

# Redefining MSMEs will give the sector a boost

A turnover-based classification will allow MSMEs to invest more in tech. This will help improve their competitiveness

CHANDRAJIT BANERJEE

**M**icro small and medium enterprises (MSMEs) have always been vital in the socio-economic development of India. Spread across both urban and rural areas, MSMEs produce a diverse range of products and services and provide large-scale employment at low capital cost. They not only support industrialisation of rural and backward areas, but also help in reducing regional imbalances and assuring equitable distribution of national income and wealth.

MSMEs are part of the larger industrial ecosystem and act as ancillary units for large enterprises. As per present estimates, the Indian MSME sector, including *khadi*, village and coir industries, consists of 51 million units and provides employment to over 117 million persons. The sector contributes 7 per cent to India's GDP while accounting for 45 per cent of the total manufacturing output and 40 per cent of the exports from India.

Even though contributing significantly to exports, Indian MSMEs

are still not regarded as a force to reckon with in the international markets. Looking ahead, the challenges are in building the next generation of MSMEs that can function as the powerhouse of the economy.

With intense competition at the global level and the demands arising from globalisation, it is now imperative for Indian MSMEs to demonstrate greater competitiveness, position themselves strategically and leverage their engagement in global value chains (GVCs).

## A heterogeneous group

However, the MSMEs in India are heterogeneous and varied in nature in terms of the size and structure of the units, variety of products and services, scale of production, and application of technology. A considerable number of them are in the unorganised sector.

In accordance with the provision of the MSMED Act, 2006, the classification of MSMEs is defined in terms of investment in plant and machinery for the manufacturing enterprises and equipment for the services enterprises. However, since 2006, there has been a major trans-



Getting ready for the next level

ition in the Indian economy.

Increasing domestic and global competition, technological obsolescence, change in manufacturing strategies, lack of access to infrastructure and logistic facilities, fund shortages and inadequate linkages to domestic and international markets together with uncertainty are key challenges for MSMEs. This necessitates redefinition of the small enterprise in a way that will foster their global competitiveness.

The MSMED Act provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufactur-

ing and service entities and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, progressive credit policies and practices, preference in government procurements to products and services of the micro and small enterprises, and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The new definition needs to consider domestic imperatives, examine evolution of key business sectors of the economy and evaluate global MSME policies across developing and developed economies.

Based on wide-ranging discussions with relevant stakeholders, CII recommends a turnover-based criterion to define an MSME. The turnover for the last year as on March 31 can be a deciding factor for the size of the enterprise.

The benefits of turnover-based classification are many. This is a transparent, objective and non-discretionary criterion. It will not re-

strict investments in technology, encouraging MSMEs to invest in improving their competitiveness. Reducing transaction costs of unnecessary inspections to determine the classification of the enterprise would be another positive in this definition.

While CII has also studied whether the number of employees hired by an enterprise can be included as an additional criterion to make the definition robust, discussions with MSME members and government authorities have suggested that this might pose a threat to employment creation. Enterprises, in order to utilise the benefit provided to MSMEs, may engage in shedding employees or resort to engaging in temporary and seasonal employment.

Such a turnover-based definition of Indian enterprises will best encourage available incentives to flow in the right direction, thereby enabling the sector to effectively boost its contribution to growth, employment and exports.

The writer is Director General, Confederation of Indian Industry