



**Relevance of MSME in Development  
of India**

**Proceedings of a Seminar**

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## PREFACE

ITF has organized seven deliberations so far on vital subjects like Land and Water, Agriculture and Allied Sectors, Food Processing and Nutrition, Healthy India, India's Higher Education, Energy Security and Climate Change & Environment. During the last two and a half years of its deliberations on India centric, a number of pilotable projects have been identified that meet 5S framework namely, Simple, Smart, Sensible, Sustainable and Scalable/Spreadable. Today we are meeting to discuss on the important topic of "Relevance of MSME in Development of India".

Micro, Small and Medium Enterprises (MSME) form the backbone of all the countries in the world. Though the definition varies from country to country, it is found that in all the developed nations over 95% of the enterprises fall within the domain of MSME. In Germany, the contribution of MSME (by their definition) towards the GDP of the country is more than 50% and employment is substantially more in terms of percentage. In India MSME are over 60 million in numbers, employ over 110 million people and contribute nearly 40% to manufacturing and service GDP of the country.

Looking to the importance of MSME sector, Government of India enacted the Micro, Small and Medium Enterprises Development Act 2006 for facilitating and promoting development of the sector in a holistic manner and also enhancing its competitiveness. Dr. Shailendra Narain, the then CMD of Small Industries Development Bank of India (SIDBI) was one of the key persons responsible for drafting the Act that enabled creation of separate ministry for MSMEs.

The ministry faces many challenges in the coordination and regulation of the sector because of very wide variations in the size, capability, capacity, resources, outlook and culture of the three constituents viz. Micro, Small and Medium. Micro enterprises and to some extent small enterprises have to face complex problems in domains of raw material availability, technology, credit, financing, research, innovation, skill development, training, legal framework, labor laws etc.

The present government recognized the acute problem of securing finance without collateral by micro enterprises and has come up with MUDRA (Micro Units Development Refinance Agency) to provide easy collateral free finance to entrepreneurs, who fall under micro category. Support to large numbers of micro enterprises through MUDRA has proved to be a blessing to many and is indeed a laudable step for the progress of such enterprises.

In order to understand MSME sector in perspective, the government formed one member committee of Dr. Prabhat Kumar, Retired Cabinet Secretary, Govt. of India for coming up with a National MSME policy. It is gratifying that most of the recommendations of the committee have been accepted and several schemes are under pipeline to accelerate growth of MSME. Though implementation may take its own time, it is essential that we identify several challenges and bottlenecks that need to be understood and removed to accelerate growth of MSME, which is vital from the angle of job creation and enhancing competitiveness of the country.

Narendra K. Bansal.

S.B Dangayach.

## **Chapter 1: Perspectives on MSME in India: Challenges and Opportunities.**

**Shailendra Narain.**

### **1. Introduction:**

The Micro, Small and Medium Enterprises are the backbone of Indian economy and I would like to discuss the three words, namely Micro, Small and Medium in the Indian perspective and what is their role today and what should their role be in future. Though the contribution of micro is considerably large, there are problems in coordinating the policies and activities of micro enterprises along with the medium and small enterprises. With respect to planning, strategy, financing or implementation, there are difficulties in the micro sector. So my first suggestion will be to delink micro-enterprises from the small and medium ones with respect to policies, schemes and financing etc.

### **2. Indian Agriculture Economics & Employment.**

With reference to financing, the micro enterprises should be dealt by a person, who has lion's heart, an eagle's eye and a ladies hand. Provision of small loans to the micro enterprises requires a lion's heart. It may not be interpreted that we may not bother about the loan recoveries in the micro sector. In fact, the recovery of loans in the case of micro enterprises is good. Loan defaults by these are less than 10% in contrast to defaults in the small and medium enterprises. The reason for good recovery of loans in the micro sector is due to the system created by people in the villages. Sarpanch, for example, in a village organized the repayment in a function that was attended by the owners of these enterprises and the concerned bank officials. This was followed by celebrations.

The next point, in my opinion, is to have an eagle eye, namely, good surveillance. Unfortunately today, the surveillance about recovery is extremely weak, partly due to staff shortages and partly due to other variety of reasons. Follow up needs a very careful handling with respect to micro enterprises. The small and medium enterprises, on the other hand, need a different kind of treatment.

### **3. Govt. Policy and Schemes.**

My first suggestion to the government will be to separately handle micro enterprises from the small and medium ones. The agenda of any government has to be development and increase in employment. After, the present government took charge; manufacturing and the exports have improved. The present contribution of the SMEs is 40%; the contribution of the un-organized sector is 61%. What should be done to further improve the same?

Government of India has launched several schemes for improving the financial health and output of the MSMEs. With respect to the number, India is ahead of other countries in the world. The credit goes to the intellectuals serving in the public departments and ministries. With respect the implementation, however, the delivery is poor. In reference to the SMEs, the world looks at India. Our manufacturing sector, however, remains weak. Accordingly to a report of the Entrepreneur Development Institute of India (EDII), the contribution of the wholesale and retail sector is higher in the MSMEs, rather than the bigger manufacturing one. The question is, whether we should adhere to wholesale and retail or should we diversify to innovation and manufacturing leading to asset creation

In the 2017 report of global competitiveness, India has a good position in the market driven economy. In the category of Ease of Doing Business, also our standing is improving (we are half way at 100).

#### 4. Need for Improvement.

Our regulatory side is very good. The productivity, however, needs lot of improvement. We need to be competitive, vis-à-vis, other countries in the world. According to the recent reports, the competitiveness is improving, but not fast enough to have an edge over the others.

The basic question here arises about the further steps, the government should undertake. The role of the government is to create policies facilitate business and facilitate market mechanism. Utilities and services are not the job of the government. The financing and recovery need to be handled by the private sector. This, however, requires complete change of mindset. This change, in the thought process is required to be done from the demand as well as the supply side.

In our country, business development services are completely missing. Handholding, financial and technical guidance to the micro enterprises is necessary. Business advisory services should be a part of the banking system. For approvals, a one stop shop is necessary. Marketing has become very competitive. A short delay in decision making can cause considerable losses. Trade finance funds and the line of credit should be established all over the banking system.



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## Chapter2: Cluster Development for MSME

**P.Kanagasabapathi**

*Clusters and associated networks enable small enterprises to combine the advantages of running a small unit with the benefits of scale and specialization of large units. The networking approach has helped the MSME to overcome barrier such as technological obsolescence, supply chain in competence, global competition and investment shortage.*

*(India Brand Equity Foundation).*

The 73rd amendment of 1992 added a new part IX to the constitution titled “The Panchayats” covering provisions from Article 243 to 243(o); and a new Eleventh Schedule covering 29 subjects within the functions of the Panchayats. This amendment implements the article 40 of the DPSP, which says that “State shall take steps to organize village Panchayats and endow them with a three tiered system for local self rule, institute a commission to oversee elections in each state and empowering de-enfranchised citizens. This amendment, thus, enabled people to create legal entities and to create and run a business for mutual benefits.

Creation of clusters got legalized as a result of this amendment. Clusters have played an important role in the success of the MSMEs. Third all India census of small scale industries 2003 has estimated a contribution of 30% by the SME’s to India’s GDP. The census estimated the number of clusters as 2042, out of which there were 1223 registered clusters in 26 states and 869 unregistered clusters in 25 states and union territories. As per the recent estimates of the CII there are 600+ clusters in the SMEs and 6000+ clusters in the artisan enterprises of India like cottages industries etc. Total number of units in these clusters is estimated to be about 1.6 millions.

The main reasons to create clusters are efficient utilization of manpower, material and resources. The clusters vary in size from small to very big. There is a very small village in Tamil Nadu, which supplies Mangal Sutra’s thread to 6 states and running an excellent business. Such clusters are not even documented.

