

Dereservation of Items affects MSME in India

Priti Goswami

Research Scholar,
Department of Business Management,
Dr Hari Singh Gour Central University,
Sagar (MP)

Prof Yashwant Singh Thakur

Head of the Department,
Department of Business Management,
Dr Hari Singh Gour Central University,
Sagar (MP)

Abstract

After MSME Act 2006 India has improved itself in employment, production and export. This Act provide the concept of enterprise micro, small and medium enterprises in manufacturing and service sector which are the strong pillar of India's economic development. It helps in economic development of the country by generating employment, contributing domestic production and increase in foreign earning. In India as compared to overall industrial sector MSME sector has consistently registered higher growth rate. In India MSMEs constitute more than 90% of the total industrial enterprises. Reservation and dereservation of items has been done from time to time. The Ministry of MSME provide scheme and programme to MSME. Objective of this study was to study the affect of dereservation of reserved items on MSMEs in India. This paper also analyzes the investment limit criteria of MSME of manufacturing sector. From the study it was found that MSME contributes maximum to India's growth but government of India has dereserved 20 items which will affect the manufacturing sector the most. Dereservation have positive and negative affect on MSME and on economic growth of the country. Dereservation will benefit the large business houses and will harm the micro enterprises in India. This study concludes that government of India should not have dereserved the last 20 items which are reserved for manufacturing of MSEs.

Keywords: Micro, Small and Medium Enterprises, Reservation Policy, Reserved Items, Dereserved Items and Investment limit.

Introduction

The Micro, Small and Medium Enterprises Development Act 2006 discuss the policy issues affecting MSME as well as coverage and investment ceiling of the sector. The first time ever the Act provide legal framework of the concept of "enterprise" which consist of manufacturing and service entities. This act facilitates the development and enhances the competitiveness of an enterprise. For the first time medium enterprise was defined and integrate the three enterprises namely, micro, small and medium. On 9 May 2007 subsequent to an amendment of the Government of India Rules, 1961, the erstwhile Ministry of small scale industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises. This ministry frames policies and promotes programme, scheme and projects and monitors their implementation

with the objective of assisting MSME and help them to grow. The Ministry provide schemes and programmes to MSME like flow of credit from financial institutions, technology up gradation and modernization support, integrated infrastructural facilities, modern testing facilities and quality certification, access to modern management practices, through training entrepreneurship development and skill upgradation, support for product development, design and packaging, welfare of workers, assistance for better access to domestic and export markets and cluster measure to promote empowerment of the units.

Over the last few years Micro, Small and Medium Enterprises sector emerged as a vibrant and dynamic sector of the Indian economy. MSMEs not only help in industrializing rural and backward areas by reducing regional imbalances but are also complementary to large industries as ancillary units. Growth of the MSME sector play critical role to generating employment. After the agricultural sector labour force employs the largest proportion. MSME employs 28% of the country's workforce, contributes 8% of India's gross domestic product, 45% of the India's industrial output and 40% of exports (M/o MSME, 2015)

Contribution of MSME in India's Growth:

Employment generation: Problem of unemployment is solved by MSME as it generates large number of employment opportunities. Currently this sector has shown a phenomenal growth which results in a powerful tool of job creation.

Mobilization of resources and entrepreneurial skill: MSME solve the problem of surplus manpower as it mobilizes a large amount of saving. Entrepreneurial skill of rural and semi-urban areas are not under the reach of large industries they put them into productive use by investing in MSME which results in the development of the economy.

Equitable distribution of income: MSME ensures equitable distribution of income and wealth. This is mainly due to the reason that these enterprises are widespread as compared to large industries and provides large employment.

Regional dispersal of industries: There has been concentration of industries in a few large cities of different states of India. People migrate from rural and semi urban areas to highly developed cities in search of employment and with the motive of earning a better living. This problem of Indian economy is better solved by MSME which utilize local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

Provides opportunities for development of technology: MSME have great capacity to generate innovations. Small

units develop by creating environment which provides ample opportunities for the development of technology. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. The transfer of technology from one to the other is facilitated by MSME.

Indigenization: MSME make better use of indigenous organizational and management capabilities by providing seed bed for entrepreneurial talent. They provide productive outlets for the enterprising independent people. They also provide a testing ground for new ventures.

Promotes exports: MSME has registered a extraordinary growth in export over the years. This contributes about 40% India's total export. Thus they help in increasing the country's foreign exchange reserves which reduces the pressure on country's balance of payment. MSME requires less of imported material and help in promotion of export.

