CHAPTER ONE

CONCEPTUAL FRAMEWORK OF THE STUDY

1.0 Introduction
1.1 Need for the Study
1.2 Background of the Study
1.3 Purpose of the Study
1.4 Overview of the Study
   1.4.1 About the word “SME”
   1.4.2 Evolution of SME
   1.4.3 SMEs in Global Context
   1.4.4 SMEs in Indian Context
   1.4.5 MSMED Act 2006
   1.4.6 Government Policies and Initiatives for SMEs
   1.4.7 Supporting Agencies of SMEs in India
   1.4.8 Procedure to Start SMEs in India
1.5 Make in India and its Impact on Indian SMEs
1.6 About Indian Industrial Region
1.7 About MIDC Chinchwad Area
1.8 Globalization and its Impact on Indian SMEs
1.9 Role and Contribution of SMEs in Indian Economy
1.10 Summary of the Chapter
1.11 References of Chapter One
CHAPTER ONE

CONCEPTUAL FRAMEWORK OF THE STUDY

The first chapter of the thesis deals with the conceptual framework of the study. This chapter describes in detail the need for the study, background of the study, purpose of the study, and overview of the study. The chapter ends with the summary of this chapter and references of the chapter.

1.0 Introduction:

SMEs act as the lifeline for all nations of the world. Generation of employment, foreign currencies, contribution in G.D.P and overall national development is possible due to rise in SMEs and their sustainable growth. Few SMEs convert themselves from small enterprise to large enterprise, which is the initial stage of every enterprises’ life cycle in the entire world and Indian enterprises are not the exception to this. Enterprises like Tata Motors, Reliance, Bharti Airtel, Dabur, Bajaj and many more were initially started as a SME which were characterized generally diverse in nature, isolated and unorganized. Such SMEs face many problems among which marketing problems were major which act like an obstacle in the path of their growth and in case of not implementing any action plan, many of them became sick. India, being the second SME nation of the world after China which ranks first, is still unable to take advantage from this sector.

1.1 Need for the Study:

Marketing is the basic need of all types of business segments of the world and manufacturing SMEs are not an exception to this. Indian SMEs are facing many problems related to marketing due to which they are not able to compete with multi
nationals and have narrow customer base, lower production capacity, average quality and are flooded with unbranded products. Hence many shut due to rise in operating costs and decrease in profit margins. This research work was based on the study for finding different types of problems related to marketing which was faced by SMEs of Pune in MIDC Chinchwad area. After identifying the major marketing related problems, the goal was to offer due suggestions and recommendations to the identified problems so that after implementing the proposed suggestions and recommendations, SMEs may compete with the multinationals both nationally as well as internationally. SMEs may produce quality products and must build long term relationship with its customers so that they may earn more and more profit margins and GDP contribution will also increase in many folds resulting in increase in job opportunities.

1.2 Background of the Study:

SMEs in Pune are shutting down every year from the competitive business arena which is full of global players. This is not only the story of Pune SMEs but also of many of the Indian SMEs in different states. The sales have been decreasing everyday as multinationals are offering better products in affordable price through their innovative marketing activities. These SMEs have become product centric and are also not building relationship with the customers and hence have become the manufacturing cum outsourcing hub for multinationals. There are many problems due to which they are not able to compete with this stiff competition as they are unable to increase production capacity due to scarcity of skilled manpower, problems of finance and electricity. Maximum of them are still using the older machines, outdated technologies and hence the overall costing have been increasing and they are forced to sell the product on higher prices. Due to which their products have less demand in the market and are losing customer’s faith. These problems lead to marketing related problems which cover the following main areas:-

a. Unable to build brand
b. Less promotional activities
c. No relationship with the customers
d. No awareness about the market research and its importance
e. Underutilization of digital and social media technique.
The above resulted in low turnover, narrow customer base and market share, high production cost with under-utilized production capacity, unawareness of product among customers and less brand visibility. SMEs are operating on very thin margins and their exposure to the slowdown is very high.

1.3 Purpose of the Study:

The research study purpose is to find out the problems related to marketing faced by SMEs in MIDC Chinchwad area and to suggest due suggestions and recommendations to help them in solving their problems as our country India is home to about 4.88 crore SMEs units. In Pune, MIDC Chinchwad area has the highest number of SMEs in Maharashtra and hence this research is very beneficial to them in long run. About 8.11 crore people have been employed Indian SME sector in India. The indication of the SMEs sector rapid evolution is their products export outside India by more than 1.5 million SMEs and have registered 5.29 per cent yearly growth rate. Hence as a researcher, the most important purpose of this research study was to guide the SMEs sector by right suggestions so that small enterprises can survive and sustain in this competitive world by upgrading their marketing related activities.\(^1\) The contribution of formal SMEs in high income countries amount to almost 50 percent of GDP on an average. It was also important to note that majority of employment generation was through the growth of SME sector only.\(^2,\,3\,\&\,4\)

The heterogeneous nature and small size needs adequate support from organized intermediaries. These intermediaries exist in every country in different forms. SMEs development agencies such as Small Business Administration (SBA) of the US, Small Business Service (SBS) of United Kingdom and SIDO (Small Industries Development Organization) in India are the intermediaries set up by the Government.\(^5\,\&\,6\) SMEs are very important for India-the youngest planet of the world for generating employment and producing quality products to the masses, yielding more taxes for governments and earning foreign exchange. After agriculture, SMEs are the second largest employment generator in India. So they are most important and should be treated as “Thrust sector”
1.4 Overview of the Study:

SME sectors have the potential to change the faith of any nation as they act as a revenue key for the economy of the nation. Most of the Indian SMEs which are smaller in size have no any action plan as their focus is only to earn profit rather than growth. Due to short-sightedness such SMEs face marketing related problems. Entrepreneurs of such enterprise start their business from a smaller unit and gradually, very few of them grow into a larger unit and further became Multi National Corporations (MNCs) by producing variety of quality products and selling to the customers using different marketing promotional tools.

"Every great enterprise was initially started as a smaller one" - Anonymous

There is a tug of war between SMEs and MNCs in which SMEs have no choice rather than to dance on the tune of MNCs. These small enterprises remain small forever as their growth becomes limited and have to depend on MNCs for orders. MNCs have started outsourcing their jobs to smaller units to save their resources so that they may meet and match the market demand on time and this leads to the rise in number of smaller units day by day. Both large and small enterprises are interdependent on each one for their survival in this competitive world. Today, India has more than 48 million SMEs which make her the second largest SMEs nation of the world accounting for about 50 per cent of country’s manufacturing output by producing more than 8000 quality products and act as an vital employment generating sector with 50 per cent of the private sectors employment and 30 to 40 per cent of value addition in manufacturing. However, SMEs in India which constitute more than 80 per cent of the total number of industrial enterprises and form the backbone of industrial development are not export competitive and contribute only about 34 per cent of exports. The initial capital investment to start any enterprises is very less with high potential to generate more employment for the people. It also contributes to the nation’s GDP and has become engine of economic growth in India. Small and Medium Enterprises (SMEs) play an important role in economic development, as they have been the key source of employment generation and overall growth, both in developing as well as in developed countries.
SMEs responsibilities in developing countries have become very significant due to the following major budding benefits:

- Earnings allocation development,
- Decrease in poverty,
- Formation of employment,
- Development in export,
- Expansion of industry, Entrepreneurship and rural economy through SMEs development.

