Study of Micro, Small and Medium Enterprises

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ABSTRACT
From a distance the micro, small and Medium enterprises (MSMEs) seem to be a small and insignificant part of the economy but on zooming in just a little bit, we realize that the MSMEs employ 40% of the total population of India i.e. 69 million people which accounts for the second largest workforce after agricultural sector. They constitute of 90% of the total industrial units and are responsible for 45% of industrial output and 40% of the total exports. Their labour intensive nature and even geographical distribution results in employment opportunities for both self-employed and job seeking people promoting equity and inclusive growth. This paper aims to present the significance of this sector and recognise the regulatory and operational problems faced by these enterprises. It will also touch upon the present government policies and provide policy recommendations.
I. INTRODUCTION

Considering the name – Micro, Small and medium enterprises- it is not difficult to get disillusioned about the importance of MSMEs when it comes to the growth and development of the country. They have been long overlooked even when this sector actually employs 69 million people in India which is 40% of the total workforce, through 44 million enterprises. Not only are they a source of basic livelihood but have improved the standard of living of many families over the years. MSMEs contribute approximately 8% to India’s GDP, are responsible for a stunning 45% of its total industrial output and 40% of its total exports. The manufacturing sector among MSMEs, which is a little larger than the services sector, constitutes 90% of the total industrial units that spread all over India. Only 55% of the total MSMEs units are located in urban areas rest 45% of the units are located in rural areas of states like Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh, Karnataka etc. This leads to an equitable distribution of national income, poverty alleviation and inclusive economic growth.

World over, small and medium enterprises are considered to be the engine of growth that tap into the latent entrepreneurial talent in the nation and provide an opportunity to the weakest sections of the society to employ themselves as well as others and in the process help the ones they are providing services to.

According to a report by Harvard Kennedy School, in the prosperous countries Small and Medium Enterprises (SMEs) constitute the largest part of industries followed by large enterprises and Micro enterprises whereas they constitute the lowest share of industries in the low income countries where the share of micro enterprises is largest followed by large enterprises and lastly by SMEs. This absence of SMEs in the low income countries is known as ‘The Missing Middle’. This acts as a proof of their significance of their role in development of the country.

In the light of their significance in growth and development, it seems of utmost importance to reduce the regulatory barriers faced by MSMEs and provide them adequate and timely support. There are some problems common amongst all the MSMEs. They can be classified as external and internal problems. External problems are caused due to macro environmental factors-economic and political- that are beyond the control of the enterprises for example access to finance, corruption, competition, lack of skilled labour etc. Internal problems are caused due to factors that are within the enterprises (Grimsholm & Poblete, 2010) for example lack of managerial competence and sophisticated technology, ineffective marketing and distribution techniques etc. There are many policies launched by the government to help MSMEs in different ways, the key areas being enterprise and skill development, technological upgradation, access to finance, cluster development, marketing assistance etc. (Ministry of MSMEs). Still, these problems continue to persist and more in some areas than others. It
therefore is important to first realise the importance of MSMEs, recognise the factors hindering their growth and then not only introduce appropriate policies but also spread awareness about their existence and accessibility.

II. LITERATURE REVIEW

*Export-Import Bank of India, 2012* studied and documented the current situation of MSMEs and support systems setup for them in India along with select countries of Europe, Asia, Latin America etc. It studies MSMEs in the Indian as well as global context. It explains the evolution of Indian MSME policies over time. During 1948-1990 the objective was to increase employment opportunities and equitable distribution of national income, during 1991-1999 it was to make the MSMEs more competitive in the face of liberalisation and 1999 onwards the objective has been development and promotion of the sector by addressing challenges relating to credit, infrastructure, marketing and technology. It also stated the current challenges faced by the Indian MSMEs and the strategies for their Development based on past experiences of India and other countries such as China, Japan, Malaysia, Thailand, Mexico, Philippines etc. It suggests that Indian MSMEs must have access to alternative sources of capital like angel funds/risk capital etc, the existing legislatures need to be toned up to handle insolvencies and bankruptcies; the ceiling limits need to be redefined to encourage MSMEs to move up the value chain; the policies need a cluster development approach to increase the level of competitiveness; emulating Japan, Korea and Malaysia technological innovation and R&D must be encouraged among MSMEs and entrepreneurship must be encouraged via skill formation and learning mechanisms.

*Grimsholm & Poblete, 2010* conducted a detailed qualitative study of external and internal factors hampering the growth of Small and Medium Enterprises in Thailand. It reproduced quite generalized results applicable to most of the south Asian countries producing low cost, low value added and labour intensive products. Significant factors hampering growth according to the study are lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology.

*Ministry of Micro, Small and Medium enterprises, 2013* published the Inter Ministerial Committee for Accelerating Manufacturing in MSMEs’ paper reporting slow down in the overall growth of MSMEs in recent years, especially post 2009. It highlighted the significance of MSMEs, changing trends in employment growth in this sector and addressed concerns regarding establishing an enterprise and running it successfully. It also recommended support systems for encouraging start ups, doing and expanding business and ease of closure and exit and also drew light on the need to do so. It also suggested changes in labour laws and gives product specific recommendations.
*Abdul Naser.V, 2013* critically evaluated the contributions made by the micro, small and medium enterprises in the balanced growth of the Indian economy. The study says that since 55% of the total enterprises operate in the rural areas they promote inclusive growth and regional equity. They play a very important role in employment generation and contribute a commendable portion to the GDP, industrial production and export of the country. The paper also highlights the challenges faced by the sector and its need for structural support.

*Srinivas K T, 2013* studied the performance of micro, small and medium enterprises, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

### III. METHODOLOGY

This study majorly focused on micro, small and medium enterprises located in industrial areas and prominent markets of New Delhi. Various manufacturers, service providers, start-ups from the food industry, IT industry and textile manufacturing industry were interviewed as a part of the study.

