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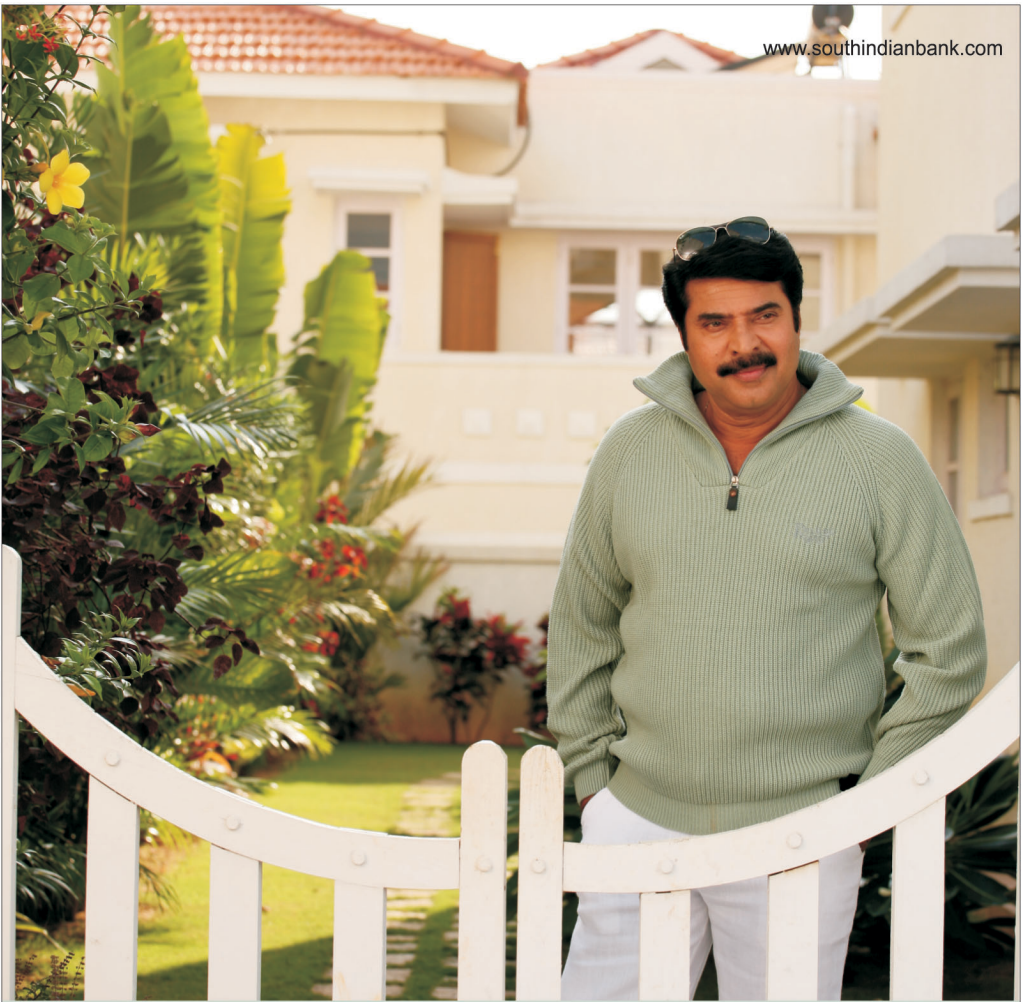


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Theme 216

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

A monthly publication from South Indian Bank



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Theme No. 216 : MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

The micro, small and medium enterprises (MSMEs) have been accepted worldwide as the engine of economic growth 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. The MSMEs constitute over 90 percent of total enterprises in most of the economies and account for a major share of industrial production and exports.

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 sector has shown admirable adaptability to survive the recent economic slowdown.

What is the role of the MSME sector in the emerging economic scenario?

MSME sector accounts for about 45 percent of the manufacturing output and around 40 percent of the total export of the country.[†] Around 30 percent of the total sales and value added in the manufacturing come from MSMEs. MSME sector is the second largest employer of human resources after agriculture. The development of small scale sector has therefore been assigned an important role in India's national plans.

The on-going global economic crisis has re-focused the role of small and medium enterprises in the overall balanced economic growth in any economy. The notion that only larger and bigger enterprises are efficient and stronger to substantially contribute to economic growth has been proved wrong.

How is MSME sector defined and categorized?

The Government of India enacted the Micro, Small and Medium Enterprises

Development (MSMED) Act in 2006. With this enactment, the services sector was included in the MSME, and medium enterprises were also included in the new definition. The enterprises have been classified broadly into two categories: (i) Manufacturing; and (ii) Those engaged in providing/rendering of services. Both categories of enterprises have been further classified into micro, small and medium enterprises.

In the case of manufacture or production, processing or preservation of goods - 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; and 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. Investment in plant and machinery is the original cost excluding land, building and the items specified by the Ministry of MSME.