There are many examples in the country, where clusters were developed as an initiative of a couple of individuals only. Failure in the agriculture in the 1950’s and 1960’s forced people to look for alternatives. Two folks from Tamil Nadu worked at Vimco in Calcutta, a match box making factory. They learnt the formula and art of making the matches. After a couple of years, these people returned home and started to make matches, match boxes and to market the same. Soon, the enterprise flourished and it became a reasonably sized enterprise employing several hundred people. There is a similar story about the bore well rig. Due to water shortage in agriculture a group of farmers got a bore-well rig to drill a bore-well. Soon they decided to procure these bore-well rigs themselves and started a good business of digging bore-wells all over the country.

Entrepreneur skills of the people of Gujarat are well known. Many Gujaratis dealing in the business of Gems and Jewels, went to Belgium, learnt the craft and returned to India to establish flourishing business. Hotel industry in the USA is dominated by the Gujaratis.

The creation of clusters is based upon social capital facilitating good will. Among the clusters borrowing charges as well as the transaction costs are very low. Tiripur, a well known cluster of knitwear textile is known for keeping the cost of the export lower in comparison to other countries.

Clusters make things easier for sellers as well as for buyers. Most of the clusters are natural and self-made.

There are several examples of successful diversification of original business to their firms. I had cited an example of match making in Tamil Nadu earlier. The same people diversified to printing and slowly became highly successful to provide employment to 5 lacs people. The place was coined with the name Mini Japan.

In contrast to private sector clusters, the government induced clusters have failed. According to UNIDO survey of India's SSI 1996, covering 138 clusters, the thirteen governments induced clusters have failed, while the rest privately developed clusters are doing well. Clusters are more society dependent rather than state dependent.

With respect to financial mechanism, the clusters have found their own solutions. Examples are the creation of chit fund or offerings to Mahamai duty, where the contributions were used for financing the units belonging to the cluster for start up or for diversifying the product. Tamil Nadu Mercantile Bank is an example of cluster initiatives to create such a financial entity.

Clusters are highly dynamic and diversify according to needs. There are several examples of successful enterprises in these clusters like Tirupur, Rajkot, Ludhiana and Coimbatore, involved in earning foreign exchange through exports. We need to encourage and nurture clusters for successful operation of the MSME's particularly the micro ones.

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### Chapter 3: MSME : Branding and Growth

Piyush Kumar Sinha

The experience shows that people normally remember the names of only a few brand names in the industry. The branding comes from the collective experience of consumers over a long time. The brand names Google, Face book etc are known because of free services that these corporate provide to a huge number of customers, who use their services. A brand name is created by the performance and the reliability of hardware or services. The owner of a corporate or an industry needs to be responsible to the customer. Brands are built upon reliability and responsiveness.

A myth that is normally prevalent amongst corporate owners is that increasing the size of a unit increases profitability. There are three growth options, that I will like to deliberate upon.

#### Growth option-1.

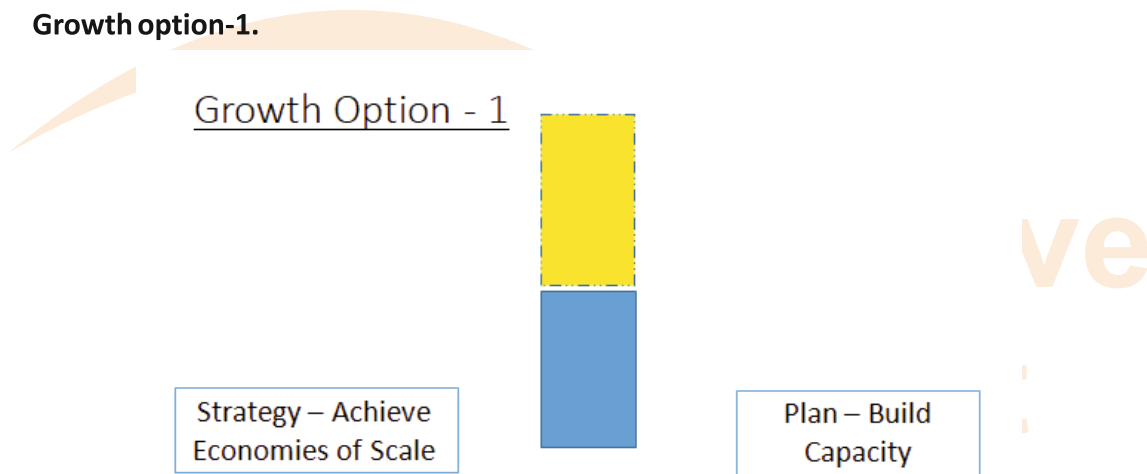


Fig. 1 : Growth Option 1

The first strategy that strikes an owner for increasing the growth is the economies of scale. Profitability requires a critical size as shown empirically in Fig. 2. One needs to plan carefully and build the capacity. Problems of small businesses are different from the problems of large businesses.

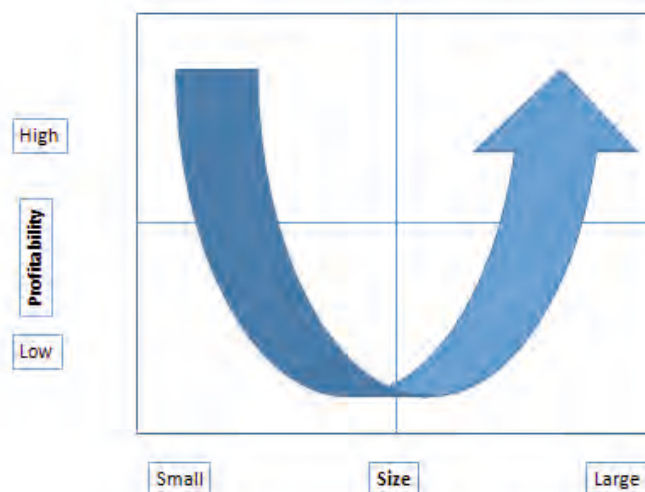


Fig. 2 : Profitability vs Size Relationship



In small businesses, the resource utilization (including that of manpower) has to be very efficient. In small size units, the investments are low and the revenues adequate. If we disproportionately increase the unit's size, the investments will be more and the revenues not sufficient. The growth option-1, suggests that grow in the same market with the same set of customers.

### **Growth option-2.**

The second option for growing a business is to achieve economies of scope (Fig.3).

## Growth Option - 2

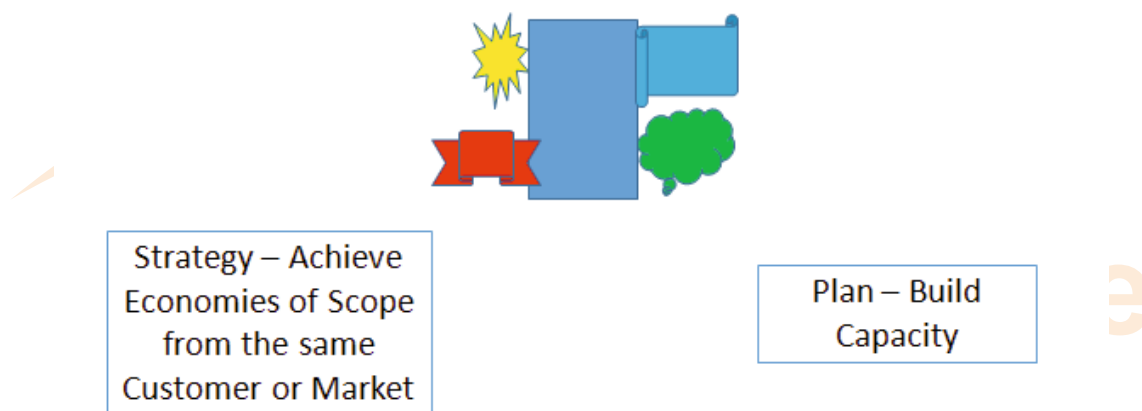


Fig. 3: Growth Option 2

Increase the scope of your product with the same customer and the same market. The example is an inverter. The industry diversified to include AC Inverter, Solar inverter etc of course, one needs good planning and building capacities.

### **Growth option-3.**

The strategy in the third growth option is to replicate. Create team, processes and systems for replicating. In any organization, there are many challenges that an owner faces. The most difficult and strategic part is to form a team, followed by control mechanisms, systems and processes. One needs to be competitive in the market, and build the brand name to become someone different. One needs to take a road of creating value, adopting new technology, using digital strategy, developing to next level collaborating and building new networks in the domestic as well as international markets. None of these parameters is dependent on the size of the enterprise.

