



Challenges of Msmes and Recommendations of 12TH Five Year Plan (2012-17)

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ABSTRACT

A significant feature of the Indian economy since independence is the rapid growth of Micro and small enterprises (MSEs) sector, the then Small Scale Industries (SSIs) sector. Micro, Small and Medium Enterprises sector (MSMEs) has emerged as a highly vibrant and dynamic sector of the Indian economy over the last few decades and it is also recognized as the real engine of growth for the Indian Economy (Udaykumar Varma, 2011). The sector is highlighted as a breeding ground for entrepreneurship at the grass the root level and continues to show dynamism in terms of employment generation, contribution to GDP and export earnings (Shyam Agarwal, Virbhadra Singh, 2011). This sector contributes about 45 per cent of manufacturing output and 40 per cent of total exports of the country and employs about 69 million persons in over 29 million units throughout the country. MSME sector have been accorded significant place in Five year plans by Government of India. This paper presents the challenges of MSME sector and the recommendations of Twelfth Five Year Plan of India.

KEYWORDS :

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 few decades. It is estimated that this sector contributes about 45 per cent of manufacturing output and 40 per cent of total exports of the country and employs about 69 million persons in over 29 million units throughout the country. Within the MSME Sector there is a significant concentration of Micro Enterprises, both in terms of working enterprises and employment. There are over 6,000 products ranging from traditional to high-tech items manufactured by the MSMEs. The sector also covers the enterprises established in khadi and village industries and coir sector. Recognising the contribution and potential of the sector, the definitions and coverage of MSE Sector have been broadened significantly under Micro Small and Medium Enterprises Development (MSMED) Act, 2006. Service sector, an important emerging sector, has also been included under this Act, depending on its category into Micro, Small and Medium Enterprises. The criteria of investment limit in plant and machinery is the only parameter, used to categorize the enterprises in the sector in the country.

The objectives for the MSME Sector

- Promoting competitiveness and productivity in the MSME space
- Making the MSME Sector innovative, improving technology
- Enabling environment for promotion and development of MSMEs
- Strong presence in exports
- Improved managerial processes in MSMEs

Status and Key Challenges

MSME Sector has been consistently registering a higher growth rate than the overall growth of the industrial sector. During the first four years of the Eleventh Plan, MSME Sector exhibited a growth rate of 13 per cent on an average. There are some inherent challenges faced by the sector which have a strong impact on its growth. These relate to (i) availability of credit and institutional finance (ii) outdated technology and innovation, (iii) need for skill development and training, (iv) inadequate industrial infrastructure, (v) marketing and procurement.

The Plan explores various aspects of MSME Sector, relating to the growth of the sector. These may be classified under six important verticals to provide theme-based focus, while devising any strategy for the sector. These are (i) finance and credit (ii) technology (iii) infrastructure (iv) marketing and procurement (v) skill development and training (vi) institutional structure.

Strategy and Key Recommendations

Credit and Finance

Credit is a crucial input for promoting growth of MSME Sector, particularly the MSE Sector, in view of its limited access to alternative sources of finance. Access to information, simplification of loan procedures and interest subsidy for micro enterprises are enabling features

for timely and affordable credit to MSMEs. The Plan should provide resources for promoting e-platforms for information flow and simplification of procedures. To address the risk perception of banks, particularly for lending to MSEs, the Credit Guarantee Scheme needs to be strengthened, with enhanced budgetary support. There should be substantial increase in the number of MSEs covered under the Performance and Credit Rating Scheme which is a facilitating factor for easy access to credit with liberal terms.

The reach of the MSEs to the banking network has to be substantially enhanced through setting up of branches near clusters. While there has been an effort to facilitate credit to clusters by financial institutions such as SIDBI, reach and thereby coverage needs to be increased. In fact, a cluster centric approach is the best way for addressing the credit needs of the MSME Sector because of reasons of operational convenience and trust building.