The research began by gathering background information i.e. history, present condition and significance of micro, small and medium enterprises and basic study of the sector which was followed by deciding the research question and hypothesis.

Two types of research methods most commonly used for data collection are as follows: quantitative and qualitative methods (Ghauri et al., 1995). Quantitative analysis uses data which is then converted into numbers, graphs; tables and statistics to come to a conclusion whereas qualitative methods often refer to case studies where the collection of information can be received from a few studying objects (Bryman and Bell, 2007). Qualitative methods emphasize on understanding, interpretation, observations in natural settings and closeness to data with a sort of insider view (Ghauri et al., 1995). This paper uses the qualitative approach as it is more suitable for a research like this in which the firms' internal behaviour, peoples' perceptions, beliefs, ideas and opinions need to be taken into account which are difficult to quantify (Grimsholm & Poblete, 2010).

Both primary and secondary data was collected for the study. Secondary data was collected from specific reports, articles and other internet sources. Primary data was collected by personally interviewing people or sending them questionnaires. To capture a wide spectrum of problems different kinds of MSMEs were interviewed including manufacturing...
sector enterprises, services sector enterprises, food industry, start ups and enterprises registered as Small Scale Industry (SSI). The sample is not representative of the Indian population; it constitutes of enterprises chosen randomly from Delhi Markets and available contacts. The questionnaires were prepared by appropriate secondary data collection and analysis. Collected data was then compiled, critically analyzed and the research was concluded with policy recommendations.

IV. DEFINITION

Micro, Small and Medium Enterprises are generally defined in terms of the investment in the plant, machinery and/or equipment, the number of people employed and annual turnover. In India the MSMEs are defined just according to the amount of investment ceiling for Plant, Machinery or Equipment:

TABLE 1: DEFINITION OF MSME ACCORDING TO MINISTRY OF MSME

<table>
<thead>
<tr>
<th>Classification</th>
<th>Investment Ceiling for Plant, Machinery or Equipments*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing Enterprises</td>
</tr>
<tr>
<td>Micro</td>
<td>Upto Rs.25 lakh ($50 thousand)</td>
</tr>
<tr>
<td>Small</td>
<td>Above Rs.25 lakh ($50 thousand) &amp; upto Rs.5 crore ($1 million)</td>
</tr>
<tr>
<td>Medium</td>
<td>Above Rs.5 crore ($1 million) &amp; upto Rs.10 crore ($2 million)</td>
</tr>
</tbody>
</table>

The employment criterion was dropped because the employment trends keep changing seasonally; hence it is difficult to base the definition on them. Also, classification according to number of people employed gives owners the incentive to limit employment to remain within Small and Medium Enterprises. Another reason for dropping this criterion is the possible discrimination between labour intensive and techno sophistication (Dr. P. Uma, 2013). But the Indian definition does not take into account annual turnover or variable costs too and bases
the definition solely on fixed costs. This implies that a micro enterprise that initially invested 20 lakh but had a turnover of 10 crore and increased its number of employees by 50% will remain a micro enterprise if it chooses not to reinvest in the plant and machinery. This acts a drawback of the Indian definition of MSMEs. Many researchers also argue that the investment ceilings are too low as compared to other countries. The cap on plant and machinery for the purpose of classifying the units as MSMEs does not encourage Indian MSMEs to move up the value chain. With such low level of investment ceiling, Indian MSMEs are either expanding laterally or engaging themselves in low-tech/low-value products. Since the manufacturing operations are capital intensive, investment ceiling for treatment of medium enterprises may be raised at least in the capital intensive sectors, benchmarking with such ceiling on investment in other countries’ (EXIM Bank, Strategic Development of MSMEs, 2012).

V. SIGNIFICANCE

Micro, Small and medium enterprises are an integral part of the economy. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. MSMEs tap into the raw, latent entrepreneurial potential of the country acting as seedbeds of innovation. In the pre-independence period organised industrialisation did not gain much traction but after independence ‘in all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises. They were termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills’ (MSME Ministry Overview, 2009).

Currently, there are 44.7 million Enterprises spread across the country employing 40% of the total population. 10.6 million People were working in this sector during 2001-02 whereas the number grew to 101 million people in 2012-13. More and more people are getting employed through new MSMEs every year, currently making up for largest workforce after the agricultural sector.

MSMEs are responsible for production of more than 6000 different products and services. They cater to a large band of customers by producing from traditional to high-tech products. The leading industry in the MSME Sector is Retail trade constituting 39.85% of industries followed by Manufacture of Wearing Apparel (8.75%), Manufacture of Food Products and Beverages (6.94%) etc.
### TABLE 2: PERFORMANCE OF SSI/MSME UNITS, EMPLOYMENT, INVESTMENTS AND GROSS OUTPUT

<table>
<thead>
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<tbody>
<tr>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
<td>VI</td>
</tr>
<tr>
<td>1</td>
<td>2001-02</td>
<td>105.21</td>
<td>249.33</td>
<td>154349.00</td>
<td>282270.00</td>
</tr>
<tr>
<td>2</td>
<td>2002-03</td>
<td>109.49</td>
<td>260.21</td>
<td>162317.00</td>
<td>314850.00</td>
</tr>
<tr>
<td>3</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>170219.00</td>
<td>364547.00</td>
</tr>
<tr>
<td>4</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>178690.00</td>
<td>429796.00</td>
</tr>
<tr>
<td>5</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>188113.00</td>
<td>497842.00</td>
</tr>
<tr>
<td>6</td>
<td>2006-07</td>
<td>361.76†</td>
<td>805.23†</td>
<td>868543.79*</td>
<td>1351383.45*</td>
</tr>
<tr>
<td>7</td>
<td>2007-08#</td>
<td>377.37</td>
<td>842.23</td>
<td>917437.46</td>
<td>1435179.26</td>
</tr>
<tr>
<td>8</td>
<td>2008-09#</td>
<td>393.70</td>
<td>881.14</td>
<td>971407.49</td>
<td>1524234.83</td>
</tr>
<tr>
<td>9</td>
<td>2009-10#</td>
<td>410.82</td>
<td>922.19</td>
<td>1029331.46</td>
<td>1619355.53</td>
</tr>
<tr>
<td>10</td>
<td>2010-11#</td>
<td>428.77</td>
<td>965.69</td>
<td>1094893.42</td>
<td>1721553.42</td>
</tr>
<tr>
<td>11</td>
<td>2011-12#</td>
<td>447.73</td>
<td>1012.59</td>
<td>1176939.36</td>
<td>1834332.05</td>
</tr>
</tbody>
</table>

† Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/o SPI.

* Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for

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**Source:** Annual Report MSMEs 2012-13
activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) which were excluded from the Fourth All India Census of MSME, unregistered sector.

# Projected

These enterprises are spread across the country with 55% of the enterprises being located in urban areas and the rest 45% in the rural areas in states like Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh, Karnataka etc. Uttar Pradesh has about 4.4 million MSMEs providing employment to 9.2 million people whereas West Bengal and Tamil Nadu have 3.4 million and 3.3 million MSMEs respectively. This even geographical distribution leads to regional uniformity and inclusive growth.

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2 Projected data for the years 2007-08 to 2011-12. Source: Annual Report MSMEs 2012-13
3 Projected data for the years 2007-08 to 2011-12. Source: Annual Report MSMEs 2012-13
There are two sectors that MSMEs can be classified into—manufacturing sector and services sector. The manufacturing sector alone constitutes 90% of the total industrial units in India generating 45% of the total industrial output and contributing to 45% of the exports. These quantum units together contribute much to the industrial development of the country utilising domestically available resources. The fact that most of these MSMEs are owned by poor households helps conclude that MSME play an important part in raising the standard of living of the poor.

FIGURE 4: CONTRIBUTION OF MSME IN TOTAL INDUSTRIAL PRODUCTION

4 Source: Annual Report MSME 2012-13
5 Source: Annual Report MSME 2012-13
Like in many other developing countries India has a very large number of informal Micro enterprises (95% of the total MSMEs). There are a handful of larger firms - ventures created by foreign investment or family controlled conglomerates built up over generations but there very few Small and Medium Enterprises (5% of MSMEs). This lack of Small and Medium Enterprises (SMEs) is called the ‘The Missing Middle ‘(David de Ferranti & Anthony J. Ody, 2007).

SMEs are the backbone of modern economy and engines of growth, though they are ‘under-represented, stifled by perverse regulatory climates and poor access to inputs’ (David de Ferranti & Anthony J. Ody, 2007). ‘SMEs play a major role in economic growth in the OECD (Organisation for Economic Cooperation and Development) area, providing the source for most new jobs. Over 95% of OECD enterprises are SMEs, which account for 60%–70% of employment in most countries. As larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing.’ (OECD Policy Brief, 2000). The World Bank shows positive correlation between the economic growth of the country and the size of the SME sector. Though this necessarily does not imply causation but it says a lot about the need to focus on their development. But as rightly pointed out by Muhammad Yusuf, Micro enterprises being the ones owned by least resourceful people gain more traction by the government as compared to their larger, more dynamic and productive cousins, the SMEs. Since most of the problems faced by Small and Medium Enterprises are different than those faced by Micro Enterprises, appropriate policies are required to cater to the needs of SMEs.

VI. CASE STUDIES

1. Sattviko Restaurants (food chain)

Sattviko is a Delhi based Food Chain which serves ‘sattvîk’ food which, according to Ayurveda, is easily digestible and helps the soul. It has 5 branches across Delhi. The founder Mr. Prasoon
Gupta is a graduate from the Indian Institute of Technology and runs the restaurants with fellow IITians.

Prasoon started his entrepreneurial journey in the last year of his college - IIT Roorkee with a firm called Tech Buddy Consulting. So, experience and managerial incompetence wasn’t much of a problem for him. He started Sattviko in 2013 with the help of private investors. He states that his previous company was shut down due to marketing and scaling problems but finance for expansion does not continue to be a problem due to his investor relations. He did not register his enterprise as a MSME to get financial benefits as he found the process very tedious.

One problem according to Prasoon is the licensing system and the corruption that comes with it. To start a Food industry in Delhi three licenses are required, namely ‘Food, Safety and Security License’, ‘Health Trade License’ and ‘Police License’. He states that it took him a lot of effort, money and 4-5 months to get these licenses. The ‘Health Trade License’ officially costs Rs.5000 but normally, including all the bribes the amount rises up to Rs.60000. He had to directly approach the mayor to get the license without paying any bribe.

Another external problem he point out is the attitude of middle class society towards young entrepreneurs in India. This, he says, is one of the biggest hurdles that the youth faces. The middle class wants that the children be financially stable and deems entrepreneurship risky and unpredictable. But goes on to say that, this problem cannot be solved by external remedies, it requires change in attitudes.

2. Phosphate India Pvt Ltd. (manufacturing)

The company's aim is to make the country self sufficient in quality feed. It was founded by Mr. Ashok Goyal in 1996 in Udaipur, Rajasthan. It manufactures mineral based Di-Calcium Phosphate which is a type of calcium phosphate that is dibasic. It is usually found as a dehydrate and is thermally converted to the anhydrous form.

Finance was one of the major problems for establishing the firm. He describes how difficult it was to obtain a loan from the bank since it involves extensive documentation and there is a collateral requirement which is often hard to meet. He explains that the company was started after fifteen months of detailed planning and hard work. Even after it had started he underwent losses due to lack of experience and knowledge for at least four years which is when the balance sheet became stable and eventually turned positive. Another major faced by the company was marketing but they were able to cope up with it by keeping a professional approach; they tied up with trading agencies to get a better picture of the market etc.
Mr. Goyal did not get his company registered as a MSME as he thinks that the benefits are not worth the time and effort of going through the tiring process of getting it registered. But he mentions that government is really active in providing incentives for technological up-gradation.