One needs to take a road of creating value, adoption of new technology, use digital strategy, develop to next level, collaborate and build net works in the domestic as well as International market. None of these parameters are dependent on the size of the enterprise.

## Chapter 4: Taxation, Legal and Regulatory Ecosystem for MSME in India.

**Anil Sharma.**

### **1. Legal Framework for MSMEs.**

Government of India enacted the Micro, Small, and Medium Enterprises Development Act 2006, with the objectives of facilitating the development of MSMEs and enhancing their competitiveness. The act provided the first ever legal framework for recognition of the concept of 'enterprise' which comprises of both manufacturing and the service entities, integrated into three tiers, namely, micro, small and medium. The definition of manufacturing sector is based upon the investment in plant and machinery and for service sector based on the investment in equipment, According to the act, the primary responsibility of promotion and development of MSMEs is that of the state governments. The central government supplements the state efforts through various initiatives.

### **2. Definition of MSMEs.**

The categorization of the MSMEs in the manufacturing and the service sectors are as follows:

<b>Manufacturing Sector</b>	
<b>Enterprise Category</b>	<b>Investment in plant &amp; machinery</b>
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
<b>Service Sector</b>	
<b>Enterprise Category</b>	<b>Investment in equipment</b>
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

### **3. Registration Process of MSMEs.**

The registration process for the MSMEs has been made very simple. There is only one page registration form called 'Udyog Aadhar Memorandum (UAM)'. The form needs to be filled online at <http://udyogaadhaar.gov.in>, which generates instant Udyog Aadhar Number (UAM). The information is usually sought on self certification basis and no supporting documents are required at the time of online filing of UAM. Though MSME registration is not statutory, the registration facilitates of availing several benefits under the act and to take advantage of various schemes of the central government and to also have easy access to finances. The registration is highly recommended.

#### 4. Present Status of MSMEs.

##### PRESENT STATUS OF MSMEs\*

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	<b>196.65</b>	31
Trade	108.71	121.64	<b>230.35</b>	36
Other Services	102.00	104.85	<b>206.85</b>	33
Electricity*	0.03	0.01	<b>0.03</b>	0
<b>All</b>	<b>324.88</b>	<b>309.00</b>	<b>633.88</b>	<b>100</b>

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

##### PRESENT STATUS OF MSMEs\*

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
<b>All</b>	<b>630.52</b>	<b>3.31</b>	<b>0.05</b>	<b>633.88</b>	<b>100</b>

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

##### PRESENT STATUS OF MSMEs\* (in percentage)

Sector	SC	ST	OBC	Others	Not known	All
Rural	15.37	6.70	51.59	25.62	0.72	100.00
Urban	9.45	1.43	47.80	40.46	0.86	100.00
<b>All</b>	<b>12.45</b>	<b>4.10</b>	<b>49.72</b>	<b>32.95</b>	<b>0.79</b>	<b>100.00</b>

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

## 5. Employment in MSMEs

### Employment in MSMEs\*

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

### Employment in MSMEs\*

Sector	Micro	Small	Medium	Total	Share (%)
<b>Rural</b>	489.30	7.88	0.60	497.78	<b>45</b>
<b>Urban</b>	586.88	24.06	1.16	612.10	<b>55</b>
<b>All</b>	1076.19	31.95	1.75	1109.89	<b>100</b>

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

## 6. Growth of MSMEs & Contribution to Country's Economy.

### Growth of MSMEs\*

Parameter	NSS 73 <sup>rd</sup> Round <sup>#</sup> , 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
<b>No. of MSMEs (Total)</b>	<b>633.88</b>	<b>361.76</b>	<b>6.43</b>
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
<b>Employment (Total)</b>	<b>1109.89</b>	<b>805.24</b>	<b>3.63</b>
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

\* Service includes Trade, Electricity & Other Services.

\*As per National Sample Survey (NSS) 73<sup>rd</sup> Round conducted during the period 2015-16.

## Contribution of MSMEs in Country's Economy at Current Price\*

(Figures in Rs. Crores adjusted for FISIM <sup>3</sup> at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

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

### 7. Benefits available to MSMEs.

There are several benefits that have been provided to the MSMEs in the 2006 Act. Under the MSME Act, delayed payment to MSME will be with the accrued interest, and reservation is provided in the public procurement. Lending of finances will be on priority basis and a framework has been provided for revival and rehabilitation of the MSMEs. The several benefits have been provided under the income tax laws as well as under the indirect tax laws. There are several schemes run by the ministry of MSME aiming at to permit them play an efficient and capable role in the country's economy. Along with this there are additional schemes and benefits offered by the state governments. The central government offered benefits in the budget for tax obligation to be 25% instead of 30% and levying of MAT (Minimum Alternate Tax) to be carried to 15 years instead of 10 years previously.

### 8. MSME Samadhaan – Delayed Payments to MSMEs.

Section 5-24 of the MSMED Act 2006 provides several benefits like liability of buyer to make payment, payable interest on delayed payments and the recovering of due amount. For any dispute, reference may be made to the Micro and Small Enterprises Facilitation Council. All 33 state governments have already established their facilitation councils under the chairmanship of the respective Director of Industries and notified the rules. The cases are being settled within 90 days as stipulated in the Act. A MSME Samadhaan portal has been created for filing application online by the supplier MSE units.

### 9. MSME – SAMBHANDH : Public Procurement Monitoring

Ministry of MSME has notified a Public Procurement Policy, which mandates 20% procurement for MSEs including 4% from enterprises owned by SC/ST by the central ministries and CPSEs. By 8th February 2018, 108 CPSEs uploaded their annual procurement target to the tune of 85619 crores for procurement from the MSMEs. For an effective implementation of the policy a portal named MSME SAMBHANDH was launched on 08.12.2017.

The government has also launched a framework for revival and rehabilitation of MSME with the objective of providing legal opportunity for revival of an enterprise facing bankruptcy/insolvency. All banks have been directed to constitute one or more committees for distressed MSMEs. These

committees will explore options to resolve stress in the account and during the Corrective Action Plan period, the enterprise shall be allowed to avail both secured and unsecured credits for its business operation. These cases shall be referred to Enterprise Debt Restructuring (ERD) cell to assess the techno-economic viability of the enterprise and if found viable, to finalize the restructuring package. The exposure of the MSMEs in commercial lending is given below.

## MSMEs Exposure in Commercial Lending\*

**Table 1B: Credit Exposure of MSME Segments (in ₹ Lakh Crores)**

Period	Very Small <10 Lakhs	Micro1 10-50 Lakhs	Micro2 50 Lakhs - 1 Crore	SME1 1-5 Crores	SME2 5-10 Crores	MSME up to 10 Crores
Dec'15	0.58	1.29	0.84	2.66	1.57	6.94
Mar'16	0.55	1.32	0.87	2.79	1.67	7.19
Jun'16	0.56	1.39	0.93	2.98	1.76	7.63
Sep'16	0.58	1.46	0.97	3.06	1.79	7.85
Dec'16	0.56	1.42	0.95	3.06	1.81	7.80
Mar'17	0.58	1.49	1.01	3.22	1.87	8.16
Jun'17	0.64	1.57	1.06	3.36	1.93	8.56
Sep'17	0.67	1.60	1.07	3.38	1.92	8.63
Dec'17	0.74	1.66	1.10	3.44	1.92	8.86
Y-o-Y Credit growth (From Dec'16-Dec'17)	31.9%	17.1%	15.6%	12.5%	6.2%	13.7%

\*MSME Pulse - Report March 2018 -by TransUnion CIBIL and SIDBI

### 10. MSMEs – Portfolio and NDA Trends.

The government wants to ensure relatively stable asset quality, with limited downside. Non-performing assets (NPA) rate have remained range bound between 9.2% (December 2016) to 8.8% (December 2017) for micro and 11.3% (December 2016) to 11.2% (December 2017) for SME segment. In comparison, for the large corporate segment, NPA rates increased from 14.7% (December 2016) to 16.9% (December 2017). As such MSME sector, exhibited high credit growth and relatively lower cyclical deterioration in asset quality.