SMEs play an important role in uplifting trade and industry growth and rational sustainable development. To meet the challenges created by globalization, each manufacturing and business association have to adopt their accountability. In India, both small business and big business enterprise have to adopt the accountability to meet the qualities, technological upgradation, standards, skills technical expertise needed for the global market. Ernst Friedrich Schumacher, an economist, published his book “Small is Beautiful” in Britain before 40 years. He argued in support of human-scale, decentralized and suitable technologies which small businesses could bind effectively. It means that even a small scale unit operating anywhere in India has to fulfill the standards set by the global giants operating in India. It is for both units-one that produces final products and another which functions as supplementary and artisan. But many SMEs have been becoming sick everyday due to various problems and the major are marketing problems due to which they are not able to market their products to the targeted customers, unable to understand their customer’s needs and wants, unable to attract new customers, retain the existing ones and create their own branded products in the market and hence have become the “Outsourcing hubs of the MNCs.” In India, for minimizing poverty and improving sustainable growth and rational income distribution, SMEs sector business character act key role. SME trigger personal possession; heighten skills related to entrepreneurial and their suppleness in fast reaction to alter market order and delivery situation which are noteworthy.
1.4.1 About the word “SME”:

The word “SME” is used for those enterprises whose personnel numbers fall below definite limit. It is also known as small and medium-sized businesses (SMBs) or Small Scale Industries (SSI). The abbreviation “SME” is used by the European Union and the international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO).\textsuperscript{14} It has been affirmed worldwide that SMEs are accountable for motivating modernization and rivalry in many trade and industry sectors. Economy of India which is based on agriculture is now focusing on development of industries in SMEs sector. These sectors help in employment and revenue generation, attracting foreign direct investment and contribute in GDP of the nation.\textsuperscript{15}

1.4.2 Evolution of SME:

Indian Markets are flooded with demand for products and services with the increase in population and their rise in purchasing power. The demand is more than the supply and due to this large enterprises are not able to meet the demand on time with their quality products and services at affordable prices. So they decided to start outsourcing the manufacturing of some of items of their core products from third party vendors to save their time and money. In this way, they started producing more finished products on time and are able to expand their customer base. Gradually, other large enterprises from various sectors started outsourcing their various items from the third party vendors whose sizes are very micro, small and medium and such enterprises started delivering quality products to these large enterprises at affordable prices on time. In this way, both the parties became dependent on each other for their existence in this competitive world through their mutual collaboration. With the rise in demand, the number of such enterprises started increasing day by day and became famous in the market as “Small and Medium sized Enterprises” (SMEs) or “Micro, Small and Medium sized Enterprises” (MSMEs).
When large enterprises started facing the problems such as bulk orders, quality products, timely delivery and lower production capacity. They did not want to lose any customer and then their dependencies on smaller enterprises have increased in many folds which resulted in outsourcing of their majority of works to them.

Large enterprises started giving sub-contracts to SMEs for small and medium items of their core productions. Its result revealed that core manufacturer could focus on their own core manufacturing and research and development as their items are manufactured on time by SMEs efficiently. For example Tata Motors which is manufacturing the quality cars in huge quantity with their core product of engine and chassis only, is outsourcing all the remaining items like tyres, seats, electrical parts, horns etc. from various third party vendors or SMEs and produced the car in the market on their own brand name. Hence various third party vendors have evolved as a manufacture of various items used by the large enterprises like Tata Motors and these larger enterprises have started focusing more on better quality, maximizing production capacity, in doing research and development for product innovations.

![Flow of Items](image)

Figure No. 1.1: Flow of Items
There is an interconnected network of third party vendors or SMEs whose are acting as a manufacturer and one SMEs finished product is a part of the another one. Other SMEs are also manufacturing new items and assembled the product with it and deliver it to the next third party vendors or SMEs. In this way, after passing different network of networks, it further reached to the large enterprises which used those items in their core production and manufactured the final product for the consumer. This model denotes the current SMEs trend to manufacture the quality products for their next vendors and so on. The final product is manufactured in less time at affordable prices with reliability in quality.

![Figure No. 1.2](image)

**Figure No. 1.2:** Car with various items indicating various third party vendors or SMEs which are supplying these items by manufacturing

Various items are denoting various third party vendors or SMEs which is manufacturing these items at their premises and delivering these items to the large enterprises for further process of manufacturing the car by using the outsourced items.

![Figure No. 1.3](image)

**Figure No. 1.3:** Car is assembled by large enterprises along with some of its core manufactured products like engine and chassis
Large enterprises like Tata Motors manufacture some items like engine and chassis and then assembled the outsourced products from various SMEs to manufacture car on their own brand name as a final product for the consumer.

![Figure No. 1.4: Final Product by the large enterprise](image)

The small and medium items manufactured by SMEs started getting more and more attention from the large enterprises due to the following reasons:

- Quality products with core competency
- Accuracy
- Just In Time with requisite quantity
- Zero defect and Increase in production capacity

To become the backbone of the Indian economy is not only positive points but also negative points for the Small and Medium Enterprises (SMEs).  

![Figure No. 1.5: Size of SMEs in India (Sources: Economic Times articles, 2013)](image)
Many of the large enterprises in India initially started as small enterprises and later become the bigger one. In India, around 94.9 per cent enterprises are micro, 4.9 per cent are small and 0.2 per cent is medium enterprises. Urban areas have around 55 per cent SMEs and rural areas have 45 per cent SMEs. In boosting the economies of every country worldwide either developed or developing, SMEs play significant role by contributing in efficient growth economically in many ways like by generating new job opportunities for both rural and urban population, offering quality products and services at affordable prices.17

1.4.3 SMEs in Global Context:

Every country defines SMEs differently as the definition varies from one country to another. Various definitions of SMEs globally are as below:

1.4.3.1 SMEs in China

The definition of SME in China is based on employee size, industry and annual turnover but distinguishes between small and medium sized enterprises only and not between micro-businesses and small businesses, according to the International Finance Corporation.18 & 19

1.4.3.2 SMEs in Bangladesh

Better Business Forum suggested the below definition of SME along with the criteria and acknowledged as a standardized one by Ministry of Industry and Bangladesh Bank.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Sector</th>
<th>Fixed Asset other than Land and Building (Tk.)</th>
<th>Employed Manpower (Not above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Service</td>
<td>50,00,000-10,00,00,000</td>
<td>50</td>
</tr>
<tr>
<td>02.</td>
<td>Business</td>
<td>50,00,000-10,00,00,000</td>
<td>50</td>
</tr>
<tr>
<td>03.</td>
<td>Industrial</td>
<td>1,50,00,000-20,00,00,000</td>
<td>15021</td>
</tr>
</tbody>
</table>

(Sources: Bangladesh Bank website)
1.4.3.2.1 Definition of Medium Enterprise

Those which are not a public limited corporation are termed as medium enterprise and accumulate the following parameters:

Government of Bangladesh\(^{22}\) has categorized SME into two broad classes:

1. Manufacturing enterprise
2. Non Manufacturing activities

1. **Manufacturing enterprise**

Manufacturing enterprises can be divided into two categories:

a. **Small enterprise**: An enterprise would be treated as small if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to up to Tk. 15 million.

b. **Medium enterprise**: An enterprise would be treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to up to Tk. 100 million.

