

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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GOVERNMENT POLICY AND SMALL SECTORS IN INDIA

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ABSTRACT

The small scale industry sector constitutes a vibrant and dynamic sector of the industrial economy of India. This sector has recorded consistently good growth in terms of production, creation of employment and phenomenal growth in exports over the years. The post liberalization era in the Indian economy has enhanced the opportunities and challenges for the SSI Sector. With their dynamism, flexibility and innovative drive they are increasingly focusing on improved production methods, penetrative marketing strategies and management capabilities to sustain and strengthen their operations. The government has taken keen interest in the development of the small sector in India by way of various measures and schemes. The affairs of small sector are looked after by Ministry of Micro, Small, and Medium Enterprises. Within the department of MSME, there is Micro Small Medium Organization under a development commissioner. MSMEEDO with its service institute and branch institutes play an active role in the development of small enterprises. This paper is an attempt to familiarize the evolution of the policy framework and support measures of the government over the years.

KEYWORDS

Micro Small Medium Organization, policy framework and support measures.

INTRODUCTION

The small scale industry sector, as an important segment of the Indian economy, accounts for around 95 per cent of the industrial units, 40 per cent of the manufacturing sector output and 36 per cent of exports. It provides direct employment to 282.57 lakh persons in around 118.59 lakh registered SSI units in the country. The sector enjoys the pride of being second largest employer in the country and offers a wide spectrum of products for consumers and industry-users. The sector serves as a Greenfield for the nurturing of entrepreneurial talent enabling the small scale units to graduate into medium and large scale over a period of a time.

India's concern and support for small-scale enterprises has focused excessively on the small-scale industry. This can, perhaps, be traced back to Mahatma Gandhi's special concern for handicrafts and village-based industries. Various measures taken by the Central and State governments, for the development of the SSI have included product reservations, fiscal concessions, preferential allocation of credit and interest subsidy in a credit-rationing framework, extension of business and technical services, preference in government procurement, marketing assistance. It also includes export promotion by institutions such as National Small Industries Corporation, Small Industries Development Organization, Handicrafts and Handloom Promotion Corporation, and Khadi and Village Industries Commission, as also promotion of ancillarisation, and so on.

The government has recognized the importance of SME sector and has strongly come out with various policy measures from time to time. From the direct intervention and excessive protection methods, there has been a shift in the role of the government as that of a friend, facilitator and guide. All efforts are intended to enhance the competitiveness of India's small scale sector, enabling the enterprise to attain global standards.

SCOPE OF THE STUDY

The scope of the study has been limited to the evolution of policy framework and support measures of the government by classifying them into three periods; 1948-1991, 1991-1999 and 1999 onwards.

OBJECTIVES OF THE STUDY

- To familiarize the evolution of policy framework and support measures of the government.

RESEARCH METHODOLOGY

Exhaustive literature survey regarding the topic and related concepts has been done. Secondary data were collected from various sources including books, research papers, newspapers, magazines and websites.

EVOLUTION OF POLICY FRAMEWORK AND SUPPORT MEASURES FOR SSI DEVELOPMENT

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

1948-1991

In all the policy resolution from 1948-1991, recognition was given to the micro and small enterprises termed as an effective tool to expand employment opportunities, ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The micro, small and medium enterprises development organization was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture SSIs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through priority sector lending programme of commercial banks, excise exemption, reservation under the government purchase programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development.

MSME Development institute (earlier known as Small Industries Service Institute-SISI) were set up all over India to train youth in skills and entrepreneurship. Tools rooms were established with German and Danish Assistance for providing technical services essential to MSEs as also for skill-training. At the state level, District Industries Centers were set up all over the country.

1991-1999

The new policy for Small Tiny and Village Enterprises of August 1991 laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing centers were set up for quality certification and new tool rooms as well as sub contracting exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set up mini industrial estate for small industries.

1999 ONWARDS

The ministry of MSME (earlier known as Ministry of Small Scale Industries and Agro & Rural Industries -SSI&AR) came into being from 1999 to provide focused attention to the development and promotion of the sector. The new policy package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, marketing and technology more effectively. A credit linked capital subsidy scheme was launched to encourage technology upgradation in the MSE sector and a credit guarantee scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of central excise duty was raised to Rs.1 crore and a Market Development Assistance

Scheme for MSEs were introduced. At the same time, consultation were held with stakeholders and the list of products reserved for production in MSE sector was gradually reduced each year. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March 2007, a third package for the promotion of micro and small enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein "to be competitive is the key of success".