Normally, the public sector banks have been dominant lender to the MSME sector. However, now private banks are attracted towards MSME segment. The market share of private banks has grown from 25.4% to 28.5% and for NBFCs, it has grown from 7.9% to 10.4% during the period December 2015 to December 2017.

### 11. MUDRA and Micro Enterprises: Funding the unfunded.

The government established Micro-Units Development and Refinance Agency Ltd (MUDRA) is engaged in extending financial assistances to micro-enterprises. MUDRA supports inclusive fiancé through refinance to primary lending institutions, financing income generating micro-enterprises. MUDRA can provide loan up to Rs.10 lacs under Pradhan Mantri Mudra Yojna (PMMY) and overdraft amount of Rs 5000 sanctioned under Pradhan Mantri Jan Dhan Yojna (PMJDY). As on 31.03.2017, MUDRA partnered with 13 PSBs, 18 private sector banks, 31 RRBs, 13 State/Urban Co-operative banks

and 73 MFIs and 31 NBFCs. During 2016-17, MUDRA refinanced an amount of Rs.3525.94 crores as compared to Rs.8783.20 crores in 2015-16.

SIDBF has created a Credit Guarantee Trust Fund for micro and small enterprises (CGTMSME) with the central government. In this fund, loan without collateral is covered for an amount of Rs. 1 crore upto 75% under the scheme.

## **12. Demonetization and GST Impact on MSME Lending.**

Utilization levels of working capital lines by MSMEs are closely associated with the level of economic activities reflected in production, trade and revenue etc. Credit exposure of smaller micro-enterprise segment had fallen during period up to December 2017 compared to medium SME segment. By March 2018, the credit exposure recovered and exceeded the pre-demonetization level in most segments of MSMEs other than those with credit exposure below Rs.50 lakhs. Post introduction of GST in quarter 2, 2017 again lowered credit exposure for most MSMEs segments. Currently other than smallest MSMEs, the larger MSMEs have recovered.

Certain relief measures have been provided for MSME borrowers registered under GST 2018 vide RBI circular 129 dated 7th February 2018. MSME shall continue to be classified as standard assets in the books of banks and NBFCs, if the following conditions are met:

- Aggregate exposure fund based as well as non-fund based does not exceed Rs.25 crores as on January 31, 2018.
- The borrower's account was standard as on August 31, 2017.
- Overdue amount after September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due date.
- Provision of 5% in respect of the borrower's amount in the books of the banks / NBFCs.

## **13. Conclusions**

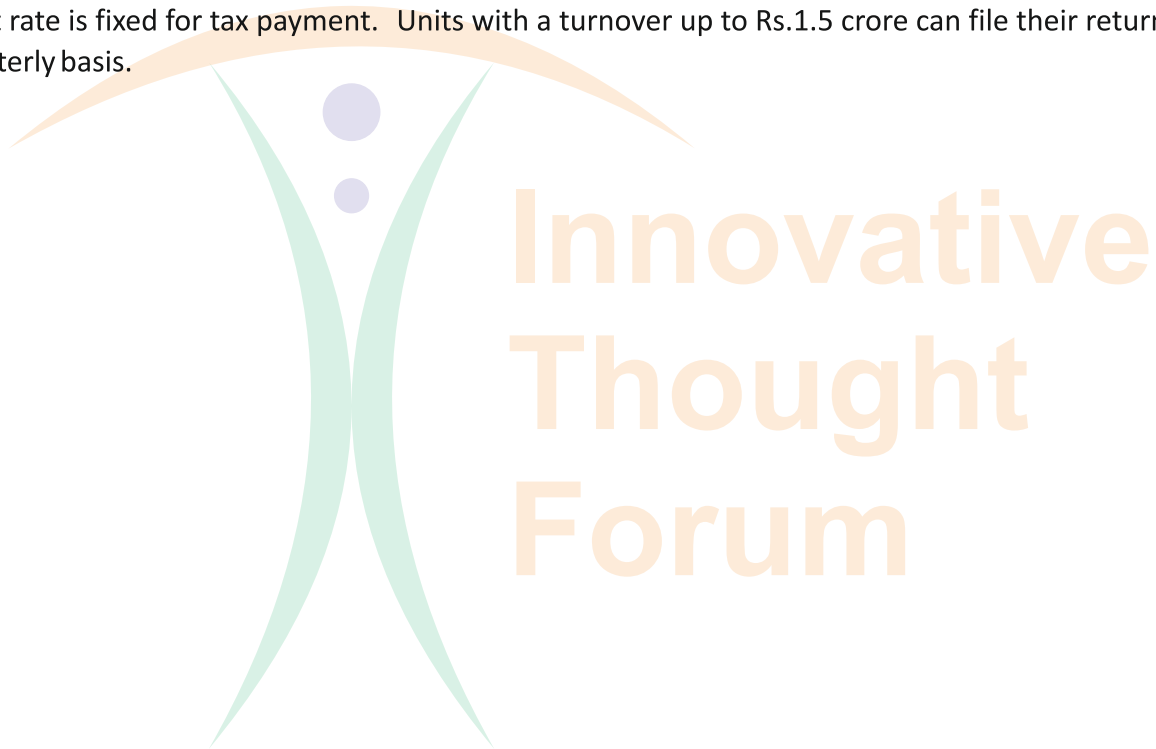
In order to revitalize and strengthen the economy of the MSMEs, the Government of India has launched several schemes such as

- o Financial assistance
- o Credit guarantee
- o Technology assistance and up gradation
- o Infrastructure Development.
- o Skill development and training
- o Market assistance
- o Development of specialized industrial estates.
- o Power tariff subsidies
- o Capital investment subsidies.
- o Tax subsidies

With respect to direct taxes, the MSMEs have been exempted from maintenance of books of accounts and the computation of income is on estimation basis. This is subject to following conditions:

- ◆ Section 44AD – eligible assessee are resident individuals, HUF or partnership firms (Not LLPs) carrying in retail trading, wholesale trading or civil construction.
- ◆ Section 44ADA – eligible assessee are resident engaged in profession of legal, medical, engineering architectural, accountancy or technical constancy, interior decorator, exempt from maintenance of books of accounts.
- ◆ Section 44AE – eligible assessee engaged in business of plying, leasing or hiring trucks.

Also flat rate of tax at 25% is fixed for any domestic company; whose turnover or gross receipts during the financial year does not exceed Rs.250 crores. For GST also, for turnover not exceeding Rs.1 crore, a flat rate is fixed for tax payment. Units with a turnover up to Rs.1.5 crore can file their returns on quarterly basis.





## Chapter5: New Enterprise Creation: Relevance of Experience

Shailesh Modi

### 1. Introduction.

I will like to start my presentation with a remark that this is more of exchange of ideas regarding new paradigm for entrepreneurship that has the potential and must be tried in modern India. Popular ideas for creation of a new enterprise are start up, student, innovation, angel investing etc. Also, there is a normal belief that entrepreneurship is investment and business. I will like to focus my ideas on two main points, namely:

- A. Entrepreneurial potential.
- B. Vehicles or methods for harnessing the potential.

These two issues are the building blocks for creation of new enterprises. The building blocks for entrepreneurship creation are the desire, knowledge, experience and investible surplus. The potential segments for tapping are:

- ▶ Prosperous farmers.
- ▶ Traders
- ▶ Well performing artisans
- ▶ Organized private sector executives.
- ▶ PSU executives
- ▶ Central / state government employees in railways, defense etc.
- ▶ Semi-employed professionals.
- ▶ Existing MSMEs
- ▶ Others like contractors, builders and social workers etc.

### 2. Potential and required triggers.

To get a sense of numbers and potential for creating new enterprises, I noted the following:

- 13.4 crores farm operation holdings; 58.8 lacs medium (4-10 ha) and 9.7 lacs are large with farm holdings above 10ha.
- 1.4 crores retail traders; 5-6 lacs operate from 500 sq. ft. or larger space.
- 1.15 crores employees in organized private sector.
- 1.75 crores central / state government / PSU employees – Railways 14 lacs, defence 13 lacs.
- Existing MSMEs.

