

## Micro and Small Enterprises

7.43 The micro and small enterprises (MSEs) constitute an important segment of the Indian economy, contributing around 39 per cent of the country's manufacturing output and 34 per cent of its exports in 2004-05. It provides employment to around 29.5 million people in the rural and urban areas of the country (Table 7.11).

7.44 The process of economic liberalisation and market reforms, while exposing the Indian MSEs to increasing levels of domestic and global competition, has also opened up attractive possibilities of access to larger markets and of stronger and deeper linkages of MSEs with larger enterprises. Improved manufacturing techniques and management processes can be sourced and adopted with greater ease. A robust and vibrant MSE

segment can derive the benefits of these new opportunities provided appropriate enabling policies are put in place and measures for capacity building in public private mode are also initiated. In this environment of competition and rapid technological changes, the segment can then achieve higher sustained growth by enhancing its technological capabilities, improving its product and service quality to global standards and seeking ways of innovation

7.45 Initiatives and measures taken by the Government during the year to enable MSEs enhance their competitive strength, address the challenges of competition and avail of the benefits of the global market include:

- Enactment of the Micro, Small and Medium Enterprises Development (SMED) Act, 2006. (Box 7.6)

**Table 7.11 : Performance of Micro and Small Enterprises**

Year	No. of units (in lakh)			Production (Rs. crore)		Employment (in lakh)	Exports (Rs. crore)
	Regd.	Unregd.	Total	(at current prices)	(at constant prices)		
2002-03	15.91	93.58	109.49 (4.1)	3,11,993 (10.5)	2,10,636 (7.7)	260.21 (4.4)	86,013 (20.7)
2003-04	16.97	96.98	113.95 (4.1)	3,57,733 (14.7)	2,28,730 (8.6)	271.42 (4.3)	97,644 (13.5)
2004-05	17.53	101.06	118.59 (4.1)	4,18,263 (16.9)	2,51,511 (10.0)	282.57 (4.1)	1,24,417 (27.4)
2005-06	18.71	104.71	123.42 (4.1)	4,76,201 (13.9)	2,77,668 (10.4)	294.91 (4.4)	N.A.

Note : Figures in parenthesis indicate percentage growth over previous years  
Source : Development Commissioner (SSI).

- Amendment to the Khadi and Village Industries Commission Act, 1956 introducing several new features to facilitate professionalism in the operations of the Commission as well as field-level formal and structured consultations with all segments of stakeholders. The new Commission has been constituted.
- A package for Promotion of Micro & Small Enterprises has been approved recently to address most of the concerns in the areas such as credit, cluster-based development, infrastructure, technology, and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package.
- An empowered group of Ministers (EGoM) under the Chairmanship of the External Affairs Minister has been set up to lay down a comprehensive policy for cluster-development and oversee its implementation.
- Under the Credit Guarantee Scheme, life insurance cover for chief promoters of units provided guarantee cover by the Credit Guarantee Fund Trust for Small Industries (CGTSI) has been introduced. Further, the one-time guarantee fee under the scheme has been reduced from 2.5 per cent to 1.5 per cent with effect from April 1, 2006.
- After due consultation with the stakeholders, 180 items reserved for exclusive manufacture in micro & small enterprises have been de-reserved on May 16, 2006 and 87 such items have been dereserved on January 22, 2007.

7.46 The logic of reserving items for domestic production exclusively in the small-scale sector, particularly when such products can be freely imported from large-scale production units abroad and when such a policy prevents the 'small' from growing and benefiting from the economies of scale, has progressively come under serious questioning. However the question that needs to be addressed is whether the reservation in the small scale sector is based on any objective

**Box : 7.6 Salient Features of the Micro, Small and Medium Enterprises Development Act, 2006**

- It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz, micro, small and medium
- Under the Act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/rendering of services. Both categories have been further classified into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services) as under:
 

Manufacturing Enterprises: Micro Enterprises – investment up to Rs. 25 lakh. Small Enterprises – investment above Rs. 25 lakh and up to Rs. 5 crore. Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore.

Service Enterprises:

Micro Enterprises – investment up to Rs. 10 lakh  
Small Enterprises – investment above Rs. 10 lakh and up to Rs. 2 crore.  
Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore.
- The Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions, and an Advisory Committee to assist the Board and the Centre/State Governments.
- The other features include (i) establishment of specific Funds for the promotion, development and enhancement of competitiveness of these enterprises, (ii) notification of schemes/programmes for this purpose, (iii) progressive credit policies and practices, (iv) preference in Government procurements to products and services of the micro and small enterprises, (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and (vi) simplification of the process of closure of business by all three categories of enterprises.

policy parameter. The process of reservation of items for production exclusively by the small-scale sector started in 1967 and reached its peak in 1984 (Table 7.12). There has been a gradual relaxation of the reservation policy over time, and the number of items reserved for the small-scale sector was 239 on January 22, 2007.

**Table 7.12 : Trend in Reservation of Items for the Small Scale Sector**

Date of Notification	Number of Reserved	Number of Dereserved	Cumulative Total
<b>Phase 1</b>			
April 11, 1967	47	0	47
Feb 19, 1970	8	0	55
Feb 24, 1971	73	0	128
Nov 11, 1971	0	4	124
Feb 26, 1974	53	0	177
June 5, 1976	3	0	180
April 26, 1978	324	0	504
<b>Phase 2</b>			
April 26, 1978*	807		807
Dec 30, 1978		1	806
May 12, 1980	27	0	833
Feb 19, 1981	1	1	833
Aug 3, 1981	9		842
Dec 23, 1981	02	13	831
Oct 14, 1982		3	828
Oct 19, 1982	9		837
Sep 3, 1983	35		872
Oct 18, 1984	1		873
May 30, 1986	7	14**	869
Oct 30, 1986	1	7	863
Feb 13, 1987	0	13	850
July 20, 1987	0	3	847
March 18, 1988	0	1	846
March 3, 1989	3	14	835
July 31, 1989	1		836
April 3, 1997	0	15	821
Feb 3, 1999	0	9	812
Jan 1, 2001	0	1	811
June 29, 2001	0	14***	799
May 20, 2002	0	51@	749
June 3, 2003	0	75@@	675
Oct 20, 2004	0	85@@@	605
March 28, 2005	0	108@@@@	506
May 16, 2006		180	326
Jan 22, 2007	0	87	239

**Source: Ministry of Small Scale Industries (SSI) and Agro & Rural Industries**

\* In 1978, it was decided to recast the reserved list by following codes adopted in the NIC and in the process the list of dereserved items expanded from 504 to 807.

\*\* Since it included three sub-items, the effective number comes to 11 only

\*\*\* Since it included two sub-items, the effective number comes to 12 only

@ Since it included one sub-item, the effective number comes to 50 only

@@ Since it included one sub-item, the effective number comes to 74 only

@@@ Since it included 15 sub-items, the effective number comes to 70 only

@@@@ Since it included 10 sub-items, the effective number comes to 98 only