Phosphate India faces competition from different domestic as well as foreign companies but it does not seem to be much of a problem for Mr. Goyal who says that competition helps them innovate and improve the quality of the product. But, infrastructural facilities provided by the govt, he says, are really poor especially for the companies that export. For example, Railway freight and handling charges are about five times higher than those charged in Hong Kong. Also, in Hong Kong it takes just eight hours to transport thirty thousand tons of freight while in India it takes about eight days to carry the same amount by the same distance, which substantially brings down the competitiveness of Indian exporting companies.

Another problem faced by the company is taxation during expansion. Mr. Goyal points out that if a manufacturing firm makes more than 2 crore worth of sale the Central Excise Department levies an additional sixteen percent tax, which he thinks acts as a disincetive to increase sales beyond that point. He also emphasise that geographical location is a big factor affecting growth of an enterprise especially a manufacturing enterprise. This is because the availability of raw material, transportation and marketing are dependent on the location of the firm. Phosphate India was set up in Udaipur because it is the only place in India where Rock Phosphate, Hydrate Lime and Sulphuric acid are found, all in one place.

Mr. Goyal points out the incompetence of most of the trained managers; he explains that it is difficult to get skilled labour and to keep them motivated to work better. He also feels that the labour laws are too stringent since it becomes difficult for the firms to fire an employee even if there are enough fair reasons to do so.

The company has a 24 hour running Research and Development wing which keeps innovating new techniques of manufacturing. Mr. Goyal mentions that it is important to innovate to compete in the market.

3. **Prospect (Service)**

Prospect is one of the first companies to have entered the Retained Executive Search business in India. It entered the premium end of the Search business at a time when Search was unknown in India and most companies either advertised or went for contingency recruiting. It was founded in 1992 by Bipaschit Bose, an alumnus of the reputed Xavier Labour Relations Institute, India.
About the organisational structure, Prospect has a decentralised structure with various management heads handling different verticals following a specific method of organisation/management called SPOC- Single Point of Contact. There is an administrator that is responsible for the overall administration and Mr. Bose himself takes care of business development and quality.

Mr. Bose started the company realising the need of a quality filtering bridge between demand and supply of skilled executives. Since, this field of business does not require any specific premise licenses problems like registration mechanism, corruption and red tapism never bothered Prospect. Mr. Bose did not have any financial problems during establishment of the company because there wasn’t a requirement of infrastructure, plant or equipment for the functioning of the company. Moreover, he has always used his own capital and surplus to expand the firm.

Managerial incompetence never became a hurdle in growth of the company as Mr. Bose had a fair amount of experience and knowledge about the business and market. He submits that finding skilled labour is a challenging job; highly educated people are not difficult to find but the problem is to find passionate people that can provide quality services.

Mr. Bose describes executive searching as a field of work where the reputation and recognition of the firm are very important. This makes ‘marketing’ a major area of concern. Initially there were problems in marketing but over the years, the quality of executives provided by Prospect became well known and its market grew automatically. Also, Competition, he says, is a persistent but not a major problem so they take it in their stride.

4. Corporate Training and Absorption Centre (CTAC,Start Up)

Xeopia CTAC is an institution which provides appropriate techno-managerial training to students and professionals. Xeopia CTAC is an integral unit of global IT solutions provider company Xeopia Solutions which was founded in 2012 by Abhishek Mishra, an IIM graduate along with a few IT stalwarts.

Abhishek states that though there were financial problems due to the reluctance of banks to provide start ups with loans, it wasn't difficult to establish the company; but registration of the company became a problem because if one does not get the company registered, it does not gain credibility and if they get it registered and are unable to keep it floating, they have to go through a tedious procedure to shut it down. They have to file for bankruptcy and go to the Court of Law irrespective of the size and annual turnover of the firm. He also describes how
difficult it was for them to do the annual filing in March which cost them Rs. 10-15000, because they had started the company only in January and had made no profits.

For Abhishek, getting skilled labour was not the difficult part; it was recruiting a team of passionate and self-motivated people. Also, he had knowledge of various marketing techniques which he used for his company. For example, Campus ambassador programmes, Influential marketing etc. Thus, marketing never turned out to be a problem for the company.

Another problem according to Abhishek is the lack of infrastructure in the industrial areas of Delhi considering the owner can only get his manufacturing unit registered if it is in an industrial (approved) area. He bought property in Faridabad Industrial area and had a really hard time due to poor roads, lack of electricity and backup etc.

5. Diamond Textiles

Diamond Textiles is a weaving industry in Pilkhuwa- a city in Hapur district of Uttar Pradesh that manufactures carbonyl cloth. Mr. Sandeep Garg started the company in 1985. He knew about the benefits provided by the MSME ministry and got his company registered as a Small Scale Industry and borrowed capital from UPFC (Uttar Pradesh Financial Corporation). He describes that the registration process was very complicated and time consuming. He had to pay bribes at different levels to get the work done. Also, the filing and registration process took about a year which he describes as a relatively quick service as it would have taken more time if it were not for his contacts.

He says they are regularly faced with competition from local weavers called 'Bunkar' or 'Julahe' that sell their produce at lower prices. Mr. Garg states that they have limited technological and managerial knowledge as compared to the Chinese companies and face tough competition from foreign companies because they sell better quality cloth at lower prices.

Electricity is one of the biggest problems as the machines, though partially manually operated, need electricity to run. He mentions that they only get electricity for twelve to thirteen hours out of twenty four. Regarding labour, they hire people on a contractual basis – the amount that they are paid depends on the amount of work they do. Also, skilled labour is always short of supply. About the Labour Laws, even if they do have problems they sort them out with the labour on a personal basis.