The required impetus to the above constituencies needs deeper understanding and the agenda has to be broad based. Some steps that may be taken by the government agencies are

- Motivation / guidance on business opportunities and establishment of enterprise.

- Simplified and realistic financing schemes, acceptability to bankers.
- Risk mitigation (low capex ) and time / inconvenience reduction (ready infrastructure). The example is the ready shed programme of Gujarat in 1960s and 1980s.

There is a need to do fundamental research for creating innovative government schemes and designing attractive credit schemes.

### 3. Vehicles to Tap Potential

The above mentioned categories of potential entrepreneurs are huge social capital, which needs to be utilized actively and creatively. One needs to reach out to vehicles, which are not driven by target-compulsion or grant / money incentives. One needs to strive out for promoting ownership of entrepreneurship agenda by community organizations like:

- Farmer clubs
- Trade and industry bodies
- Artisan guilds
- Faith based organizations
- Caste / community organizations
- Woman groups (include women wings of lions, rotary, trade bodies, defiance, kitty groups, hni townships)
- Professional bodies
- HNI & recreation clubs.

**The role of the identified vehicles should be:**

- Identify potential entrepreneurs
- Organize initial dialogue among potential entrepreneur's knowledgeable resource persons, bank officials, development assistance providers and others.
- Set up a group to encourage, guide and solve problems of those pursuing enterprise establishment and track progress.
- Claim recognition for the outcome and share experience.
- Give small money to the vehicles.
- One should not overdo in terms of guidance and compliance.
- Give space and freedom to these vehicles to devise their own strategy and work plan

### 4. Issues and Cultural Dimensions

There are certain issues that need to be considered for motivating new entrepreneurship. The MSMEs being agenda, schemes may not fit all. The state government MSME policies follow the policies of the central government. This similarity may be diversified. Local economy and local governments are neither a part of local government agenda nor on the MSME radar. The issues like

generous credit panacea and the half-heartedly worked bank schemes need serious discussions to find appropriate solutions.

The cultural dimensions to the NEC context, Local communities / groups have strength and work in solidarity. Aspirations of these groups for upward mobility, mutual help, knowledge, financial resources and many other strengths help to bring these out in the NEC context. One needs to recapture the traditional concept of initial struggle in business that requires to be tackled with patience, reward, continuity and obligation to stakeholders. To motivate people locally, one should propagate indigenous business models (e.g Morbi, Chellia muslims) and ethos (e.g Rajkot). One needs voluntary experts; a large pool of expert retirees are keen to help. Europe is using the model and India can also do the same. One needs to aim at a movement and don't make it just a programme.



# Innovative Thought Forum

## Chapter 6: MSME: Global Perspective and Future Outlook

Tulsi Das Tawari & D.Balasubramaiah.

### 1. Introduction.

The global economic climate is suitable to support the aspiration of young entrepreneurs. Being a country of younger population, India stands to gain in an ageing global scenario. One needs a policy framework that suits the entrepreneurs (MSME) treating them with business with distinct needs. “A Boy is not a Small Man”. The micro, small and medium enterprises (MSME) can play a significant role in achieving the aspirations of your India. The development of MSME entrepreneurs is imperative to meet the need for financial inclusion and generation of significant levels of employment across urban, semi-urban and rural areas. Unbound potential exists to nurture and develop new age entrepreneurs, who dream of creating global competitive business from India. The success of initiatives like Make in India, also lies largely on the MSMEs, which are the backbone of the existing business. There is, however, a need to redefine MSME in all domains – agrarian to knowledge.

### 2. MSMEs Globally

Fig.1 gives the location of the MSME, providing the percentage of the employment generated by MSMEs, percentage number of enterprises and percentage contribution of the MSMEs towards the respective GDP.

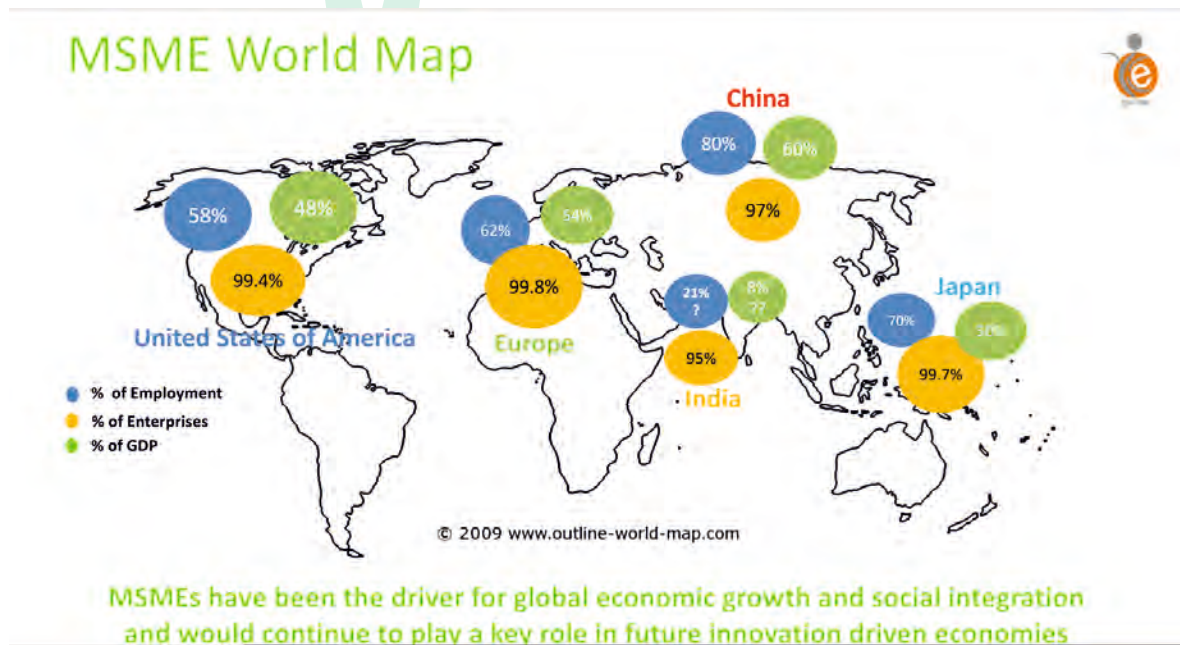


Fig. 1: Contribution of MSMEs to the GDP of selected Economies

It is observed that the MSMEs have been the driver of global economic growth and social integration and would continue to play a key role in future innovation driven economies. Many multinational companies like McDonalds are a success in India due to the strength of MSME players from across the country. Sesame seeds on the bun are produced at Ghaziabad, U.P. Buns are produced in Shah Bector and Sons at Khopoli, Maharashtra and ceramic industries in Phillaur, Punjab. Green lettuce is produced and stored at Trikaya Agriculture, Talegaon, Maharashtra. Cheese is produced at Dynamix Dairy, Baramati in Maharashtra.

### 3. MSME Role in Indigenous Innovation.

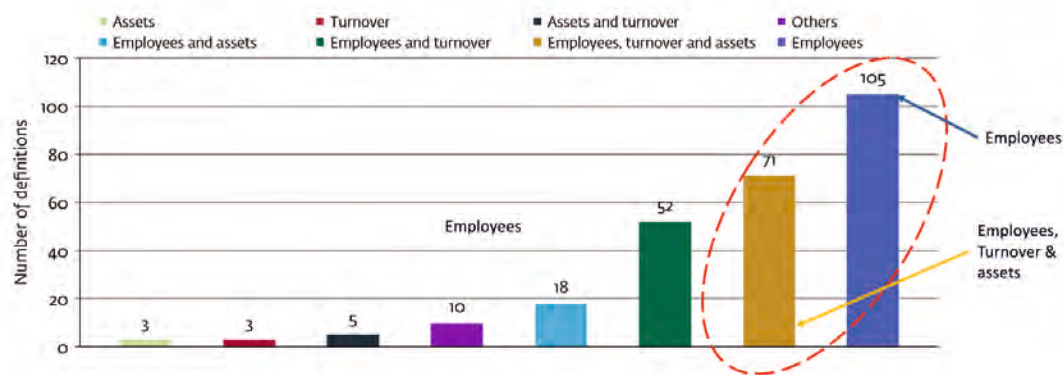
There are many examples of indigenous innovation for the MSME for a technology that is imported but needs to be maintained in India. Many standard automobile components or innovation driven needs are met successfully by the Indian MSMEs. An appropriate eco-system has been created in India to facilitate the growth of the MSMEs. Government support programs and policies have been multi pronged to address various operational and financial issues of the MSMEs.

