending to MSE during 2008-09.
- Small Scale Industries (SSI) sector is one of the three well-defined components of the priority sector credit. Since SSI sector has not stipulated any lending target banks are required to fix self-set credit target for growth.
- Government has now redefined the Foreign Direct Investment (FDI) cap on MSME sector, according to which the 24% ceiling for ownership of SME units by bigger domestic firms or foreign investors has been

removed. Higher Foreign Direct Investment (FDI) will be allowed according to the sector-wise cap stipulated in the FDI policy.

- A policy package for stepping up credit to Small and medium enterprises was announced in the Parliament on August 10, 2005 in order to achieve a minimum 20% year-on-year growth in credit to the MSME sector by the public sector banks. The objective is to double the flow of credit to the MSME sector by 2009-10, i.e. within a period of 5 years.

#### **Schemes for Financing Micro, Small and Medium Enterprises**

In the post World Trade Organization (WTO) environment, it has become very clear that Small industrial units have to be cost competitive and produce quality goods to remain in business. The Ministry of Small Scale Industries (SSI) proposed to help small industrial units by giving incentives for taking ISO-9000 certification, introduce a Credit Linked Capital Subsidy Scheme (CLCSS), Technology upgradation Scheme and Credit Guarantee Fund Trust (TGSCGPT) for Small Industries. Schemes for Financing MSMEs are presented in the below.

**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, 4,101 small industrial units to the tune of Rs. 1,944 crore were 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, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the tiny sector. Credit limit per enterprise under



the scheme has been increased from Rs. 2 lakh to Rs. 10 lakh for borrowers with satisfactory record.

**Swarojgar Credit Card scheme:** Swarojgar Credit Card Scheme (SCCS) has been launched since 15<sup>th</sup> August 2003 and banks are providing working capital to self employment persons to the extent of Rs. 25,000 lakhs per card. Credit flow from the formal system to small borrowers, especially persons of small means, has not been satisfactory which has been confirmed by various studies. Various credit delivery innovations in the form of Self Help Groups (SHGs) - Bank Linkage Programme for making financial services available to the poor, Kisan Credit Card Scheme (KCCS) for meeting the production credit needs of the farmers for small industrial sector have been introduced. However, tiny and cottage village industries sectors and self employed persons were left out from credit card schemes.

**Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI):** 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. Under the Scheme, 73,431 Proposals amounting to Rs. 1, 97,133 crore have been approved. Credit Guarantee Fund Trust for Micro and Small Industries helps small entrepreneurs realize their dreams of making it big and successful.

**Credit Linked Capital Subsidy Scheme (CLCSS):** The scheme was started in October, 2000 for a period of 5 years for encouraging the small industrial units for technology upgradation by installing new machinery and equipment for increasing productivity, quality upgradation, and machinery for packaging or for environment protection. Initially 13 items were shortlisted under this scheme, providing 15 % upfront capital subsidy with effect from the 29.09.2005 to Micro, Small and Medium Enterprises. A provision for giving subsidy of Rs. 600 crores was made under this

scheme. Recently the list of items has been enhanced to 30 so that more number of units can become technically advanced.

**National Equity Fund Scheme (NEF):** The objective of National Equity Fund Scheme (NEF) Scheme is to provide equity type support to entrepreneurs for setting up new projects in tiny and small industrial sector for undertaking expansion, modernization, technology upgradation and diversification of existing tiny, Small Industries and Service Enterprises and for rehabilitation of viable sick units. In this scheme the cost should not exceed Rs. 50 Lakhs for new projects.

**Integrated Infrastructure Development Scheme (IIDS):** Integrated Infrastructure Development Scheme (IIDS) was launched in 1994 with the objective of providing basic infrastructural facilities like Power Distribution Network, Water, Roads, Telecommunication, Drainage and Pollution control facility, Banks, Storage and Marketing outlets, Common service facilities and Technological back up services etc. The estimated cost to set up an IID centre is Rs. 5.00 crore. Central Government provides up to 40 % or Rs. 2 crore in the case of general states and 80 % or Rs.4 crore – for North-East Region, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

**Technology development and Modernization Fund scheme (TDMF)** The main objective of the scheme is to encourage existing industrial and small industrial units to take up modernization of their production facilities and adoption of improved technology, the scheme was initiated in 1995 and extended up to 2003.

### 5.1 Current Schemes for MSME

The Government of India has undertaken several initiatives and instituted policy measures to foster a culture of innovation and entrepreneurship in the country. Government announces various schemes and benefits for promoting the entrepreneurship in India. Current Schemes for MSME Make in India Scheme, Livelihood Business

Incubator, Start-Up India Scheme, National Skill Development Mission, Digital India, Science for Equity Empowerment and Development, Stand up India Scheme, SANKALP, Udaan, and Support to Training and Employment Programme for Women.

### Conclusion

The MSMEs the world over have been undergoing crucial changes in response to the manifold imperatives of globalization. The singular contribution of MSMEs is on account of their unique characteristics. The Indian experience has shown that it is possible to design targeted interventions, be they are a specific like in clusters or be they sector –sub sector or product specific. Other counters are they Asian also have policies which aim at similar support. In India, the historical role of MSMEs in creating sufficient opportunities or employment for the teeming millions has come to occupy secondary status in the face of original strategies to ensure external orientation; MSME sector has made important contribution to employment generation and also to rural industrialization. Under the shifting economic scenarios' has both the demanding and opportunities before them. The business can contend on cost, quality and products at household and international level only if ideal investment in equipment production process, R&D and marketing are made. Communications bottlenecks are not completely solved. The promotional behavior for MSMES in India needs to contemplate on improved credit flows, human resource development, suitable technology and resources for transformation. So, this is the appropriate time to set up projects in the MSMES sector.

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