2. **Non-manufacturing activities**

Non-manufacturing activities (such as trading or other services) can be divided into two categories:

a. **Small enterprise**: an enterprise should be treated as small if it has less than 25 workers, in full-time equivalents.

b. **Medium enterprise**: an enterprise should be treated as small if it has between 25 and 100 employees. According to Bangladesh Bureau of Statistics different enterprises are defined as:-

<table>
<thead>
<tr>
<th>Size class</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0-9</td>
</tr>
<tr>
<td>Small</td>
<td>10-49</td>
</tr>
<tr>
<td>Medium</td>
<td>50-99</td>
</tr>
<tr>
<td>Large</td>
<td>Above 99(^{24})</td>
</tr>
</tbody>
</table>

\(^{22}\) Source: Bangladesh Bureau of Statistics

\(^{23}\) Table No. 1.2: SME defined by Bangladesh Bureau of Statistics

\(^{24}\) Source: Bangladesh Bureau of Statistics
1.4.3.3 SMEs in Europe
The EU members have had individual definitions of an SME. For example, the definition in Germany had a limit of 255 employees, while in Belgium it could have been 100. The European Commission in July 2011 stated that it will be establishing a consultation on the definition of SMEs in 2012. There are three broad parameters in Europe that define SMEs: micro-entities are companies with up to 10 employees; small companies employ up to 50 workers, whilst medium-sized enterprises have up to 250 employees. SMEs are also described as firms with either revenue (turnover) of €10–50 million or a balance-sheet total of €10–43 million.

1.4.3.4 SMEs in United States
The Small Business Administration in the United States has fixed small business criteria depending on industry, ownership structure, revenue and number of employees (which in some circumstances may be as high as 1,500, although the cap is typically 500). Generally, both the US and the EU use the same threshold of fewer than 10 employees for small offices (SOHO).

1.4.3.5 SMEs in Kenya and Somalia
In Kenya and Somalia, the term SME is for “small, medium and micro enterprises”, while elsewhere in Africa, MSME stands for “micro, small and medium enterprises”. Maximum number of employees and maximum revenue it generates.

1.4.3.6 SMEs in Canada
In Canada, SMEs are defined as those which are in goods-producing business with less than employees’ number of 100 and in service-based business with less than employees’ number of 50. Medium-sized businesses are those with less than employees’ number of 500.

1.4.3.7 SMEs in New Zealand and Israel
SME has 19 or fewer employees in New Zealand and in Israel; a business is regarded small if it has no more than 50 employees and a medium businesses having workers ranging between 50 to 250.
1.4.3.8 SMEs in Nigeria

On the basis of asset base and number of staff employed, SMEs in Nigeria are defined by Central Bank of Nigeria. An asset base parameters range between N5 million to N500 million, and employed staff range between 11 to 300 employees strength.

1.4.3.9 SMEs in Germany

“Mittelstand” is the word used by people for SMEs in Germany. The international scientific community and statistical experts use the term “Small and Medium-sized Enterprises” (SMEs) instead, which is translated into German as “Kleine and Mittlere Unternehmen” (KMU). When it comes to defining small and medium-sized enterprises (SMEs), the bodies of official statistics use a recommendation of the Commission of the European Communities of 6 May 2003 as a basis. That recommendation defines SMEs as follows, drawing upon the variables staff numbers and turnover, etc.29

<table>
<thead>
<tr>
<th>Size class</th>
<th>Employees</th>
<th>Turnover per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprises</td>
<td>up to 9</td>
<td>and up to 2 millions</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>up to 49</td>
<td>and up to 10 millions</td>
</tr>
<tr>
<td>Medium-sized enterprises</td>
<td>up to 249</td>
<td>and up to 50 millions</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>over 249</td>
<td>or over 50 millions</td>
</tr>
</tbody>
</table>

The term SMEs is used by Commission as an umbrella term for micro, small and medium-sized enterprises. Those enterprises are regarded as SMEs as per the recommendation, which employ fewer than 250 persons and have an annual turnover not exceeding EUR 50 millions.30
1.4.4 SMEs in Indian Context:

SMEs in India are in the phase of transition and are contributing their share in GDP of the nation. They are becoming the engine of growth and generating ample of employment. Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 has been enacted by Indian Government which define MSME as under:

1.4.4.1 Enterprises which produce or conserve goods

Manufacturing enterprises have been defined as below:

<table>
<thead>
<tr>
<th>Description</th>
<th>INR (Indian Rupee)</th>
<th>USD (US Dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro Enterprises</strong></td>
<td>upto Rs. 25Lakhs</td>
<td>upto $ 62,500</td>
</tr>
<tr>
<td><strong>Small Enterprises</strong></td>
<td>above Rs. 25 Lakhs and upto Rs. 5 Crores</td>
<td>above $ 62,500 and upto $ 1.25 millions</td>
</tr>
<tr>
<td><strong>Medium Enterprises</strong></td>
<td>above Rs. 5 Crores and upto Rs. 10 Crores</td>
<td>above $ 1.25 million and upto $ 2.5 millions</td>
</tr>
</tbody>
</table>

a. **Micro enterprises** in which investment in plant and machinery do not surpass Rs. 25 lakhs.

b. **Small enterprises** in which the investment in plant and machinery is above Rs. 25 lakhs but does not surpass Rs. 5 Crores.

c. **Medium enterprises** in which the investment in plant and machinery is above Rs. 5 Crores but does not surpass Rs. 10 Crores.31
1.4.4.2 Enterprises engaged in providing or rendering of services

Enterprises providing or rendering of service having asset in equipment (original cost without building and land, furniture and fittings, and other items) which is not openly related to the service provided have been defined by under the MSMED Act, 2006, as below:

Table No. 1.5: Indian MSMEs Definition (Services) \(^{32}\)

<table>
<thead>
<tr>
<th>Service Enterprises – Investment in Equipments</th>
<th>Description</th>
<th>INR(Indian Rupee)</th>
<th>USD(US Dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>upto Rs. 10 Lakhs</td>
<td>upto $ 25,000</td>
<td></td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>above Rs. 10 Lakhs and upto Rs. 2 Crores</td>
<td>above $ 25,000 and upto $ 0.5 million</td>
<td></td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>above Rs. 2 Crores and upto Rs. 5 Crores</td>
<td>above $ 0.5 million and upto $ 1.5 million</td>
<td></td>
</tr>
</tbody>
</table>

a. **Micro enterprises** in which the investment in equipment do not surpass Rs. 10 lakhs.

b. **Small enterprises** in which the investment in equipment is above Rs. 10 lakhs but do not surpass Rs. 2 Crores.

c. **Medium enterprises** in which the investment in equipment is above Rs. 2 Crores but do not surpass Rs. 5 Crores. \(^{33}\&^{34}\)
1.4.5 MSMED Act 2006:

Since 2\textsuperscript{nd} October, 2006 with an objective to advance and extend the competitiveness of MSMEs, the MSMED Act, 2006 was implemented. In comparison to the previous Acts, this Act has proven much more helpful to the MSME sectors. Various problems faced by MSME sector are still unsolved after 68 years of independence and this act is like a helping hand to them in solving their problems. The manufacturing enterprises and the service enterprises have been differentiated on the basis of the upper limit of investment and have also taken service sector under its domain. MSMED Act objectives are as below:-

1. To improve the competitiveness of MSME sector in this age of globalization
2. To assist the overall development of MSME sector
3. To center on all the issues related to MSME sector\textsuperscript{35}