These policies include legal and regulatory as well as financial. MSMED act 2006, defines the legal and regulatory framework, SARAFAESI 2002, periods for financial regulations to bolster supply of finance and credit information companies (Regulation) Act 2005, streamlines the credit inflow MSME have been included in purview of priority sector lending. Credit bureaus have been created to track the history of enterprises. There is collateral registry for the immovable assets and credit rating agencies publish credit ratings of the companies regularly. Besides, there are asset reconstruction companies and small and medium (SME) stock exchange to facilitate primary and secondary transactions for the SME securities.

### 4. MSME Definition Gaps.

The operational definition reflects the ground reality, that the policies and definition are highly assumptive and hence lack coherence.

## Global Criteria for MSME Definition



Source: MSME Country Indicators.

MSMEs are defined across countries on a relative scale based on Employees, Sales and Asset base. Definitions across nations and the World Bank are at variance based on their MSME focused development programs

Fig. 2: Global Criteria for MSME Definition

### 5. Future Prepositions

Policy makers should take note of the DNA of the MSMEs and those of Knowledge Driven enterprises to formulate implementable and effective schemes. The decentralized entrepreneurship must create full employment from rural to urban. Efforts should be made to nurture Micro towards small, medium and large enterprise to create multiplier effect on GDP growth. In order to achieve exponential-growth through orbital jump in economy, one should accelerate the growth of knowledge entrepreneurs beyond business entrepreneurs.

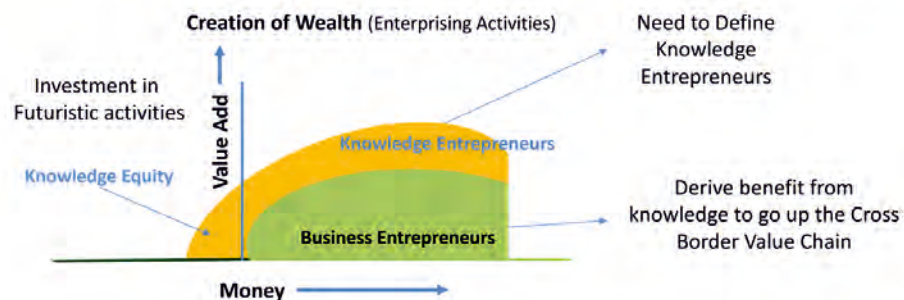
Based on the data from the European Union, the value added multiplier providing the impact of transition from micro to large is as follows.

From	To	Value-added Multiplier
Micro	Small	13.3
Micro	Medium	79.6
Micro	Large	951

( Annual report of European SMEs 2015/2016)

Knowledge entrepreneurs drive the orbital growth while business entrepreneurs would focus on operational efficiencies and processes – the combined forces would result in global social-economic development.

### Framework for MSME Growth... *knowledge as key-driver*

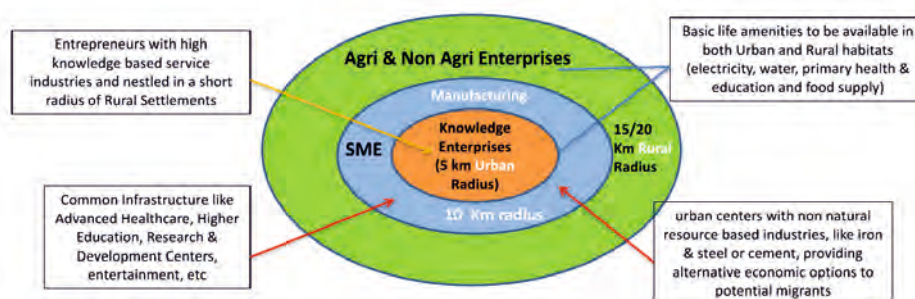


Knowledge Entrepreneurs drive the Orbital Growth while Business Entrepreneurs would focus on operational efficiencies and processes – the combined forces would result in global socio-economic development

Fig. 3: Suggested Framework for the mSMEs

A holistic policy is required to revive migration. This could be achieved by empowering entrepreneurs across all levels – Agrarian, manufacturing & knowledge based services (Fig.4).

### Decentralized Entrepreneurship... *course correction*



A holistic policy to reverse migration could be achieved by empowering entrepreneurs across all levels – Agrarian, Manufacturing and Knowledge based Services

Fig.4: Decentralized Entrepreneurship

## 6. Suggested Strategies.

MSME face several challenges in marketing, accounting and financial planning and quality orientation. Product identification and market requirements are often driven by large corporate. Technical inputs for product design and improvements are lacking. Jugaad is not innovation to compete in the global market. There is little competence to test market products and services and seek a feedback loop for improvement. A logistic support is required to ensure continuity of product offering.

Our financial planning and working capital management are ad hoc leading to peril. Basic financial literacy is lacking and it is limited to numerical skills. Business information is not systematically utilized for business insights and strategizing. There is lack of customer need orientation for improvements and readiness for competition, substitution. We need best practices across functions to ensure global acceptability.

There are serious marketing issues like:

- ◆ Most sales are limited to immediate periphery markets leading to low revenue growth.
- ◆ Constrained by local economic conditions.
- ◆ Lack of awareness, intention and resources to reach out to larger markets for business growth.
- ◆ Lack of customer information flow.

## MSME Marketing Issues

### Indian Perspective

- Most of the sales are limited to immediate periphery markets leading to low revenue growth
- Constrained by local economic conditions
- Lack of awareness, intention and resources to reach out to larger markets for business growth
- Lack of Customer information flow

### Key Reasons for lack of Business Growth



### Japanese MSME – Survey Results



**New entrepreneurs (MSME) fail and existing ones are losing out due to lack of Strategic Marketing Knowledge –a global phenomenon**

Fig. 5: MSME Marketing Issues

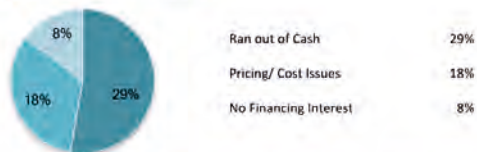
The details of financing issues are given in Fig.6.

## MSME Financing Issues

### Current Issues

- Banks and credit rating agencies have not developed specific tools to evaluate risk-return proposition of MSMEs
- Evaluation is tweaked based on MSMED Act but practical approach is found lacking
- Cost of Finance is high as risk perception is high
- Unorganized MSMEs add to the existing negative sentiment

### Key Financial Pain Areas



The ownership structures have led to intended and unintended misuse of financial resources leading to systemic financial failure for the sector

Fig. 6: Financing Issues of the MSMEs

There is a need to distinguish between financial and management interest. One should build a strong human capital strategy (Fig.7).