Another problem that the company faced initially was marketing. They had to hire brokers to get contracts and gradually with their quality they were able to make their place in the market.
Mr. Garg emphasises that getting initial contracts and the right technology was very challenging because he did not have enough information about the right suppliers and customers. This stopped the growth of the company for about three to four initial years.

**VII. PROBLEMS**

Various problems were identified in the previous section. This section will highlight the major problems faced by MSMEs and the factors affecting their growth.

**Finance**

All the companies require capital to meet their fixed as well as variable costs but most of the MSME owners lack required capital to establish and operate the firm, thus they have to resort to borrowing. The reliance on debt for finance depends greatly on the size of the firm. Smaller the entity greater is the reliance on debt as a primary source of finance. Micro enterprises depend on debt as a primary source for both early and growth stage while small and services primarily transact in cash and tend to keep minimal records. Manufacturing enterprises and the ones with order-driven services tend to need more finance because of longer working capital cycle and higher capital expenditure’ (International Finance Corporation).

![FIGURE 6: CREDIT REQUIREMENT OF MSME](image)

But banks are not the primary source of finance for most of the enterprises as owners find the application process cumbersome and tedious. Also, they do not qualify for loans due to lack of both collateral and positive balance sheets. ‘Credit guarantee support has been instituted to support collateral-free debt up to INR 10 million ($ 0.2 million), however this remains underutilized at less than 5% of the overall debt to the sector. While the trend of collateral-free debt is growing gradually, collateralized debt continues to account for 95%-98% of Micro, Small and Medium Enterprise credit’ (IFC). According to IFC, the dominant source of finance is the informal sector 95% of which constitute the non institutional sources like family, friends, relatives etc. Institutional channels like trade credit, chit funds and moneylenders tend to be
expensive, charging interest rates ranging from 25% to 60% per annum. So their always tends to be a debt gap which works as a huge barrier in establishment as well as operation of MSMEs.

Marketing

Being a small entity and having a perpetual shortage of finance, the MSMEs are unable to market their product as well as the large enterprises which works to their disadvantage. They do not focus on packaging methods or sales and advertising. Most of the firms undergo losses during first five to six years just due to lack of consumer demand. But eventually they make a place in the market based primarily on the quality of their product and contacts that they gather during business transactions. They also use different kinds of marketing techniques such as Campus Ambassador Programmes and influential marketing. They tie up with trading agencies to learn the latest trends in the market and get in touch with brokers to get initial contracts. Marketing also greatly differs from business to business. For example to market food products media campaigns are used and to market intermediate products distributors are assigned that sell the product in different areas. Government has launched many schemes and has various mechanisms in place to help small firms in the marketing domain but it continues to be a major problem.

Government Regulations

To enter the market or get registered as a Private Limited company one has to get various licenses such as Service Tax Registration, PAN Card, TAN (Tax Collection & Deduction Account Number), VAT/ CST Registration, Shops & Establishment License, Central Excise License, Importer Exporter Code, Professional Tax, Employee Provident Fund Registration and ESI (Employee State Insurance) Registration, and construction permits from the Municipal Corporation, to name a few – the sewerage, fire, electricity, environmental departments. For the food industry there are other licenses such as Food Safety and Security License, Health Care License and Police License. Not only the application process for these licenses is cumbersome but the information required to apply for them is difficult to come across too which is the reason why most of the people hire Chartered accountants and Lawyers to get registered.

Even after registration and licensing there are problems such as trade barriers. Some state governments do not allow transportation of particular manufactured products into their states without registration (eg. Uttar Pradesh). The owner comes to know about these regulations only when he finally has to face the barrier.
Managerial Incompetence

In most of the MSMEs, the owners are managers. They do not have enough funds to hire professional managers. Therefore, they are sometimes not able to make informed decisions regarding technology and capital. They tend to underestimate the required capital amount, install poor production technology or make wrong management decisions. ‘What action can you take as a business owner when sales plummet, or profits crumble, and the pressure is on? A common consensus amongst management consultants, business mentors and business coaches is that the temptation to bury the head in the sand is so strong in many SMEs that they cannot make that shift’ (Julian T Rowe, 2008). Thus managerial incompetence makes for a very significant factor hindering the growth of MSMEs in India.

Lack of Information/awareness

Almost all the stakeholders agreed that people are not generally aware of the registration procedures, requirements and licensing system. Most of them do not even know that there is a ministry called the Ministry of Micro, Small and Medium Enterprises and that there are various policies to help them with financial, marketing, technological and managerial problems. Sanjay Kumar, owner of BudWhite Teas Private Ltd says that when he got his company registered he had no information that he could get it registered as a MSME and avail the benefits provided by the government. Even the people who have registered their companies as MSMEs do not know about all the schemes currently in place. Sanjeev Garg who has got his company registered as a Small Scale Industry (SSI) says there must be some advisory mechanism to advice the entrepreneurs about latest technology and new markets without realising that there are more than 60 institutions such as technological Development institutes, Tool rooms, Testing Centres etc that provide technological support to MSMEs. In the Union Budget, 2014 Initial sum of ` 100 crore is assigned for “Start Up Village Entrepreneurship Programme” for encouraging rural youth to take up local entrepreneurship programs. But no channel has been created for this information to reach the Rural Youth. It therefore might not be wrong to conclude that majority of entrepreneurs are either unaware about the available benefits or they do not find them in their proximity.

Infrastructure

Delhi has certain industrial areas where you can get property and set up a firm. These are the only areas in which a manufacturing firm can be set up otherwise permissions are needed from the MCD. The Industrial areas are divided into North, South, West and East Zone comprising of G.T. Karnal road Industrial area, Okhla Industrial area, Naraina Industrial Area, Patparganj Industrial Area etc. These areas being specified to conduct productive activity must have an
environment conducive for manufacturing. But according to the entrepreneurs in these areas, they have poor infrastructure such as poor roads, electricity shortage lack of backup systems etc. Lack of Infrastructure highly affects exporting companies as the Indian railway freight and handling charges are very high and services very slow as compared to other countries which puts Indian MSMEs at a competitive disadvantage.

