

STATUS OF MICRO SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIA, IMPACT OF DEMONETIZATION AND GST WITH THE REMEDIAL MEASURES

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ABSTRACT

The article focuses that the MICRO SMALL AND MEDIUM ENTERPRISES (MSMES) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economy and social development of the country by fostering and entrepreneurship and generating largest employment opportunities at comparatively low capital cost next only to agriculture. MSMEs are complementary to large industries as ancillary units and contribute in the inclusive industrial development of the country. They are widening their domain across sectors of the economy producing diverse range of products and services to meet demands of domestic as well as global markets.

The paper also touches upon the impacts of demonetization and GST in the long and short run with the remedial measures and schemes at present.

Keywords: Entrepreneurship, Capital Cost, Demonetization and GST.

1. INTRODUCTION

The micro small and medium enterprises (MSMEs) are small size entities defined in terms of their size of investment. Though the primary responsibility of promotion and development of MSMEs is of the state government the centre has passed an act on 2nd October 2006 to empower the sector and also has formed a Ministry of MSMEs. It was

the micro small and medium enterprises development (MSMED) Act which was notified in 2006 that defined the three tier of micro, small and medium enterprises and set investment limits.

The MSMEs are classified in terms of investment made in plant and machineries if they are operating in the manufacturing sector and investment in equipment for service sector companies.

Classification of MSMEs (in Rs.)	Ceiling on investment in plant and machinery (in Rs.)	Service sector (Investment in Equipment in Rs.)
Micro	Below 25 lac	10 lac
Small	25 lac to 5 crore	2 crore
Medium	5 crore o 10 crore	5 crore

2. OBJECTIVE AND SIGNIFICANCE

It was established to promote, facilitate and develop the competitiveness of the micro, small and medium enterprises.

Micro, small and medium enterprises (MSMEs) are the backbone of the economy in a developing country like India. The MSME sector contributes to 45% of India's total industrial employment, 50% of India's total export and 95% of all industrial units of the country and more than 6000 types of products are manufactured in these industries as per msme.gov.in when these industries grow, the economy of the country grows as a whole and flourishes. These industries are also known as Small Scale Industries (SSIs). Although registration under MSME Act is not mandatory by the government, it is beneficial to get one's business registered under this because it provides a lot of benefits in terms of taxation, setting up business, credit facilities, loans etc.

3. RESEARCH METHOD

The present study is based on secondary data. The secondary data was collected from Ministry of MSME, Govt. of India's Annual Report 2017-2018, Indian economies financed.net, RBI Report, books and websites.

4. SCOPES

India's micro, small and medium enterprises (MSMEs) base is the largest in the world after China. Given the government of India's latest 'Make in India' push, along with a significant jump in the FDI flows, the Indian MSMEs sector is poised for rapid growth and integration with major global value chains. As per the official estimates, there are about 63.05 million micro industries, 0.33 million small and about 5,000 medium enterprises in the country. The state of Uttar Pradesh has the largest number of estimated MSMEs with the share of 14.20% of the total MSMEs in the country. West Bengal comes as close second with the share of 14% followed by Tamil Nadu and Maharashtra at 8% respectively.

4.1 Opportunities areas for MSMEs in India

(a) Telecommunications

- (i) Manufacturing of telecom networking equipment including routers and switches.
- (ii) Manufacture of base transceiver station equipment.
- (iii) Mobile customer data analytics services oriented towards analytical solutions.
- (iv) Development of value added services.

(b) Healthcare

- (i) Manufacturing of low cost medical devices and medical accessories such as surgical gloves, scrubs and syringes.
- (ii) Low cost surgical procedures to reduce the cost of healthcare.
- (iii) Medical tourism

- (iv) Diagnostic labs
- (c) **Electronics**
 - (i) Domestic manufacturing of low cost consumers electronics, consumer durables.
 - (ii) Nano-electronics and micro-electronics
 - (iii) Electronic systems design and manufacturing including semi-conductor design, electronic components, design and hi-tech manufacturing under India's 'National Electronics.'
 - (iv) Strategic electronics, as the government is keen on encouraging the domestic manufacturing of products needed by the security forces.

Other areas that offer opportunities for MSMEs include information technology, pharmaceutical, chemical, automotive gems and jewelry textile, food and agriculture.