For classification of the model of "enterprise" which covers service and manufacturing bodies, the act offers the new authorized framework which first time explains medium sized enterprises and searches to incorporate 3 tiers of enterprises- micro, small and medium. At the nationwide, the act provides a legal review through balanced illustration of all sections of stakeholders, mainly 3 classes of enterprises and with widespread range of review utility features of the act which are as below:

a. Founding of particular resources for encouragement, expansion and boosting competitiveness of enterprises and schemes announcement and programs for such reason.

b. Leaning in government procurement to goods and services of MSME.

c. Progressive credit guidelines and practices

d. Efficient instruments for mitigating troubles of late payments to MSME and

e. Scheme assertion to ease closing of business by such enterprises.\textsuperscript{36}
Ministry of SSI and Ministry of Agro and Rural Industries were combined to structure MSMEs on 9th May 2007 following to a revision of previous rule of the Government of India Rules 1961. Policies have been designed by the ministry to facilitate various programs, projects and schemes to upgrade MSMEs and examine their execution. Encouragement and advancement of MSMEs are the key accountability of the State Governments. Government of India is also helping them with an assortment of schemes. With the changes in financial circumstances, the efforts of States have been supported by MSME in convincing employment and livelihood opportunities, entrepreneurship and improving competitiveness MSMEs. The Ministry and its organizations have undertaken the following various programs and schemes for the growth of MSMEs:

a. Incorporates infrastructural facilities  
b. Access to contemporary management practices  
c. Ample credit flow from economic establishments and banks  
d. Support for modernization and up-gradation of technologies  
e. Modern testing facilities and quality certification  
f. Benefits of artisans and workers  
g. Through proper training amenities, Entrepreneurship advancement and skill up-gradation  
h. Product development, packaging and design interference support.  
i. Cluster-wise actions to encourage competence building and units empowerment and  
j. Support for superior contact to domestic and export markets.37
1.4.5.1 Impact of MSMED Act 2006 on the Development of SMEs:

The MSMED Act 2006 acts as a boon to Indian SMEs in their overall development. This act has futuristic long term benefits to SMEs and the impact of MSMED Act 2006 are as mentioned below:

<table>
<thead>
<tr>
<th>Clause</th>
<th>Salient Features</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establishment of National Small and Medium Enterprises Board</td>
<td>Mandatory quarterly meeting</td>
<td>Small size of board members will make sure that problems related to MSMEs are addressed immediately and the required corrective action can be taken.</td>
</tr>
<tr>
<td>2. Concept of Enterprises</td>
<td>There is a very clear demarcation between manufacturing and rendering services</td>
<td>It will facilitate the MSMEs to go for service sector enterprises as well.</td>
</tr>
<tr>
<td>3. Definition of Enterprises</td>
<td>There is a specific ceiling limit on asset in plant and machinery and asset in equipments in both manufacturing sector and service sector respectively.</td>
<td>Under this Act, the already existing small units can upgrade into medium units and can make use of various facilities.</td>
</tr>
<tr>
<td>4. Filing of memoranda is optional for micro and small enterprises but it is mandatory for medium sized manufacturing enterprises, though medium sized service enterprises don’t come under this obligation</td>
<td>Registration is not a compulsion and its place have been taken by memorandum.</td>
<td>MSMEs are able to avail the benefits of the act immediately after setting up of the unit as they are free from the hassles of registration.</td>
</tr>
<tr>
<td>5. Procurement Policies</td>
<td>The central or the state government notifies about the preference policies for the goods and services provided by MSMEs.</td>
<td>It provides an opportunity to MSMEs to supply their goods and services without any hassles and helps in smooth flow of the enterprise.</td>
</tr>
<tr>
<td>6. Delayed payment penalty and dispute resolution</td>
<td>Period of payment by the procuring organization has been made 45 days</td>
<td>On the basis of payment period, MSMEs can make a balance between their Cash inflows and cash outflows in better manner.</td>
</tr>
<tr>
<td>7. Dispute Resolution</td>
<td>MSME facilitation Councils are setup and they resolve the disputes within a time period of 90 days.</td>
<td>This does not cost much on the pockets of MSMEs and the follow up of the matter regularly becomes easy and simple.</td>
</tr>
</tbody>
</table>
8. Delayed Payments  
Deduction disallowed under section 23 of MSMED Act of Tax Audit  
This clause will encourage the various procurement agencies to make timely payments to the MSMEs and it will ensure smooth functioning of MSME units

9. Closure of Business  
Just need a statutory notification regarding the scheme of closure  
It helps in quick liquidation of the enterprise

Source: Compiled from Annual Reports of MSMEs (2012)

1.4.5.2 Growth of MSMEs after implementation of MSMED Act 2006

MSMED Act, 2006 has had a positive effect on Indian MSME Sector growth. Table-3 highlights this sector growth in terms of unit’s number, employment, fixed assets market value and Gross Output from the period 2006-07 to 2011-12.

Table No. 1.7: Growth of MSMEs after the implementation of MSMED Act, 2006

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Total Working Enterprise (Lakhs)</th>
<th>Employment (Lakhs)</th>
<th>Market Value of Fixed Assets (Crores)</th>
<th>Gross Output (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2006-07</td>
<td>361.76</td>
<td>805.23</td>
<td>868543.79</td>
<td>1351383.45</td>
</tr>
<tr>
<td>2</td>
<td>2007-08</td>
<td>377.37</td>
<td>842.23</td>
<td>917437.46</td>
<td>1435179.26</td>
</tr>
<tr>
<td>3</td>
<td>2008-09</td>
<td>393.70</td>
<td>881.14</td>
<td>971407.49</td>
<td>1524234.83</td>
</tr>
<tr>
<td>4</td>
<td>2009-10</td>
<td>410.82</td>
<td>922.19</td>
<td>1029331.46</td>
<td>1619355.53</td>
</tr>
<tr>
<td>5</td>
<td>2010-11</td>
<td>428.77</td>
<td>965.69</td>
<td>1094893.42</td>
<td>1721553.42</td>
</tr>
<tr>
<td>6</td>
<td>2011-12</td>
<td>447.73</td>
<td>1012.59</td>
<td>1176939.36</td>
<td>1834332.05</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of MSMEs (2012)

Table-4 clearly shows that since 2006, there has been an immense growth in the MSME sector. The number of units increased from 361.76 lakhs in year 2006-07 to 447.73 lakhs in the year 2011-12, reflecting an increase of 23.76 per cent over the last 6 years. Similarly, employment under this sector increased from 805.23 lakhs in year 2006-07 to 1012.59 lakhs in the year 2011-12, reflecting an increase of 25.75 per cent over the last 6 years. Market Value of Fixed Assets under this sector increased from 868543.79 crore in year 2006-07 to 1176939.36 crore in the year 2011-12, reflecting an increase of 35.51 per cent over the last 6 years. Gross Output of this sector increased from 1351383.45 crore in year 2006-07 to 1834332.05 crore in the year 2011-12, reflecting an increase of 35.73 per cent over the last 6 years.39
1.4.6 Government Initiatives for Development of SMEs:

Government of India has initiated some great initiatives targeted at SMEs’ growth and development in India. Some of them are as below:

1.4.6.1 Verticals of SME at Banks

For helping SMEs to deal with monetary matters, RBI is planning to set up devoted verticals at banks which would have to work with SMEs are going to offer free service by offering advisory services on cash-flow management, finance, taxation, and other various associated areas. In this way, SMEs may visit to banks to avail other allied services along with loans.