Access to finance needs to be enlarged through alternative sources of capital such as private equity, venture capital and angel funds. This is crucial for facilitating the growth of knowledge-based enterprises which have high potential in the Indian context. Further, prospective enterprises in emerging areas such as nanotechnology, biotechnology, aerospace and defence applications would also require such alternative sources of finance since traditional channels are unable to meet their needs.

There has to be aggressive market intervention, such as promoting companies for market making and ensuring scaling up of operations of SME exchange. The Plan has to provide resources for such market interventions.

Technology Upgradation and Support

Technology will be the foremost factor for enhancing the global competitiveness of Indian MSME Sector. The Prime Minister's Task Force on MSMEs has identified low technology, generally used by the MSME Sector, as a major cause for poor competitiveness of the sector. The main focus needs to be on developing appropriate technologies for various manufacturing processes to bring down cost, develop collaborations between private and public sector on boosting R&D, and facilitate absorption of globally competitive technologies. Also, separate schemes of the ministry for installation of plants and equipment's with advanced technologies viz. Credit Linked Capital Subsidy Scheme (CLCSS) and National Manufacturing Competitiveness Programme (NMCP) components may be merged into one scheme, skill development and capacity building.

Lack of skilled manpower and information as well as lack of reach to modern technology are affecting the growth of the MSME Sector. Among its major recommendations, the Prime Minister's Task Force has identified lack of skilled manpower as a road block for the growth

of the MSME Sector. The Ministry of MSME has been mandated to provide skill to 42 lakh persons during the Twelfth Plan period. Strategies for this, including enhancing training capacities for skilling and industry-led skilling and training programmes have been covered previously in the Human Resources Development Section.

Infrastructure Development

Cluster-based intervention has been acknowledged as one of the key strategies for comprehensive development of Indian industries, particularly the Micro and Small Enterprises (MSEs). The Ministry of MSME has adopted the cluster approach as a key strategy for enhancing the technical and physical infrastructure as well as capacity-building of micro and small enterprises and their collectives in the country. Since 1994, Ministry had also been supporting creation and upgradation of industrial infrastructure in the States under Integrated Infrastructural Development (IID) Scheme, which was subsumed under MSE-Cluster Development Programme in October 2007.

Land and infrastructure constraints are a major problem, particularly in metros and bigger cities. As production processes of majority of MSEs can be accomplished in flatted factories, flatted factory complexes may be encouraged by providing financial support likewise. Accommodation problem of industrial workers may be addressed to a great extent by supporting dormitories (in or around industrial estates/areas). Special Purpose Vehicles (SPVs) may run the dormitories on sustainable basis. Maintenance of industrial estates (mainly maintenance of roads, drainage, sewage, power distribution and captive power generation, water supply, dormitories for workers, common effluent treatment plants, common facilities, security and so on) is a critical component for successful functioning of the industrial enterprises in any industrial estate/ industrial area. It would be appropriate to handover maintenance of industrial estates to the industry associations, local bodies, State Government agencies, SPVs on self-sustaining basis. World over hightech and innovative enterprises start in Modular Industrial Estates. To encourage such ventures, modular industrial estates are proposed to be set up near centres of excellence like IITs.

The Cluster Development Programme of the Ministry of MSME (MSE-CDP) may be continued in the Twelfth Plan period with streamlining of interventions and also ensuring the sustainability of clusters developed. The Programme should also address the requirements of the large unorganised manufacturing sector.

Marketing and Procurement

Marketing and procurement are the other areas where MSMEs face more challenges than opportunities. The challenges range from procurement of raw materials to lack of market information. MSMEs face several constraints in the marketing and procurement front due to their limited maneuverability in such wide ranging activities either on account of lack of finance or on account of lack of awareness. While marketing of products of MSMEs mostly depends upon the market forces and individual efforts of the enterprises, Government and its organisations can play the role of a facilitator to help MSME Sector in these endeavours.