Supports the growth of large industries: The MSME plays an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing components, accessories and semi finished goods required by them. In fact MSME is a helping hand to large industries.

Better industrial relations: Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production are comparatively less in MSME. There is hardly any strikes and lock out in these enterprises due to good employee-employer relationship.

Social Advantage: MSME have social advantages like communication ideas in organization and management labour relations are easily handled in MSME.

Increase Purchasing Power: Taxable capacity of the people will increase as a result of the increase in the purchasing power of the majority engaged in MSME. Without small enterprises the economy of the village becomes one sided completely dependent on agriculture from which we can never ensure a large or steady income.

Maximum Production: MSME makes possible quick and maximum production in short time.

High Degree of Flexibility: A small enterprise is in the close touch with its employees and customers and is better to improve its own operations. Being small it has a high degree of flexibility.

Increase in number of units, production, employment and exports of MSME over the years are considered essential for the economic growth and development of the country. In India the MSME's are doing commendable work. This

sector is flourishing because of easy availability of raw material, availability of skilled and non-skilled workers and the business expertise shown by the entrepreneurs. Despite all we cannot deny that MSME are facing problems which hinders growth and survival of MSME. Despite the maximum contribution made by the MSME in Indian economy government of India has dereserved the 20 items which are reserved for exclusively manufacturing by MSE.

Objective of the Study:

To study how dereservation of 20 items which are reserved exclusively for manufacturing by MSEs affects the MSMEs.

Reservation and Dereservation of Items:

After independence small scale sector occupied an important place in Indian Industries. Because of higher employment intensity small industries play a key role in planning commission. According to section 29(B)(2C) of the IDR Act, 1951, items were reserved and de—reserved and under the chairmanship of the secretary this is done by an Advisory Committee.

The policy of reservation of products for exclusive manufacture in small-scale industries was launched in 1967 with the objective of achieving socio-economic development through the development and promotion of small enterprises across India.

In 1967 reservation started with 47 items, in 1970 55 items, in 1998 it came to cover 836 categories and finally it came to 20 reserved items by the end of 2010. The main objectives of reservation policy were to ensure increased production and employment in this sector and secondly, make small scale industry product competitive in the market. Increase in competition could not be achieved by reserving items for exclusive manufacture and thereby restricting competition. Non-MSME units still can manufacture these items only if they undertake 50% export obligation. Large organization can market these goods without any regulation or restriction. In the changed economic environment reservation of items for MSE had been working against the sector and acted as a constraint for the growth of MSME. Items reserved for exclusive manufacture by the small scale sector are dereserved from time to time. The process of dereservation involves detailed consultation with all the stake holders including the concerned SSI associations, as well as various Ministries/Departments and experts.

However with economic liberalization progressive de—reservation of items reserved for exclusive manufacture by the micro and small scale sector have taken place. The objective of progressive de—reservation was, “to

provide for opportunities for technological up gradation, promotion of exports and economies of scale, in order to encourage modernization and enhance the competitiveness of MSEs in view of the liberalization and globalization of the economy” (Ministry of MSME, 2015).

Policy of dereservation leads to enhanced capital and labour productivity and hence competitiveness of the sector. Dereservation brings acceptance of Indian industry that greater competition allows them to benefit from the greater flexibility in their operations and scaling up options.

Positive Impact of dereservation on Micro, Small and Medium Enterprises in India:

For Indian SMEs in the era of liberalization there was no logic to compete with large-scale enterprises. By ending the reservation policy the government has helped “Make in India” to prosper and will help India to become a genuine manufacturing hub.

Reservation of items discourages MSE Sector to convert into medium or large enterprises in fear of losing the right to manufacture reserved items. Foreign Direct Investment in MSE sector beyond 24% required prior approval of FIPB which prevented MSE sector to attract better technology ,finance etc (Deolitte, 2015)

Negative Impact of dereservation on MSME:

The demand for skilled labour has been increased after dereservation. Due to this unemployment increases. The capital productivity has been decreasing it means that the investments were not giving the output proportionally.

After dereservation employment opportunities will decrease. Units need guidance for technology up gradation and for creating innovative designs.

In the past big companies are producing these items using outsourcing contracts to MSMEs but after dereservation big companies would allow a direct route to the corporate giants to manufacture these.

To protect micro and small enterprises from competition the government had reserved 20 items for MSEs. Due to restricted small units, companies were unable to expand production and acquire technology to scale up. Removing 20 items from the list will allow them to scale up. Big companies will be able to take advantage of this opportunity. The dereservation will allow large companies to produce these items. The Government should change this policy or otherwise MSMEs would not be able to survive. Here is the list showing year wise number of dereserved items.