**Competition**

SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level (OSMEP, 2007 a). The large enterprises have the capability of realising economies of scale and therefore reduce the prices of their products. They also spend a formidable amount in marketing their brand either via advertising campaigns, distributors or other means. The MSMEs are unable to do such extensive marketing due to shortage of finance which renders them less competitive.

MSMEs also face competition from other developing countries due to globalisation and increased international trade such as Vietnam, China, Thailand that produce the similar low cost, low value added labour intensive products. But most of the companies do not see competition as major factor slowing down the growth of the company. They tend to compete in quality rather than prices.

**Macroeconomic Instability**

MSMEs are argued to be more vulnerable to economic crisis as compared to the rest of the industrial sector due to their small size, limited resources, finance, knowledge and technology (Cheah and Cheah, 2005). It is a two sided hit as the credit flow stops on one hand and consumer demand reduces on the other. But almost all the stake holders agree that the effect of an economic crisis depends on the foresight of the entrepreneurs. The ones able to foresee the crisis equip themselves appropriately to cope with it. Its effects also differ depending on the field of the enterprise. For example, according to Prasoon-the owner of Sattvikos restaurants—people do not stop eating food during a crisis thus most of the food business remains safe from the crisis.

**Technological Upgradation**

Technology acts as a significant factor in deciding the competitiveness of an enterprise. MSMEs tend to have low productivity and are weak in terms of competition which is the result of using
inadvanced technology, not maximizing machinery utility and not improving in technology due to the limitation of funding. Also, most MSMEs are mainly users of technology, not adaptors of technology (OSMEP, 2007 a). Most managers or owners are either not aware of the available technology or do not have the financial capability to upgrade their technology. The technological status and its usage greatly influence the position of enterprises in the market. Thus to keep the domestic firms technologically at par with international firms in the time of globalisation must be one of the most immediate concerns of the government.

**Research and Development**

‘With globalisation, there is an urgent need of a dynamic and self sustaining culture of innovation’ (FICCI MSME Summit, 2012). To compete in the global market the manufacturing firms especially, need to continuously innovate and meet constantly changing consumer demands. According to a report by FICCI, share of innovating firms in India was only 19%. It is ranked 62nd on the Global Innovation Index and 8th in its income group—after China, Moldova, Jordan, Thailand, Vietnam, Ukraine, and Guyana (FICCI MSME Summit, 2012). Now, the problem is that most of the MSME owners do not realise the importance of R&D department and do not feel the need for this department. Moreover, the owners do not generally have the knowledge, education, capital and sometimes capability to drive a research and development department to in the right direction.

**Lack of Skilled Labour**

Even though MSMEs employ 40% of nation’s population, according to the entrepreneurs lack of skilled labour is a perpetual problem for MSMEs. Educated and skilled people prefer jobs in Large Enterprises due to higher wages and job security as compared to small industries that cannot afford to pay very high wages. So, they have to hire unskilled people and conduct on the job training programs. Eventually the labour tends to perform better giving better results. It is also a challenge to retain labour as in the micro and small enterprises they generally are not bound by formal contracts.

**Corruption**

According to a report by United Nations Industrial Development Organisation, smaller the firm, more likely it is to be affected by corruption. Further as the report pointed out and the stakeholders agree is that more SMEs than larger firms believe that corruption is “part of the way things work in the country”. They pay much higher percentages of annual revenues in bribes to public officials, and make additional payments to get things done much more frequently than large companies (UNIDO Vienna, 2007). It leads to ineffective policies,
inefficient bureaucracy and exploitation of the smaller firms. But it is worth mentioning that bribery also makes things faster and easier for many firms struggling with the registration and licensing systems.

VIII. ANALYSIS

This section will analyse the factors affecting growth of MSMEs in India by the help of quantitative analysis.

The figures below are the result of quantitative analysis conducted by the author. Figure 7 shows the problems affecting growth of manufacturing sector enterprises in MSME sector. The biggest problems faced by the firms are Finance, Marketing and Lack of Skilled Labour. Infrastructure here comprises of factors like condition of the industrial areas, electricity or energy supply, transportation facilities etc which also play an important role in holding back the companies' growth.

![Figure 7: Factors Affecting Growth of Manufacturing Sector - MSME](image-url)
Diagram 8 demonstrates the intensity of the effect that each factor has on the growth of services sector firms among MSMEs according to the stakeholders. The biggest three factors are marketing, competition and lack of skilled labour. Finance does not pose as big a challenge to the services sector as it does to the manufacturing sector. This is because manufacturing forms mostly install machinery and thus need more capital investment. Similarly Research and Development plays a more important role in deciding the growth of manufacturing sector. Other major problems faced by the services sector are finance and government regulations.
Figure 9 shows the intensity of problem posed by each factor on MSMEs in India. For industry as a whole finance, marketing and lack of skilled labour turn out to be the biggest problems followed by government regulations, infrastructure and competition. The policies need to focus on these problems to help in some significant growth of the companies.

IX. INDIAN POLICIES

The Government realises the importance of MSMEs as the seedbeds of latent entrepreneurial talent, its significance in employment generation and its contribution in the inclusive growth of the country. Therefore there are various policies, support measures and institutions established for promotion and development of MSMEs. Some of them have been listed below (EXIM Bank of India, 2012).