1.4.6.2 Credit Guarantee

A collateral-free credit scheme for both existing and start-up SMEs termed as Credit Guarantee Fund Trust for Micro and Small Enterprises which was established in 2000. Discussions are going on increasing the size and the guarantee scheme through setting higher credit limits to support the rapid expansion of SMEs in India. Such initiative will improve the access of funds for SMEs as it is shared with clear mandates for banks to execute the scheme.

1.4.6.3 Launch of SME Exchange

In 2012, Bombay Stock Exchange (BSE) has launched the Small and Medium Enterprise (SME) Exchange after getting clearance from SEBI. The objective was to set up a dedicated stock exchange, intended at giving SMEs access to market financing with preliminary aim of about 500 organizations.

1.4.6.4 National Award Scheme

Under this scheme, MSME department awards National Awards to worthy enterprises and entrepreneur per annum and it also helps in getting appreciation and improving rating of SMEs. There are the following eligibility criteria for this award:

a. MSME should have a permanent registration.

b. MSMEs should have been in constant business for a minimum duration of four years.
1.4.6.5 Tools Room and Training Centres

A scheme worth Rs.15 Crores was started by setting up Mini Tools Rooms and Training Centres to help out SMEs by the central government and the state government are responsible for implementing in their states. Under this scheme, cutting tools, Jigs, fixture, gauges and related equipments is manufactured. Training in manufacturing and designing tools should be provided to SMEs which have expertise in skilled work, design and engineering and would get assistance in trade consultation and documentations.40

1.4.6.6 Allocation of Funds for MUDRA Bank by Government

Under the great leadership of visionary Prime Minister Mr. Narendra Modi, the Government of India have allocated Rs 20,000 crore through MUDRA Bank for SME sector to enhance credit facility to boost the growth of small businesses and manufacturing units and have also allocated Rs 1000 Crores for support of Start-ups.

They are also planning to set up expert committee for legislation on single-window clearance. A clear roadmap for GST implementation was stated in the Budget, which is to come through in April 1, 2016. The Government’s ‘Make in India’ initiative and its push on expanding the share of manufacturing to Indian GDP as it has the potential to transform the fortune of MSMEs in the country.41
1.4.6.6.1 About MUDRA Bank

The word “MUDRA” is the abbreviation of Micro Units Development and Refinance Agency which is a new banking institution setup by Indian government to develop micro units and refinance of MFIs and support entrepreneurship in India by funding to the unfunded non corporate small business sectors. MUDRA Bank offers two types of product need such as refinance for the micro units having loan requirement from Rs 50 thousands to 10 lakhs and support Micro Finance Institutions (MFI) under Pradhan Mantri MUDRA Yojana.42

Figure No. 1.7: MUDRA Bank Tagline

1.4.6.6.2 MUDRA Scheme/ Yojana

MUDRA Bank has launched its three initiative products under Pradhan Mantri MUDRA Scheme guideline and its names are Shishu, Kishor and Tarun to indicate growth phases and financial support requirements of micro units or entrepreneur and is refinancing through State level institutions. With the help of NBFCs, MFIs, Rural Banks, District Banks, Nationalize Banks, Private Banks, Primary Lending Institutions and other intermediaries, MUDRA Bank will deliver the loan.
1.4.6.6.3 Interest Rate of MUDRA Bank Loan

Base Rate charged by banks are from + 1 per cent to 7 per cent minimum. The interest rate can be higher according to risk and customer profile and it can be different in all banks as there is no any fix Interest rate slab in MUDRA loan and no subsidy for the loan given under PMMY. On the other hand, it will be eligible under PMMY if the loan proposal is linked with various Government schemes in which the Government is providing capital subsidy. The usual terms and conditions of the lending agency may have to be followed for availing of loans under PMMY.

1.4.6.6.4 Eligibility for MUDRA Bank Loan

Any Indian Citizen who are involved in income generating activity such as manufacturing, processing, trading or service sector and whose credit need is less than 10 lakhs can approach a Banks, MFIs, Financial Institutions or NBFC for availing of MUDRA loans under Pradhan Mantri Mudra Yojana (PMMY). MUDRA Bank is not refinancing agriculture sector under PMMY but traders of vegetables and fruits covers under MUDRA Bank Schemes. The central government has decided to provide an additional fund of one lakh crore to the market and it will be allocated as per below list:

I. Mudra Bank Shishu Loan Scheme-40,000 Crore Rupee.
II. Mudra Bank Kishor Loan Scheme-35, 000 Crore Rupee.
III. Mudra Bank Tarun Loan Scheme-25, 000 Crore Rupee.

1.4.6.6.5 Ways of MUDRA Bank to help SMEs in availing loan

MUDRA Bank will not directly lend to SMEs but act as a regulator to MFIs which will provide financial support to SMEs and assist them nurture and develop their operations. The bank will play a major role in mapping out policy guidelines for SMEs in terms of financing. At times when SMEs and entrepreneurs are not able to repay loans or need further assistance to make their businesses scalable, MUDRA Bank will get involved and help these MFIs to get additional credit through refinancing and in turn help SMEs with more funds.
Presently, MUDRA Bank is permitted to help those MFIs and investors who are investing in segments related to manufacturing, trading and particular services. The bank would also track official registration of micro-finance institutions in India, so that SMEs are flooded with a range of options before selecting their creditors that offer them the most excellent interest rate. MFIs’s certification and rating would also attribute high on the aspiration list of the bank. An alliance with local coordinators will be established by MUDRA Bank to provide funding to ‘Last Mile Financiers’ of SMEs to facilitate smooth flow of funds for their overall development. The bank will also set down suitable client-protection principles and technique to sort out the crisis of indebtedness and make sure SMEs are not cheated or made to pay more than what is due.

1.4.6.6 Benefits of the MUDRA Bank to SMEs

The major benefits offered by MUDRA Bank to SMEs are as below:

1. **Making it more organized**
Refinance facility and regulating MFIs are the double roles played by MUDRA bank which includes formulating policy, registration and MFIs rating, ensure the proper loan recovery methods and establish best financial practices to deal with over-indebtedness.

2. **More effective Banking System**
Partnering with State and regional-level coordinators, MUDRA is going to increase the incursion of small business enterprises and help in hedging the risk which is the key reason for charging higher rates to people which lead to diminish the cost of financing. This will facilitate small banks, NBFCs, other MFIs to loan at much lower rate.
3. **From Credit-Only Approach to Credit plus solution**

Small business enterprises lack talent and skill development in comparison to large enterprises. With suitable guidance, various small businesses can obtain a huge jump and can attain sustainable development over the years as it is one of the areas where government has more focused. This objective lead to approach of credit plus solution approach in which MUDRA will focus on assembling the resources in order to provide support to poor particularly women.