There are multiplicity of market development assistance programmes to support MSMEs, like participation in domestic and international trade fairs, bar coding, packaging and standardisation within the Ministry. There is a need for rationalisation and consolidation of such programmes under different broad heads.

However, schemes especially in areas of use of ICT for creating cluster-level, State-level and national-level B2B portals with connectivity to international markets and marketing infrastructure may be required in the Twelfth Plan such as setting up of testing facilities and establishment of information dissemination centres and display-cum-exhibition centres.

The plan allocation for such schemes can be made under the infrastructure vertical and technology vertical (ICT Scheme), respectively. The vacant land available in the premises of MSME Development Institutes and District Industries Centres can be put to use for construction of display cum-exhibition centres and establishment of information dissemination centres.

Setting up of marketing organisations in clusters in Public Private Partnership mode through formation of SPVs, which would form the focal point at the cluster level for all marketing-related activities, such as e-marketing, branding, advertising, bar coding and so on could be considered in the Twelfth Plan.

National Small Industries Corporation (NSIC), the autonomous outfit of Ministry of MSME may be the apex organisation to coordinate market development activities under different schemes.

The Government has recently introduced a Public Procurement Policy for the MSME Sector. Further, there is also need for inclusion of private sector in the procurement policy for the MSME Sector. An offset under defence purchases has vast potential for MSME Sector. There is need for setting up a mechanism in the Ministry of Defence to ensure that the offsets under defence purchases are suitably focused to support SMEs in upgrading their capacities. All new and existing schemes should be merged into one scheme, namely Marketing Development Assistance Scheme.

Institutional Structure

The Institutional and legal framework for promotion and development of Micro, Small and Medium Enterprise (MSME) Sector of India is spread both at the National and State level. The primary responsibility for the development of MSMEs lies with the State Governments and Government of India supplements their efforts through a range of initiatives. The Prime Minister's Task Force in its report have made significant recommendations on liberalising the policy regime for the MSME Sector, viz. introduction of insolvency act, liberalisation of labour laws, liberalisation of apprenticeship act, strengthening of district industry centre and so on.

The following issues need to be immediately addressed to unshackle the growth of the MSME Sector (i) environmental issues, (ii) labour issues, (iii) exit policy, (iv) amendment of MSMED Act (v) restructuring of the DICs and MSME-DIs.

On the environmental issues, it is recommended that policies be made uniform pan-India with appropriate relaxation of the controls for the MSMEs. Regarding the labour issues, the immediate need is to consolidate the plethora of labour laws and acts into one user-friendly law. The enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is a harbinger for the growth of the MSME Sector. However, there is an urgent need to strengthen the various provisions of the Act along with enactment of the rules under the various sections.

However, the implementation of the process of filing of Entrepreneurs' Memorandum is still very tardy. Application of e-governance for streamlining of the procedures and for that purpose setting up of an information and database network among the DICs, MSME-DIs and the Ministry may be considered.

The provision regarding the delayed payment under the MSMED Act was another facilitator for ensuring regular cash flow to the micro and small enterprises against the supplies made. The Micro and Small Enterprises Facilitation Councils (MSEFC) stipulated under the Act to be set up at the State level where foreseen as facilitators to the MSEs.

However, most of these MSEFCs are not operating efficiently. In fact, in some States they are yet to be constituted. The group recommends immediate action for upscaling the activities of these MSEFCs and introduction of an information and communication network for operation and monitoring of these MSEFCs. A budget of `100 crore may be allotted for ICT enabled upscaling of the Entrepreneur Memorandum (EM) filing and MSEFC operations.

Conclusion

The current and twelfth five year plan elaborated the perennial challenges of MSME sector and discussed the recommendations to overcome those challenges. To make the sector ever vibrant, the recommendations of the current five year plans are to be implemented effectively and also proper follow up mechanisms are also to be adopted.

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