Technological support

- Delhi Commissioner MSME (DCMSME), MSME Ministry, GOI, serves as an umbrella organisation for the support provided to MSME sector. Institutions under DCMSME:
  - 30 MSME Development Institute (DIs)
  - 28 Branch MSME- DIs
  - 4 MSME Testing Centres
  - 7 Field Testing Stations
  - 18 Autonomous Bodies- 10 MSME Tool Rooms
  - 6 MSME Technology Development Centres
  - 2 MSME Footwear Institute
  - 2 Dept. Training institutes
- Policy guidelines have been issued by MSME ministry for technological support of MSMEs through:
  - programmes like National Manufacturing Competitiveness Programme (NMCP)
  - organisations like KVIC (Khadi Village Industries Commission) and NSIC (National Small Industries Corporation limited)

Entrepreneurship Development Support

- Industrial Motivation Campaigns (IMCs)
- Entrepreneurship Development Programmes (EDPs)
- Entrepreneurship Skill Development (ESDPs)
- Management Development Programmes (MDPs)
• Business Skill Development Programme (Tailor made Course)
• Entrepreneur-cum-Skill Development Programme (ESDP) on Biotechnology
• Small Industry Clusters Development Programme (SICDP)

Marketing Support

Provisions by DC (MSME):-
• Marketing Development Assistance scheme
  o For exposure in the international market
  o To explore the possible export opportunities for their products by exhibiting them through participation in International Trade Fairs under MSME-India umbrella.
• Export Promotion Council (EPC)
  o Market Development Assistance (MDA)
  o Market Access Initiative (MAI)
• Vendor Development Programmes (VDPs)

Financial Support

• Small Industries Development Bank of India (SIDBI) provides refinance (against the loans granted to small-scale sector) to
  o State Financial Corporation (SFCs)
  o State Industrial Development Corporations (SIDCs)
  o Commercial Banks
• Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
• Credit Linked Capital Subsidy Scheme (Technology Upgradation)
• SIDBI Venture Capital Fund Ltd (SVCL)
• SME Rating Agency of India Ltd (SMERA)
• Indian SME Asset Reconstruction Company Ltd
• National Small Industries Corporation (NSIC)
  o raw material assistance scheme
  o NSIC has entered into strategic alliances with commercial banks to facilitate long term /working capital financing of the small enterprises across the country
  o Arrangement with Export Credit Guarantee Corporation of India, through which it facilitates export credit insurance for SMEs
• State Finance Corporations (SFCs)
• Exchange platforms by
  o National Stock Exchange (NSE)
  o and Bombay Stock Exchange (BSE)
• The Securities and Exchange Board of India (SEBI) had permitted setting up of a stock exchange trading platform for SMEs by a recognized stock exchange having nationwide trading terminals and had also issued guidelines and necessary amendments to the SEBI Regulations.

Protection policies

Policy protection measures or reservation of few items for production by MSMEs had been undertaken to serve twin objectives of promoting production of consumer good on a small scale and increase employment opportunities through setting up of MSMEs (Ministry of MSMEs). The government has de-reserved 654 items since 1997 and presently only 20 items are reserved for micro and small scale industries.

**Chronology of Policy for Protection / Reservation to Small- Scale Units**

The policy of product reservation for small scale units was initiated with 47 items in 1967; the policy had continued over the years and in the nineties the list of reserved items soared up to nearly 900 products. The product reservation for small scale manufacturing was implemented with the view that the industrial sickness in small scale sector could be prevented and competitiveness could be enhanced. In 1991, alongside the liberalization process, it was decided to enhance the potentialities of small scale sector through phasing out of the policy for protection and reservation. The job of framing such an initiative was entrusted to an Expert Committee on Small Enterprises (Abid Hussain Committee – 1997), which made several recommendations on de-reservation. Though the Committee favoured for a total abolition of reservation, the Government of India has decided to de-reserve the small scale sector in a gradual manner.

**FIGURE 10: CHRONOLOGY OF POLICY FOR PROTECTION / RESERVATION TO SMALL-SCALE UNITS**
TABLE 3: LIST OF RESERVED ITEMS FOR MSME PRODUCTION

<table>
<thead>
<tr>
<th>S.No. (As per Gazette Notification)</th>
<th>S.No.</th>
<th>Product Code</th>
<th>Name of the Product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOOD AND ALLIED INDUSTRIES (20-21)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>202501</td>
<td>Pickles &amp; chutneys</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>205101</td>
<td>Bread</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>21100102</td>
<td>Mustard Oil (except solvent extracted)</td>
</tr>
<tr>
<td>4</td>
<td>13</td>
<td>21100104</td>
<td>Ground nut oil (except solvent extracted)</td>
</tr>
<tr>
<td><strong>WOOD AND WOOD PRODUCTS (27)</strong></td>
<td>5</td>
<td>47</td>
<td>276001</td>
</tr>
<tr>
<td><strong>PAPER PRODUCTS (28)</strong></td>
<td>6</td>
<td>79</td>
<td>285002</td>
</tr>
<tr>
<td><strong>OTHER CHEMICALS AND CHEMICAL PRODUCTS</strong></td>
<td>7</td>
<td>253</td>
<td>305301</td>
</tr>
<tr>
<td>8</td>
<td>308</td>
<td>314201</td>
<td>Laundry soap</td>
</tr>
<tr>
<td>9</td>
<td>313</td>
<td>317001</td>
<td>Safety matches</td>
</tr>
<tr>
<td>10</td>
<td>314</td>
<td>318401</td>
<td>Fireworks</td>
</tr>
<tr>
<td>11</td>
<td>319</td>
<td>319902</td>
<td>Agarbatties</td>
</tr>
<tr>
<td><strong>GLASS AND CERAMICS</strong></td>
<td>12</td>
<td>335</td>
<td>321701</td>
</tr>
<tr>
<td><strong>MECHANICAL ENGG. EXCLUDING TRANSPORT EQUIPMENT (33.35)</strong></td>
<td>13</td>
<td>364</td>
<td>340101</td>
</tr>
<tr>
<td>14</td>
<td>394</td>
<td>341004</td>
<td>Rolling shutters</td>
</tr>
<tr>
<td>15</td>
<td>402</td>
<td>34200602</td>
<td>Steel chairs-All types</td>
</tr>
<tr>
<td>16</td>
<td>404</td>
<td>34200702</td>
<td>Steel tables-All other types</td>
</tr>
<tr>
<td>17</td>
<td>409</td>
<td>342099</td>
<td>Steel furniture-All other types</td>
</tr>
<tr>
<td>18</td>
<td>428</td>
<td>343302</td>
<td>Padlocks</td>
</tr>
<tr>
<td>19</td>
<td>447A</td>
<td>345207</td>
<td>Stainless steel utensils</td>
</tr>
<tr>
<td>20</td>
<td>474</td>
<td>345202</td>
<td>Domestic utensils-Aluminium</td>
</tr>
</tbody>
</table>

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6 Source: Export-Import Bank of India, 2012
X. CONCLUSION AND RECOMMENDATIONS

The aim of the paper was to identify and analyse the main regulatory and operational problems faced by Micro, Small and Medium Enterprises in India, study the existing policies and make further recommendations.