4. **Fund the unfunded**

By starting as NBFC with the amount of Rs 20,000 Crore, MUDRA will help in providing the financial support to the “unfunded” entrepreneurs acting as a fully operational financial institution aiming at refinance credit management and regulator of MFIs. This will help to extend the line to contact more unfunded SMEs entrepreneurs. 43, 45, 46, 47 & 48

With the launch of MUDRA bank, SMEs in India can now up the stake and work towards unleash their right prospective. The information asymmetry that comes from SMEs i.e., lack of complete monetary information and a uniform financial statement is one of the major reasons due to which banks are reluctant to give out loans to these businesses. Banks also feel that SMEs are exposed to market risks and do not have assets that can be used as guarantee. Further, banks are incapable to discover whether SMEs have the technical, professional and marketing knowledge to generate enough returns to service loans. This is because small businesses naturally try to impound their establishment overheads to present a stronger business model. The one solution to all such problems related to fund faced by them is MUDRA bank which is a ray of hope for SMEs in India. 44
1.4.7 Supporting Agencies of SMEs in India

SMEs in India need support from various agencies and few of the important supporting agencies are Small Industries Development Organization (SIDO), National Small Industries Corporation Ltd. (NSIC), Small Industries Development Bank of India (SIDBI), Confederation of Indian Industry (CII), Laghu Udyog Bharti (LUB), Federation of Indian Chamber of Commerce and Industry (FICCI), Associated Chamber of Commerce and Industry of India (ASSOCHAM), National Institute of Small-Industry Extension Training (NISIET), World Association for Small and Medium Enterprises (WASME), Small Scale Industries Board (SSIB), PHD Chamber of Commerce and Industry (PHDCCI), Federation of Indian Exporters Organization (FIEO), Federation of Associations of Small Industries of India (FASII), Consortium of Women Entrepreneurs of India (CWEI), Indian Council of Small Industries (ICSI), Indian Institute of Entrepreneurship (IIE), National Institute for Entrepreneurship and Small Business Development (NIESBUD) and Small Entrepreneurs Promotion and Training Institute (SEPTI). These supporting agencies are helping Indian SMEs in resolving various problems through proper guidance. 49, 50 & 51

1.4.8 Procedure to start SMEs in India

The procedure to start SMEs in India is full of documentations. Following are the types of business entities in trend in India:

a. Private Limited Company
b. Public Limited Company
c. Unlimited Company
d. Partnership
e. Sole Proprietorship

In addition to the above, for foreign investors and companies can form:

a. Liaison Office / Representative Office
b. Project Office
c. Branch Office
d. Wholly owned Subsidiary Company
e. Joint Venture Company
The choice of entity depends on the concept and requirements of the entrepreneurs ranging from a sole proprietorship to a public limited company with many formalities.52

1.4.8.1 Proprietorship and Partnership Firms

For a sole proprietorship entity, there is need for registration. In case of liable for state VAT or service tax registration, there is a need to get VAT / service tax registration. Separate income-tax or PAN is also not essential for sole proprietorship as the PAN of the proprietor can be the PAN of the firm and proprietor and it can be in personal name also. It is also not necessary to register with the Govt. in most states of the country for partnership firms, in Maharashtra, it is compulsory. Without registering partnership firm, one cannot hire legal protection in the disputes between partners. Always prepare a Partnership Deed which will help to resolve problems in case of disputes between partners even if one chooses not to register in partnership. As per the laws of the place of execution, Partnership Deed can be prepared by any lawyers and can be made on stamp paper. Partnership deed needs to be prepared along with an application form in the required form and both should be submitted with supporting documents at the nearby “Registrar of Firms” office for approval for registration of a partnership firm.53

1.4.8.2 Procedures for Company Registration

It is mandatory to register with the Registrar of Companies (ROC) which is under the Ministry of Corporate Affairs (MCA) of Government of India prior to open a new company. Company’s details are accessible for open scrutiny as public limited company cannot keep any privacy with it. The director is entitled to pay tax as he or she will be considered as an employee. Private Limited Company in comparison to Public Limited Company has fewer agreement limitations and is the best choice when there is no need of uplifting investments through a public issue and the proprietorship is anticipated to be rigorously owned by limited number of persons.
Least amount paid up funds is Rs 1, 00,000/- when private limited company is incorporated and there is no ceiling on having sanctioned funds and paid up funds and it can be improved at any time through paying compensation for registration fee and supplementary stamp duty.

1.4.8.3 Procedures

The procedures of starting a company start with the first step as company registration by submitting an application in Form No. 1A with the Registrar of Companies (ROC) in the concerned state in which the Registered Office of the proposed Company is or to be situated. Any of the promoters can sign the application. The following details are to be provided in the application:

a. Four optional names for the proposed company. The proposed names should be indicative of the main objective of the company. Justification for the name also needs to be specified along with the application to take proper care for 'same or deceptively similar names'.

b. Names and full addresses of the promoters (Minimum 7 for a public company and 2 for private company).

c. Authorized Capital of the proposed company.

d. Proposed company objective.

e. Names of other group companies (if any).

Within a period of 10 days, the ROC scrutinizes the same and issues an approval letter or objection to the applicant and after getting the name consent letter from the ROC, the second step is to draft and submit the following credentials before the ROC within six months of the approval:

a. Memorandum of Association (MOA) and Articles of Association (AOA) - These are required to be executed by the promoters in their own hand in the presence of a witness in quadruplicate stating their full name, father's name, residential address, occupation, number of shares subscribed etc. The MOA states the chief, auxiliary and other items of the proposed firm while the AOA incorporates the rules and guidelines of the standard conduct of the firm.
b. Form No. 1 – Form No.1 is a declaration to be executed on a non-judicial stamp paper of Rs.20/- by one of the directors of the proposed company or others like Attorneys or Advocates. It states that all the requirements of the incorporation have been complied with.

c. Form No. 18 - This is to be filed by any of the company directors notifying the address of the registered office of the proposed company.

d. Form No. 29 - This is a consent obtained from all the directors of the proposed company to act as directors of the proposed company. (Not required for pvt. ltd company).

e. Form No. 32 – Form 32 states the appointment of the proposed board of directors from the date of incorporation of the company and is signed by any of the acting directors.

f. The name approval letter in original.

g. Power of Attorney signed by all the subscribers of MOA assigning any of the subscribers or others to act on their behalf for the incorporation and accepting of the certificate of incorporation.

h. Power of Attorney in case of subscriber who had appointed another person to sign the MOA on his absence.

i. Filing fees as applicable.

ROC scrutinizes it and makes corrections if any when all the documents are filled and submitted and company’s incorporation certificate will be issued on fulfilling with the same.

1.4.8.4 Additional Compliance Required for Public Limited Companies

The business of a private company can be started instantly after incorporation. Certain legal formalities such as a statutory meeting within 6 months from incorporation, statutory report etc has to be completed by Public Company. The ROC issues a Certification of Commencement of Business to the company subsequent to conclusion of said rules and regulations and on legal report filing with the ROC and a Public Company can start their business operations on getting the Certificate of Commencement.
After the company has incorporated, if required alternate directors can be appointed, to function on the behalf of the director who is not present in the country, but should be in India within one month of the incorporation of the Company at least once. There should be an appoint a qualified auditor by every public limited company whose duty is to check and report to the treasurer about the books of the company, the balance sheet, profit and loss account etc are a true and reflects a fair view of the company's affairs and also its compliance with the Companies Act. They are appointed or re-appointed at general meetings at which annual accounts are presented, and they hold office from the conclusion of the meeting until the next general meeting. As per Companies Act, all companies are supposed to maintain a set of records, which reflects the financial position of the company with accuracy.