In the case of enterprises engaged in rendering of services - 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; and a **medium enterprise** is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore. Investment in equipment excludes cost of land, buildings, furniture, fittings and other items.

Briefly explain the policy initiatives of the govt. for promotion of MSME sector?

The evolution of the policy framework and support measures can be grouped into the following three periods:

1948-1991: In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises. The supportive measures included reservation of items for their exclusive manufacture, access to bank credit through the Priority Sector Lending Programme of commercial banks, excise duty exemption, and reservation under the Government Purchases.

1991-1999: The Policy for Small, Tiny and Village Enterprises of 1991 laid the framework for government support in the context of liberalization. Supportive measures focused on improving infrastructure, technology and quality. Small Industries Development Bank of India (SIDBI) and Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector.

1999 onwards: The Ministry of MSME came into being from 1999 to provide focused attention on the sector. A Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs. The exemption limit for relief from payment of central excise duty was raised to Rs.1 crore. At the same time the list of products reserved for production in the sector was gradually reduced each year.

The MSMED Act, 2006 seeks to integrate the three tiers of enterprises - micro, small and medium. The Government announced a Policy Package for stepping up credit flow to Small and Medium enterprises. The salient features include fixing of self-targets for financing to MSME sector by banks and cluster based approach for financing MSME sector.

What are the stipulations on foreign direct investment to MSME sector?

With the promulgation of the MSMED Act, 2006, the restrictive 24 percent ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the MSMEs has been done away with. MSMEs are defined solely on the basis of investment in plant and machinery (manufacturing enterprises) and equipment (service enterprises). The present policy on FDI in MSME permits FDI subject only to the sectoral equity caps and other relevant sectoral regulations.

What are the recommendations of various Committee reports on MSME financing?

The Nayak Committee (1991) was constituted by Reserve Bank of India to examine the issues in the matter of obtaining finance. The committee recommended to give preference to village industries, tiny industries and other small scale units in that order while meeting credit requirements of the

sector. It was recommended to grant working capital credit limits to small scale industrial units computed on the basis of minimum 20 percent of their estimated annual turnover for credit limit is up to Rs.2 crore [now raised to Rs.5 crore].

The Kapur Committee (1998) suggested measures for improving the credit delivery system and simplification of procedures for credit to small scale industries sector.

The Ganguly Committee (2004) made recommendations pertaining to financing of the sector. The major recommendations include adoption of cluster based approach for financing MSME sector; exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs.

What are the guidelines to commercial banks in lending to MSMEs?

The commercial banks have to ensure that priority sector advances (including micro and small enterprises sector) constitute 40 percent of their total outstanding advances. While there is no sub-target fixed for lending to micro and small enterprises sector, banks may fix self-set target for growth in advances to this sector in order to achieve a minimum 20 percent annual growth in credit to MSMEs. Also, banks have to ensure that 40 per cent of the total advances to the sector should go to micro enterprises. Bank's lending to medium enterprises will not be included under the priority sector. The banks are enjoined to extend collateral-free loans up to Rs. 5 lakh to MSME sector, which may be further increased for loans up to Rs. 25 lakhs. A composite loan limit of Rs.1crore can be sanctioned by banks towards working capital and term loan requirements through Single Window. MSMEs play a major role in the country's economic development through their contribution in rural industrialization, decentralization of industries, creation of employment opportunities, more equitable income distribution, use of indigenous resources, earning of foreign exchange resources, creation of backward and forward linkages with existing industries and entrepreneurial development.



Definition of MSMEs IN INDIA

In India, the enterprises have been classified broadly into two categories:

- i. Manufacturing and
- ii. Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under :

Classification	Investment Ceiling for Plant, Machinery or Equipments	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs. 25. lakh	Upto Rs. 10. lakh
Small	Above Rs. 25 lakh & upto Rs.5 core	Above Rs. 10 lakh & upto Rs.2 core
Medium	Above Rs.5 crore & upto Rs. 10 core	Above Rs. 2 crore & upto Rs. 5 crore

Bourse course to the Small & Medium Enterprises

SEBI (Securities & Exchange Board of India) has allowed stock exchanges for setting up exchange/platforms for small & medium enterprises for issue and trading in equities. For a company to be on the SME exchange/platform, its paid-up capital should not exceed Rs.25 crore. Listed SMEs can file their financial results half-yearly, instead of quarterly for other companies. Listed SMEs can make disclosures through a Web site for the purpose. The SME exchange window is restricted to 'informed buyers' such as VCs, PEs, HNIs and QIBs. Minimum application size and trading lot are kept at Rs. 1 lakh. SEBI will not issue any 'observation' on the offer document filed with it and the exchange. SEBI insists on compliance with Clause 49 of the listing agreement as regards corporate governance which includes prescription on the number of external directors, committees, remuneration of directors etc.

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in

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