The study concludes that Finance is a major obstacle in the growth of micro, small and medium enterprises. The lower and middle class is capable of driving itself out of poverty; it is ambitious and active in taking up new ventures and starting businesses but most ideas are being nipped in the bud because of lack of capital. Not only does it discourage aspiring entrepreneurs but also plays a huge role in holding back the growth of existing firms. In fact many other factors slowing down growth arise due to lack of finance. For example, technological upgradation becomes a problem only because firms lack enough capital to install new machines, skilled labour can be hired and retained by giving them higher wages etc. Another problems that ails most of the enterprises is Marketing. It costs most of the MSME owners initial four to five years of their entrepreneurial life to gain quality contacts and make their place in the market. Some of them by then incur huge losses or keep floating on a zero balance sheet. Even later they lag behind the larger enterprises- due to lack of knowledge and money- in packaging and advertising their products or services.

In countries like Thailand and China stake holders say that Government regulations ease the operation of firms whereas in India owners find them very stringent and complex. They agree that the cumbersome documentation and filing for registration and licensing systems are difficult to take care of which forces them to hire expensive Chartered Accountants and Lawyers. Also, the information regarding the procedures is not available which renders them vulnerable to corrupt officials that tend to extort money against providing clearances.

Infrastructure and Competition are the next big problems followed by Macroeconomic Instability, managerial incompetence, Research and Development, corruption and lack of information. Lack of information is the root cause of many other problems like Technological upgradation and R&D since generally, small MSME owners are not highly informed, they do not know about the latest and most suitable technology and do not have enough knowledge to drive the R&D department in their companies. They do not have information about the benefits provided by the government. Majority of the owners do not even know that there is a Ministry of Micro, Small and Medium Enterprises. Thus, even though the government realises the importance of MSMEs as growth engine and has many policies and schemes in place to cover almost every aspect of problems faced by the enterprises since a long time and has been
updating the policies continuously, it has not led to any drastic change in the their condition because of poor implementation and lack of awareness among people. Even if the people know about certain benefits they do not consider them worth the effort and time of getting themselves registered as an MSME. Therefore, there needs to be more focus on spreading awareness rather than adding more policies each year.

One of the solutions can be a MSME information/advisory helpline. It is a viable solution because in India almost every individual owns a mobile phone even in the most remote areas of the country. The helpline can serve dual objectives:-

1) First, it can inform people about the procedure of getting registered as an MSME - the documents and requirements. It can let them know about government schemes and policies in place to help them out in establishing and operating the firm and the nearest bank that can provide them with loans or the nearest entrepreneurial skilling centre etc.

2) Second, it can advise people in various fields in which the owner might lack information. For example, the latest, most suitable technology in market to manufacture industry specific goods, suitable marketing techniques etc. This can highly improve the competitiveness of the domestic firms.

Another recommendation would be improvement in the infrastructure facilities provided by the government. For example the industrial areas of Delhi are not developed and lack most basic provisions like roads, regular energy/electricity supply etc. Also, there is a requirement of a single window registration procedure both for getting registered as a Company and a MSME. This will reduce corruption and ease the registration process which will allow people to do the documentation themselves without hiring a CA or lawyer.

There are other considerable recommendations made by EXIM bank and PM’s Task Force in their report on MSMEs (EXIM Bank of India, 2012). Some of the recommendations made by EXIM Bank are as follows:-

- Redefine ceiling limit of medium enterprises
- Cluster Development Programs
- Need for Focussed Technology/ R&D Institutions for MSMEs
- Increase SMEs’ Access to Finance
  - Export credit support to SME sector
  - Assessing non financial Parameters
  - Developing Mezzanine Financing
  - The Working Group, constituted under the chairmanship of Dr. K C Chakrabarty, then Chairman and Managing Director, Punjab National Bank has suggested:
1. An independent Rehabilitation Fund for rehabilitation of sick, micro, small and medium enterprises with a corpus of `1000 crores.
2. A Fund for contributing to the margin money required to be brought by the promoters of SME units taking up technological upgradation.
3. A Marketing Development Fund, which could provide financial assistance in setting up distribution and marketing infrastructure / outlets.
4. A National Equity Fund Scheme to support the greenfield and expansion projects.

- Promoting Entrepreneurship
- Increase the support to enhance export competitiveness of MSMEs
- Promoting synergy
- Exit policy for MSMEs
- Strengthening Sub-Contracting Relationships

It is also prominent from the recommendations of EXIM Bank and PM’S Task Force; and schemes of MSME Ministry that there is more focus on Micro and Small Enterprises than the Medium Enterprises. Reserve Bank of India advises banks to lend 60% of the MSE Advances to Micro Enterprises and ensure 10% growth in credit to micro enterprises. The inclination towards micro enterprises is also fair to an extent because they are the ones with least knowledge and resources. But Small and Medium enterprises play a very important in development of the economy as is shown by the theory of The Missing Middle and the positive correlation between the economic growth of a country and the size of its SME sector. Therefore there needs to be more focus on Small and Medium enterprises in government policies and schemes.

Helping MSMEs is the only way of helping people help themselves.
XI. REFERENCES