A company's first accounting period begins on its incorporation until the following financial year ending (31st March). An audited set of accounts must be laid before the shareholders at a general meeting and a set delivered to the registrar of companies, within ten months of the end of an accounting period. Companies are required to have the following registers as well as accounts books:

a. Register mentioning its members and share ledger
b. Register of directors and secretaries
c. Register of charges
d. Register of share transfers
e. Register of debenture holders

Engraved seal must be used by all companies and must be impressed on share certificates and should be used whenever the company needs to execute a deed. Again, it is included in the ready-made company package. In case of registration application through internet with e-forms, all ought to go with the digital signature; obligatory fees and also the hard copy of Memorandum and Article of Association should reach to the ROC.56
1.4.8.5 Registration under MSMED Act, 2006

The Government of India (Allocation of Business) Rules, 1961 has been amended by The President under Notification dated 9th May 2007. Ministry of Agro and Rural Industries (Krishi Evam Gramin Udyog Mantralaya) and Ministry of Small Scale Industries (Laghu Udyog Mantralaya) have been merged into a single Ministry, namely, “Ministry of Micro, Small and Medium Enterprises (Sukshma Laghu aur Madhyam Udyam Mantralaya)” pursuant to this amendment.

1.4.8.5.1 Provisional Registration

An unit get provisional registration which help in applying economic credit, an industrial set or land, power or telephone connections, water etc during its pre-investment period.

1.4.8.5.2 Permanent / Final Registration

At the time of production, provisionally registered industrial units apply for grant of Permanent or concluding Registration and industrial units which are existing and functioning will be eligible to apply for permanent or concluding registration without going into provisional registration processes.

1.4.8.5.3 The Classes of Enterprises that may qualify for Registration

Enterprises, from various classes can apply for the registration and get qualified for the benefits provided under the Act, such as Proprietorship, Hindu undivided family, Association of persons, Co-operative society, Partnership firm, Company or Undertaking, by whatever name called. Printing of MSMED Registration or EM Number on the letter heads, invoices etc can be done. There is a need to mention or get printed on their letter heads, supply order sheets, invoices, bills and other relevant documents, the MSMED Registration or Entrepreneurs Memorandum (EM) Number allotted by a competent authority, so that there remains an identification of being a MSE supplier by the Micro and Small Enterprises.
1.4.8.5.4 Document Checklists for Starting a New Business

For starting a business, the following are the checklists of document:

- a. Obtain PAN Number from Income Tax Department
- b. Open a Current Account
- c. Register a Limited Liability Partnership (LLP)
- d. Register Your Company (Pvt. Ltd / Public Limited Company)
- e. Register For Service Tax
- f. Register for VAT / Sales Tax
- g. Excise Duty (Check Applicability)
- h. Shop & Establishment Act
- i. Customs Duty
- j. Apply for TAN
- k. File Entrepreneurship Memorandum at DIC (Optional)
- l. Find State Specific Guidelines and Procedures
- m. Permissions Required at the Construction Stage
- n. Post Construction Clearances
- o. Employee's Provident Fund and Employees State Insurance (ESI) Scheme.

1.4.8.5.5 Procedure for Starting a Business

For starting a business, the following are the main procedures:

Step 1: Decide Whether Entrepreneurship is Appropriate or not
Step 2: Learn How to Discover Market Opportunities
Step 3: Understand how other businesses have succeeded
Step 4: Look at various business ideas to see if anything interests you
Step 5: Consider Franchise Opportunities in Your Area
Step 6: Research Your Business Idea
Step 7: Find Your Niche
Step 8: Find Appropriate Technologies and Suppliers
Step 9: Decide the Legal Structure of Your Organization
Step 10: Create a Business Plan
Step 11: Funding Your Business
Step 12: Incorporate and Comply With Regulatory Aspects.
1.5 Make in India and its Impact on Indian SMEs:

The Government of India has started a new campaign to change the fortune of SMEs in India. In the words of Mr. Kalraj Mishra (MSMEs Union minister), “Make in India initiative would stress on escalating in gross domestic product (GDP) manufacturing share to 25 per cent till 2022 from present 14-15 per cent”. Through “Make in India” campaign, Indian SMEs will get investment and partners from Indian companies as well as international firms. There will a positive impact on growth of SMEs as the Ministry of MSME has also focused on its four innovative initiatives- Prime Minister’s Employment Generation Programme (PMEGP), public procurement policy, skill development and MSE-CDP to make the SMEs self dependent and capable to perform both nationally and internationally. It will help SMEs in sustaining and surviving in global arena under cut throat competition from larger enterprises. “Make in India” initiatives would act as fortune changer for Indian SMEs under the supervision of Prime Minister Mr. Narendra Modi who dreams to make India the manufacturing hub of the world where quality products will be manufactured and marketed worldwide. So investors from different parts of the world are invited to India to come and make in India as government is ready to welcome them and support them in setting their projects and plants in India.

![Figure No. 1.8: Logo of Make in India](image-url)
For Indian government MSMEs have become as the sector of thrust. All Central ministries, departments and public sector undertakings (CPSUs) must have to purchase 20 per cent goods and services requisite yearly (lowest by value) from various MSEs owned by SC/ST entrepreneurs. From April 1, 2015, the policy will become mandatory.

CPSUs procured more than 20 per cent from MSEs in 2013-14 and 56 CPSUs organized 1,007 vendor development programmes (VDPs) for MSEs. While in 2014-15, the target is over 55 national VDPs and 351 state VDPs across the country, to develop MSE vendors with a budget allocation of Rs 5 Crores. Adopting cluster approach, the fortune of SMEs can be transformed through various interventions like capacity building, diagnostic study, marketing and skill development, up-gradation of technologies, export promotion, organizing workshops and seminars, training and study tours. Other interventions such as infrastructure up gradation in existing MSE clusters and setting up of common facility centers are acting as game changer.62

1.6 About Indian Industrial Regions:
A multifaceted country with over a billion people, India, was previously a raw material supplier and low-cost production place. It has now transformed into a production centre for high-value exports and home to research and Fortune 500 companies’ development centres. India’s GDP has grown in many folds and the share of trade has twice over to 42 per cent of GDP since the turnaround of the century and made it the world’s 3rd largest economy in terms of purchasing power parity with a domestic market too large to be overlooked.63
Figure No. 1.9: Map Industrial Regions of India

With every cluster focusing on a few key industrial segments, Indian industry has developed in various geographical pockets. The growth of clusters and selection of industries is a purpose of location, connectivity, natural resources and manpower and geographical location is a tactical factor in Pune’s development as it is near to Mumbai, India’s financial capital and Maharashtra’s state capital and linked by a well-developed road and rail network.
Being Situated near to the north-south centre of the country having good access to raw materials and connectivity to distribute finished good and the nearness and connectivity to India’s main port on the western coast facilitates exports made it the favorite destination for establishing industrial units.

Figure No. 1.10 Factors for Pune Emerging as a Major Industrial Hub (Source: D&B SME Cluster Series 2014 Pune)

Pune’s nearness and connectivity to neighborhood Maharashtra combined with the purchasing power of its growing population and various other factors made Pune a warehousing and distribution centre for automotive, white goods and fast moving consumer goods.64
1.7 About MIDC Chinchwad Area:
For accelerating industrial development in Pune, Government of Maharashtra augmented investment in necessary infrastructure in the sixties. Due to Pune’s location, connectivity and educational infrastructure, it was acknowledged as prime city for speedy development. This forced Maharashtra Industrial Development Corporation (MIDC) stationed in on Pimpri and Chinchwad, neighboring villages adjoining to Pune.65

MIDC developed a basic infrastructure of roads, water supply and drainage by obtaining land.
A variety of industries were attracted to Pimpri and Chinchwad due to easy leasing of land, reasonable rates, guaranteed infrastructure and abundance of manpower.