▪ MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first ever legal framework for recognition of the concept of 'enterprise' which comprises both manufacturing and service entities. It defines Medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely micro, small and medium. The act also provides for a consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises with a wide range of advisory functions.

▪ FOREIGN DIRECT INVESTMENT POLICY

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

▪ LIMITED LIABILITY PARTNERSHIP ACT ,2008

The LLP is viewed as an alternative corporate business vehicle that provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form would enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP would also be a suitable vehicle for small enterprises and for investment by venture capital. The LLP Act has provided a fillip to the small sectors as it combines the advantages of both partnership and companies.

▪ DE-RESERVATION

The issue of de-reservation has been a subject of animated debate within the government for many years. The approach to eleventh Five year plan noted the adverse implication of reservation of products for exclusive manufacture by MSEs and recommends the policy of progressive de-reservation. This helped the sector in enlarging the scale of operation and also paved the way for entry of large enterprises in the manufacture of reserved products in keeping with the global standards.

▪ CREDIT/FINANCE

Credit is one of the critical input for the promotion and development of the micro and small enterprises. Some of the features of existing credit policy for the MSEs are;

○ PRIORITY SECTOR LENDING

Credit to MSEs is part of the priority sector lending policy of the banks. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for priority sector. For foreign banks however 32% of the NBC is earmarked for the priority sector of which 10% is earmarked for the MSE Sector.

○ INSTITUTIONAL ARRANGEMENT

SIDBI is the principal financial institution for promotion, financing and development of the MSE sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. Commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements. At the state level, State Financial Corporation and State Industrial Development corporation s are the main sources of long term finance for the SME sector.

▪ MARKETING AND PROCUREMENT

Under Government Store Purchase Programme, various facilities such as issue of tender sets free of cost, exemption from payment of earnest money deposits...etc are provided to enterprises in order to assist them for marketing their products in competitive environment. To assist the MSEs in marketing their products, section 12 of the new MSME Act has formulated a scheme of preferential procurement of goods produced by MSEs at the Central and State/UT level.

▪ EXPORT PROMOTION

Export promotion from the MSEs has been accorded a high priority. Products from MSE exporters are displayed in international exhibition and the expenditure incurred are reimbursed by the Government. Under the MSE Marketing Development Assistance is provided to individuals for participation in overseas fairs and also conducts training programme to get acquainted with latest packaging standard and techniques.

▪ PROVISION TO CHECK DELAYED PAYMENT

Provisions related to delayed payments to micro & small enterprises have been strengthened and period of payment to MSEs by the buyers reduced to 45 days. Rate of interest on outstanding amount is increased to three times of the prevailing bank rate of Reserve Bank of India compounded on monthly basis. Declaration of payment outstanding to MSE supplier has been made mandatory for buyers in their annual statement of accounts. Moreover, interest (paid or payable) to buyer is disallowed to suppliers for deduction for income tax purposes.

▪ NATIONAL BOARD FOR MICRO, SMALL AND MEDIUM ENTERPRISES

An apex consultative body with wider spread representation of stake holders has been established to examine the factors affecting the development and promotion of MSMEs and review the policies and programmes of the central government. An advisory committee has been established to advise the state government regarding various policies and also looks into cases referred by the National Board

CONCLUSION

The emerging economic scenario in the changed liberalized, and competitive economic environment necessitated structural and fundamental changes in the policy framework, causing a shift in focus from protection to promotion. The government of India has been planning various schemes and policies to develop the favorable environment for the new entrepreneurs in India from time to time. The result of these economic policy interventions is very favorable. Major focus has been in the field of small and medium level industries where entrepreneurship is being mainly emphasized. World over, Micro and Small Enterprises (MSEs) are recognized as an important constituent of the national economies, contributing significantly to employment expansion and poverty alleviation. Recognizing the importance of micro and small enterprises, which is an important segment of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base. Development and promotion of MSEs are vital for economic development that is why the modern era describes the MSEs as "the most employment-intensive segment".

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