## Organizational Resource Building

### Indian Perspective

- Promoter driven organizations starving for new ideas for growth
- Lack of clarity on definition of "professional" management
- Next generation not keen on continuing in the same business leading to huge succession issues
- Succession is usually sought from within the immediate family with little regard for competencies
- Lack of strategic human resources policies & procedures
- Inability to attract and retain talent
- Inhibition to invite 'outside' talent for critical functions
- Increasing number of cases of next generation preferring employment options with large companies

Need for distinguishing between 'financial' and 'management' interests and build a strong Human Capital strategy

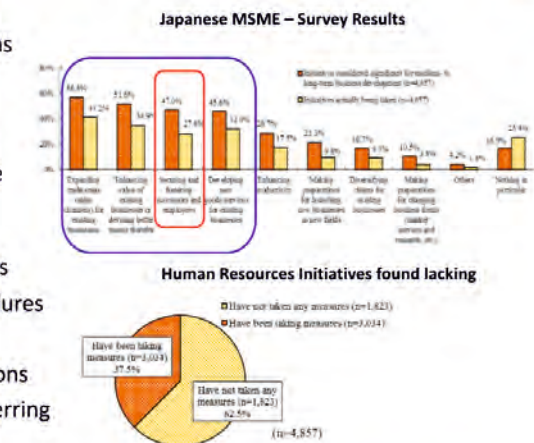


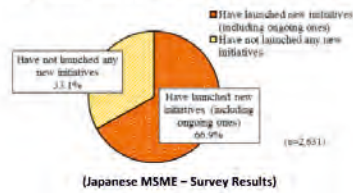
Fig. 7; Financial and Management Interest for Organizational Resource Building

Segregation of the knowledge Enterprise from the business enterprise will unlock a huge growth potential.



# Impact of Ownership Transformation

## New Initiatives Launched by Successors



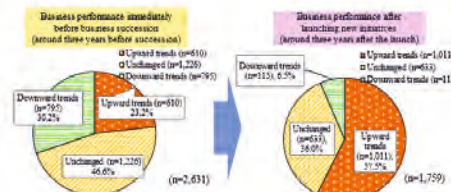
## Indian Perspective

- Existing enterprises can turn incubators/ angel investors and support next generation to diversity business interests
- Organizational restructuring to continue existing business with able management team

## Indian Perspective

- Existing management can manage time more effectively by segregating routine and strategic activities as means of delegation for growth

## Success of New Initiatives (Japanese MSME – Survey Results)



Segregating the "Knowledge Enterprise" from the "Business Enterprise" will unlock a huge growth potential

Fig. 8: Impact of Ownership Transformation

## 7. Policy Interventions

Policy interventions are required to provide incentives on sector specific employment generation India, improvements in energy consumption per unit, and waste management and resource conservation. For ownership structures, there is a need to develop legal framework to accommodate knowledge capital, taxation –policy for creation of knowledge equity and facilitation of knowledge equity to financial equity. With respect to infrastructure related, one should co-share educational and skill development entities for relevance in industry. R &D along with participation of the MSMEs should be facilitated to create commercialization. One need to break several barriers as illustrated in Fig. 9

## Policy Interventions

### Incentives based on

- Sector specific Employment Generation Index
- Improvements in Energy Consumption/Unit
- Waste Management and Reuse Index

### Ownership Structures

- Develop legal framework to accommodate Knowledge Capital
- Taxation policy for creation of Knowledge Equity
- Transition of Knowledge Equity to Financial Equity

### Infrastructure related

- Co-sharing of educational and skill development entities for industry relevance
- R&D with MSME participation – creation to commercialization

**Global Interventions:** policy championship for creating **Cross Border Value Chains**



Create an ecosystem for Knowledge Entrepreneurs to drive Future Business Enterprises

Fig. 9: Policy Interventions

## 8. Action by the MSMEs.

Create an ecosystem for Knowledge Entrepreneurs to drive Future Business Enterprises

### Restructuring the MSME : *Break the Barriers*



#### Regulatory Barriers

- Fear of Complex Government Regulations
- Inspector Raj driven prosecution
- Lengthy & expensive legal procedures
- Check list based incentive schemes with no real value

#### Psychological Barriers

- Lack of trust on professional advisors
- Arrogance of "self made" businessmen
- Inhibition to allow non family members into business

#### Awareness Barriers

- Delinked from global business and technology
- Ability of technology to spurt growth (sales & margins)

Fig.10: Restructuring the MSMEs

### Actions by MSME (Individual)

#### Self Evaluation & Critic

- Attitude Audit for the organization – including self
- Time utilization analysis of self and organization – Time Vs Quality Time Quotient (QtQ™)
- Delink financial ownership and operational ownership

#### Accounting & Financial Planning

- Segregate and streamline business and personal finances
- Invest in systems for financial planning and discipline
- Build on frugal financial management without missing on the strategic needs

#### Quality Orientation

- Build a culture that cultivates Quality as a basic necessity for survival
- Ownership of tasks at all levels leading to Quality products/ services

#### Human Resources

- Develop systems to identify talent "spark" that can be nurtured to create value
- Strategic Human Asset Management by building Skills and Vision based on Attitude mapping

Attitude correction for self and management team will lead to a Cultural Transformation of the MSME Organization

Fig 11: Action by the Individual MSME

### Collaborative Competition: MSME (Group)

#### Marketing Infrastructure

- Identify areas for Collaborative Competition – do not wait for a white knight
- Develop economies of scale through innovative branding : Industry > Region > Product > Company

#### Logistics

- Increase bargaining power by creating groups of buyers
- Pooling of resources to lower the costs of logistics overheads
- Develop Value Chain based associations for symbiotic growth

#### Skills & Technology

- Shared investments in specific skill development in order to create an eco-system for the sector
- Marketing/ Process/ Product development initiatives at group level for affordable development
- Customer engagement and analytics on a shared platform for quality of sales

Fig 12: Collaborative Competition : MSME Group

Attitude correction for self and management team will lead to a Cultural Transformation of the MSME Organization

Chapter7: Relevance of MSME in Development of India

Shubhomoy Saha

Relevance of MSME in Development of India  
Innovative Thought Forum, New Delhi  
March 22, 2018

Employment Generation through MSME's  
Shubhomoy Saha, Ethos HR, Ahmedabad



*An Attitude To Reach to An Altitude*



Thought  
Forum

## A Young Enterprising India

- A young and growing population, 47% surplus population in working age
- A land of organic enterprises, favourable demography, high resources & low cost
- A job dictionary which is upgrading quickly
- A vocations list which is 1/10<sup>th</sup> of developed economies
- Humongous administrative bottlenecks. Declining employment rate
- A predominantly unorganized industrial economy, 98% cash driven



## The Emergency

- An “educated youth” manufacturing strength of 55-60 lacs per annum
- An employability measure of 15-18% in technical faculties
- An employability measure of 8-12% in commercial faculties
- The top 10 in-demand jobs in 2016 did not exist in 2006
- Lack of organized apprenticeships- 3 lacs (60 lacs-Japan,100 lacs- Germany)
- Anytime 50 lac grads unemployed
- The top three most important lacking skills identified are industry/domain knowledge, business intelligence & entrepreneurship



## Threat Looming Large

### Nobel-winner Paul Krugman warns India story could end with mass unemployment

BY ETORURE | MAR 17, 2016, 05:00 PM IST

[Post a Comment](#)

Paul Krugman, the American economist who won a [Nobel Prize](#) in 2008, has warned that [India](#) could end up with huge mass unemployment if it does not grow its [manufacturing sector](#).

"There is this concept called artificial intelligence that you should be wary of. In future, while diagnosis may be outsourced to a doctor in India, it could also go to a firm based on artificial intelligence. Things like this could be a cause for worry for Indian services sector," Krugman said while speaking at a News 18 event.

"Japan is no longer a superpower because its working-age population declined, and [China](#) is looking the same. In Asia, India could take the lead but only if it also develops its manufacturing sector, not only the services one," he said.

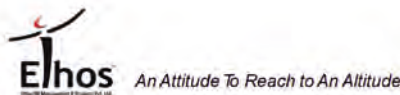


Krugman said India's growth story was exciting but it never got the attention it deserved because China hogged the world's attention.