5. **Demonetization / GST**

A recent study by the Reserve Bank of India (RBI) has noted that the Micro, Small and Medium Enterprises (MSMEs) have been adversely hit by Demonetization and Goods and Services Tax (GST) which had a significant impact on the overall credit of the sector. "The introduction of GST led to increase in compliance costs and other operating costs for MSMEs as most of them were brought into the tax net" said the report. It added that the MSME power faces operational problems due to its size and nature of business and is therefore, relatively more susceptible to various shocks to the economy.

"A major obstacle for the growth of MSMEs is their inability to access timely and adequate finance as most of them are in niche segments where credit appraisal is a major challenge," the report said.

It added that about 97% of MSMEs operate in the informal sector and their share of informal sector in gross output of MSMEs is about 34%. As per National Accounts

Statistics, 2012, the share of informal sector manufacturing MSMEs in total GDP is estimated at around 5%.

“A large number of these firms depend on informal channels because of easy accessibility and availability of credit without any documentation hassles and mortgages even though the rate of accessing finance are due to lack of comprehensive formal documentation relating to accounts, income and business transactions. As a result loans are provided to the MSMEs mainly through appraisal of their collaterals rather than assessing their true business potentials” it added.

However, the year on year (YOY) growth of bank credit to the MSME sector decelerated gradually during 2015 to 1.6% in April 2016 before exhibiting some recovery till October 2016. The deceleration in credit growth during 2014-16 was partly due to overall slowdown in economic activity, rising non-performing assets (NPAs) and reclassification of food and agro-processing units from MSMEs category to agriculture sector (as per the revised priority sector) lending guidelines, issued to bank in April 2015). On the exports front the report added that MSME sector contributes around 40% to India’s total export (GOI 2018). Recognizing significant contribution of MSMEs, the government has put in place several measures in its Foreign Trade Policy (FTP) to promote exports by MSMEs. “Among various items of MSMEs exports, gems and jewelry, carpets, textiles, leather handlooms and handicrafts items are highly labour intensive and depend heavily on cash for working capital requirement and payments towards contractual labourers. Hence, exports shipments of these sectors could have been impacted by demonetization,” it added.

6. Measures

MSMEs suffered severe hardships due to the twin impact of demonetization and GST. This double whammy led to distress and defaults on bank loans. As a corollary

many of these units shut down and numerous of others were forced to lay off employees. The government in conjunction with Reserve Bank of India, launched a series of measures to alleviate their distress.

- (i) Shackling the operation of e-commerce giants Flipkart and Amazon.
- (ii) Setting up of an export promoting cell within the MSME Ministry.
- (iii) RBI's announcement of a one time restructuring for existing stressed MSME loan below Rs. 25 crore.
- (iv) To set up a panel under former Securities And Exchange Board of India (SEBI) Chairman U.K. Sinha to suggest long term structural and institutional changes to catalyze MSME growth.
- (v) RBI Governor Shaktikant Das has promised to meet with MSME sector representatives to get a clearer idea of their problems.
- (vi) Ensuring the quality of products for exports, technology upgradation incubation, credit linked capital subsidy, UID linked schemes.
- (vii) Collateral free loans from banks.
- (viii) 50% subsidy on patent registration.
- (ix) 1% exemption on the interest rate on overdraft.
- (x) Concession on power utility bill.
- (xi) Eligible for industrial promotion subsidy.
- (xii) Protection against delayed payment.
- (xiii) Reimbursement of ISO certification charges.

7. CONCLUSION

It is too little and too late. These measures are announced after many units have shut down or beyond repairs. The remedial measures should have been executed right after demonetization. After farm loan waivers MSME loan restructuring will be difficult and

can be disastrous for the economy. There is no initiative to reform or provide more moxie to the trade receivables discounting system, which has financed MSME receivable of only Rs. 2400 crores till October 2018. It is well known that mostly MSME units are umbilically attached to the supply chain of large corporations and are subject to their capricious payments records leading to lengthening working capital cycles and an uncertain bank loan repayment record. It is therefore, surprising that there was a sidestep to this problem which alone could have helped in restructuring a large chunk of MSME loans. According to data from the Directorate General of Commercial Intelligence and Statistics, the export value of MSME related products in 2017-18 was \$ 147.4 billion, or 48.5% of total export.

However, MSME has acquired a prominent place in the socioeconomic development of the country contributing to the overall growth of GDP, employment generation and exports. Its performance has a direct impact on the growth of the national economy, having emerged as the engine of growth for Indian Industry. It has been globally recognized as a vital component of a domestic economy.

8. REFERENCES

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