The formation of the MIDC in the Pimpri Chinchwad Municipal Corporation (PCMC) resulted in a steady process of industrial land acquisition and the creation of required support infrastructure which made MIDC Chinchwad area an industrial hub of Pune with great potential. Manufacturing has been a major development hub for the city since the commencement of PCMC in the 1960s. Since then, there has been a substantial entry of numerous European companies who prolong to be keen on setting up manufacturing facilities there.
The influx of these industrial entities started off a whole swing of other manufacturing establishments both Indian and international and recognized a constant industrial growth model in Pune region.\textsuperscript{66, 67}

MIDC Chinchwad area has both manufacturing and engineering enterprises which generating enormous employment opportunities for the people and importing quality products to various countries. This area has now become the representative of industrial centres and due to these; Central government is focusing more as per its “Make in India” initiatives.
1.8 Globalization and its Impact on Indian SMEs:

Since ancient times, small enterprises were making different products to fulfill the needs of rural people of India and now-a-days, such small enterprises are termed as micro and small scale enterprises. Post independence, Government of India drafted many laws to give a hand in the growth of small enterprises or SSI so that it may renew itself and may grow as it has the potential of creating employment in a low investment of capital using nominal infrastructure and ordinary technical acquaintance to start. Consequently it became the most ultimate type of employment opportunity for both the urban and rural population and even today too it does the same. It not only gives confidence to entrepreneurship among people but also makes them self dependent and with the support from government in the form of funds, assistance and rigorous endorsement, people started contributing in occurrence to make SMEs the 2nd major employment sector after agriculture in India. SMEs contributes around 45-50 per cent of total exports and also a great share to the national markets with variety of products like beverages, confectionaries, natural essence oils, dyes, spices, sports goods, glass, ceramic and earthen wares, cotton and woollen knitted products, wooden furniture, silk and synthetic wear, clocks and watches, leather shoes, auto parts, bags, garments and novelty items, survey instruments, plastic items, lab chemicals, musical instruments, fundamental metallic and non-metallic mineral products. In this way, SMEs have become the vibrant sectors of national economy and it also directs to the protection of many conventional and native skills and products for which our country is renowned. This has created a regional balance as it is acting as a developmental block in development of rural India and this made India as self dependent and self sufficient economy. However with the step of the world towards industrialization, India found its closed policy of trade leading to an upcoming economic disaster because India’s focus was more on heavy industries and less on the consumption goods.68 & 69

Since the beginning of the 1990s, policy changes have been taking place at three different levels - global, national and sectoral - which have inference for small industry functioning and performance in India. The first and the primary advancement is the 'globalization' process at the international level.
Globalization would mean free movement of inputs (both labor and capital) as well as output between countries. India's economic reforms have seen two major outcomes, amongst others. Firstly, the growth of the public sector has declined significantly since 1991 than in the former period in terms of not only investment and employment but also production. The public sector has been a key customer of small enterprises in India.70 & 71

Since 1991 India witnessed a major change as the government had commenced Liberalization, Privatization and Globalization (LPG) reforms to boost the economy and India emerged as a potential market globally. Many large enterprises brought their goods to India which were mass produced and therefore cheaper and of better quality than the local goods and few of them started manufacturing and started challenging the SMEs and thus created an end to them. Later on with the beginning of Special Economic Zones (SEZs), the large enterprises were assisted with areas with moderate fiscal and trade laws, round the clock facilities and allowance to boost foreign investments and encourage exports. This put at risk the continuation and survival of SMEs. Many foreign entrepreneurs who do not have the time or funds to construct the infrastructure for their own manufacturing unit in India employ a number of SMEs owners to manufacture goods for them in a short span of time and sell them to supply to the global demand.72 This lead to subcontract the manufacturing to the Indian SMEs from other countries and creation of plenty of employment has started as a result of this. Many Indian SMEs started growing fast and now have turned itself into large enterprises. Hence globalization has a positive impact on SMEs in India as it made them competitive in global arena and made them expert in manufacturing quality products to cater the needs of both domestic and global markets. Large enterprises have shown great faith in them and hence they have become the favorite outsourcing hub.73 The campaign “Make in India” has been acting like a value addition to Indian SMEs as it have been opening doors of opportunities to them in the form of global collaboration from large enterprises for joint production of products and this is making them expert in learning new innovative techniques, helping in upgrading the technologies, skill up gradation of the manpower, sorting the capital problems and many such.74
1.9 Role and Contribution of SMEs in Indian Economy:
SMEs have constantly been the backbone of country in general and secondary sector in particular. SMEs in developing country like India which has limited resources, are considered as cure for numerous monetary anguish like poverty, unemployment, income discrimination and regional disparity. As predicted by the planners soon after the independence, MSMEs have borne a vast responsibility in ascertaining the socialistic goals like income parity and balance in regional progress. The MSMEs have proven to be well-organized in generating more employment opportunities at relatively minor funds investment to the various large scale private and public enterprises. The most vital input of SMEs in India is supporting the impartial financial development. The trickle down effects of large enterprises is very limited in compare to small industries where fruits of percolation of economic growth are more observable. The large enterprises mostly shaped the islands of affluence in the ocean of poverty, small enterprises have done well in satisfying the socialistic goals of providing impartial development and had also helped in industrialization of rural and backward areas, thus, plummeting regional imbalances, assuring more equitable distribution of national income. In the economic and social development of the Indian economy, the role of micro, small and medium enterprises (MSMEs) is well well-known. According to the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan from 2012-2017, the MSME sector accounts 40 per cent of total exports and 45 per cent of the manufacturing output of the country. The employment concentration of MSMEs is expected to be 4 times greater than large enterprises. Currently, around 36 million SMEs are generating 80 million employment opportunities, contributing 8 per cent of the GDP, MSMEs account for more than 80 per cent of the total industrial enterprises in India creating more than 8000 value added goods ranging from conventional to modern items are being manufactured in the country. Labor to fund ratio and overall growth in MSMEs sector are more than large enterprises and physical allocation of the MSMEs are also greater too. Hence, MSMEs are essential for the national objectives of growth with accumulation and equality.
As per the change in years, Indian SMEs sector have travelled its journey from the manufacture of simple consumer goods to the manufacture of many complicated and literal products like electronics control systems, micro wave components, electro medical equipments, etc. The development of economic liberalization and market reforms has advanced these enterprises to increasing levels of domestic and global competition. Indian MSME sectors are highly diverse in nature on the basis of enterprises size, goods assortment and produced services and various levels of employed technology.

1.10 Summary of the Chapter:

Starting new SMEs and making them competitive are the need of today’s business world as only those will sustain which will survive. Every enterprise has their own expertise through which they serve the marketplace offering quality products to the target customers. Those enterprises which are now larger in size have initiated their journey of evolution as a smaller one following the rules of the market by adopting different technologies, marketing strategies, etc. Indian SMEs are governed under MSED Act which helps them in different functionalities. There is a stiff competition between SMEs and MNCs due to which SMEs are unable to exploit the market and hence facing shortfall in the number of customers. Government initiatives of Make in India will be very beneficial to SMEs as it not only offer new business from MNCs but also opportunities to learn new technologies and skills which will be proven fruitful in long run. Indian economy which is totally dependent on agriculture is now focusing more on SMEs by treating the sector as “Thrust.” Hence, SMEs have been treated as the powerhouse of the economical growth of the nation and proper guidance, easy entry and exit, adoption of new marketing trends and technologies will keep the sector alive in the competitive business world.
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