## The Opportunity

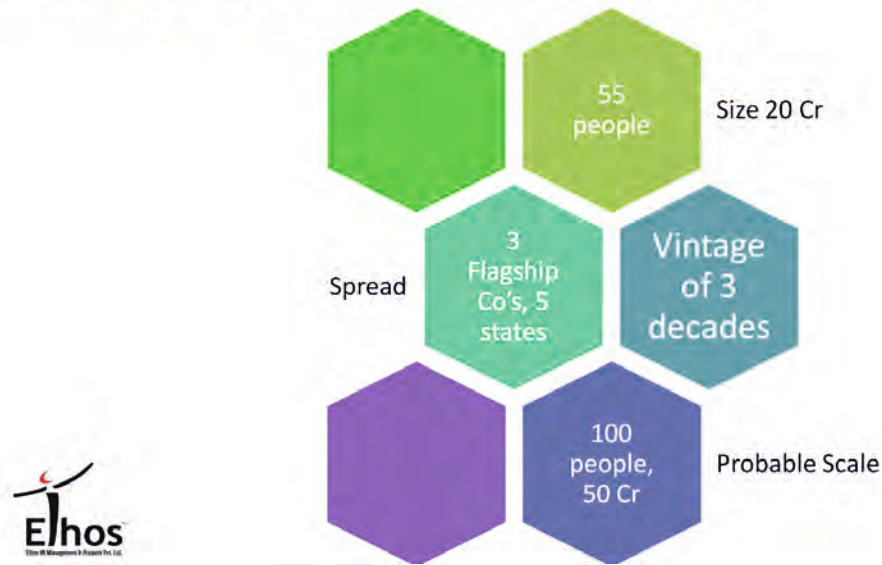
- About 2.8 Cr enterprises in this sector: 95% of all enterprises: A land of organic enterprises
- Share of 21% in employment, 45% in manufactured output, 8% in GDP
- Contributes about 40% of all exports
- Adds nearly average 7 Cr people to employment every year
- More than 2000 specialized MSME branches



## The Story of NS: Industrial Cleaning Solutions

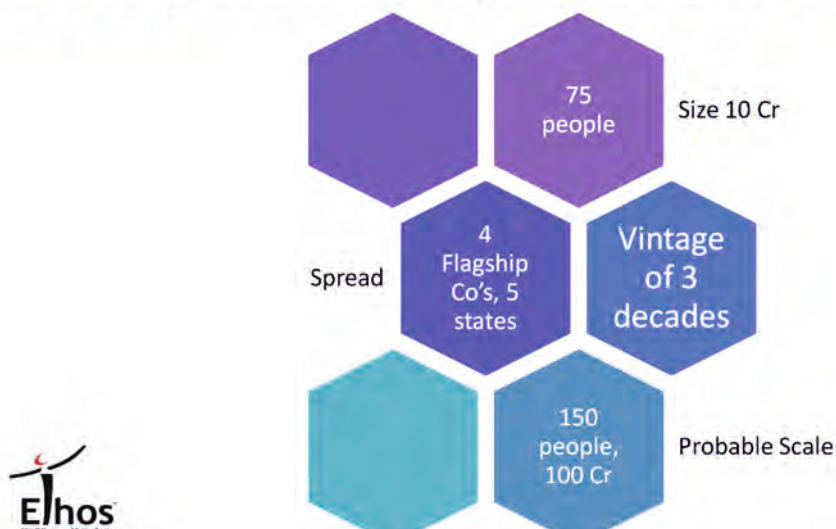


## The Story of NP: Agrochemicals



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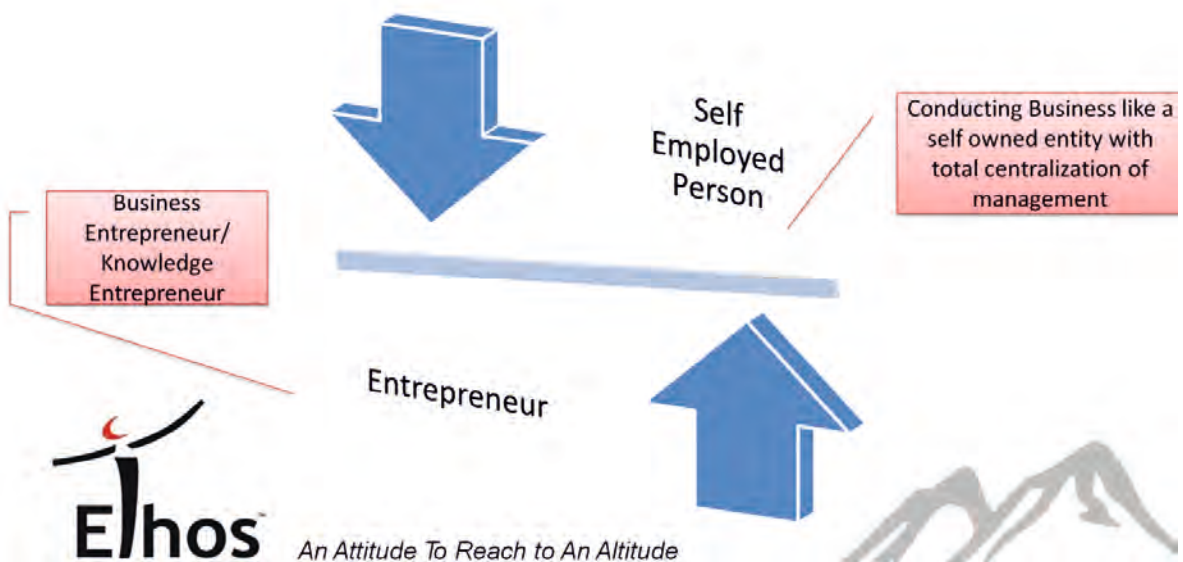
## The Story of SS: Aerospace & Defense Electronics



## The Story of CM: Software Engineering



Thought  
Forum



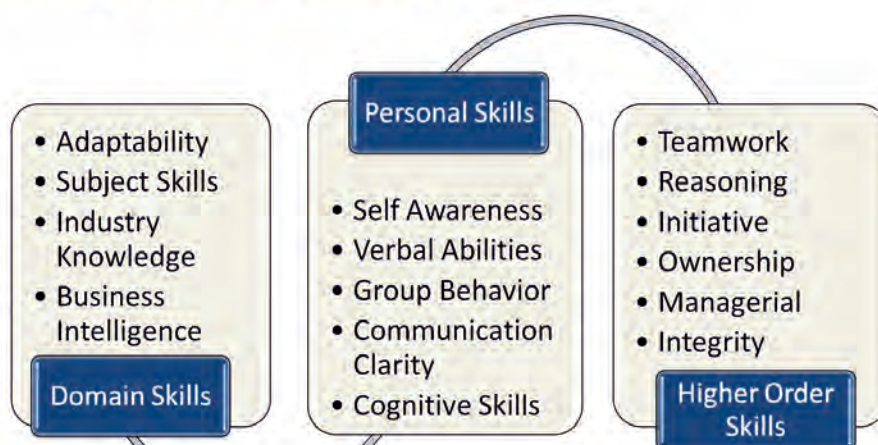
An Attitude To Reach to An Altitude

## The Challenges

- Business entrepreneurs not knowledge entrepreneurs
- The case for sustainability and higher transition of MSME enterprises
- An inbuilt conflict of interest in the enterprise
- Inability to invite and sustain outside talent for critical function leading to inadequacy of managerial competency
- Lack of trust on professional advisors
- Lack of clarity & definition of professional management
- Lack of strategic human resource policies and procedures
- Appreciation of skill and competency development



## Knowledge Drive Needs





## Business Entrepreneur to Knowledge Entrepreneur

- SMART Skills for entrepreneurial development
  - Budgeting
  - Hiring
  - Compensation Design
  - Performance Management etc.
- Create bandwidth to handle intangibles or provide shared institutional support
- Lay emphasis on Adoptability, Influence, Persuasion & Motivation skills
- Increase manpower supply in the universe
- Management design and continuous learning & development



# Thought Forum

Intents



## The 5S Model

- Creation of a Plug & Play model for the enterprise which takes care of hygiene needs of people, processes therefore systems & talents
- Transitioning of the entrepreneur from a Self Employed person to a business owner
- Sustaining economies of scale or scope
- Create management bandwidth
- Create a model organization



Thought  
Forum

To be employed is to be at risk,  
To be employable is to be Secure



**List of Participants.**  
**“Relevance of MSME in Development of India”**  
**Seminar on 22nd March 2018, at India Habitat Centre, New Delhi.**

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