Dereserved Items:**Table : 1**

Years	No. of Dereserved Items
1997	15
1999	9
2001	1
2001	14
2002	51
2003	75
2004	85
2005	108
2006	180
2007	87
2007	125
2008	79
2008	14
2010	1
2015	20

(Source: Ministry of MSME, Government of India, 2015)

List of items dereserved:

On 10th April 2015 government of India dereserved these 20 items for the betterment of the MSME

Table : 2

Items Reserved for Exclusive Manufacture By Micro and Small Enterprises Sector (As on 30 July 2010)			
S.No	S.No (As per Gazette Notification)	Product Code	Name of the Product
		20-21	Food And Allied Industries
01	3	202501	Pickles and Chutneys
02	7	205101	Bread
03	11	21100102	Mustard Oil(except solvent extracted)
04	13	21100104	Groundnut oil (except solvent extracted)
		27	Wood and Wood Product
05	47	276001	Wooden furniture and Fixture
		28	Paper Products
06	79	285002	Exercise Books and Registers
			Other chemicals and chemical products
07	253	305301	Wax Candles
08	308	314201	Laundry Soap

09	313	317001	Safety Matches
10	314	318401	Fireworks
11	319	319902	Agarbatties
			Glass and Ceramics
12	335	321701	Glass Bungles
		33-35	Mechanical Engg. Excluding Transport Equipment
13	364	340101	Steel Almirah
14	394	341004	Rolling Shutter
15	402	34200602	
16	404	34200702	Steel Tables-All other Types
17	409	342099	Steel Furniture-All other Types
18	428	343302	Padlocks
19	447A	345207	Stainless Steel Utensils
20	474	345202	Domestic utensils-Aluminium

(Source: Ministry of MSME, Government of India, 2015)

Dereservation will Destroy the Micro Sector completely in Future:

Presently in manufacturing sector the investment limits of the enterprises are:

Table : 3

Enterprises	Manufacturing Sector
Micro Enterprise	Investment up to Rs 25 lakh
Small Enterprise	Investment above Rs 25 lakh and up to Rs 5 crore
Medium Enterprise	Investment above Rs 5 crore and up to Rs 10 crore.

(Source: Annual Report 2014-15, Ministry of MSME, Government of India)

But the government is planning to change the investment criteria of micro, small and medium enterprises.

Table : 4

Enterprises	Manufacturing Sector
Micro Enterprise	Investment up to Rs 50 lakh
Small Enterprise	Investment above Rs 50 lakh and up to Rs 10 crore
Medium Enterprise	Investment above Rs 10 crore and up to Rs 30 crore.

(Source: Ministry of Micro,small and medium enterprises,Government of India, 2014)

In India change in the investment limit in MSME will destroy the micro enterprises and this will be done due to pressure from the large scale sector.

Presently, 80% of industry comes under micro sector, 15% in small and the rest is large scale sector. Unofficial data of micro sector is even higher as only 10% of the enterprises are registered with the department. To take undue subsidy benefit of micro and small sector, the large scale units are

pressurizing the government to enhance the ceiling of micro and small sector so that they can remain in priority list (Times of India, 2015)

Ministers, MSEs and Associations are against the dereservation:

According to Wharton multinational management professor Ann Harrison study done in 2014 found that through

reservation promoting small industry generates employment. Harrison also study the impact of dereservation in small industry on nations growth and founded that employment has been decreased through dereservation among smaller and older enterprises but increased overall employment by the growth of younger and larger establishment. These are the enterprises which pay higher wages, create more investment and generate employment (Bahri, 2015)

According to D V Malhan from All India Food Processors Association he is against the deresevation of items like Pickle and Chutneys, Bread, Mustard Oil (except solvent extracted), Groundnut Oil (except solvent extracted). Dereservation will largely affect the household industry and provision could have been continued (Maindola, 2015)

According to B.V.Rama Rao, the president of the Federation of Andhra Pradesh Industries (FAPI) the dereservation of 20 products which are meant for the manufacturing by the MSE will harm the MSME in the country. He is not convinced that dereservation will bring greater investment and better technologies, but the reality is that smaller units will be pushed out of business. According to Kaja Khan, the Managing Director of a small unit near Mangalagiri in Guntur district felt that with the government policies many of units are going to be sick. (The Hindu Business Line, 2015)

The statement given by the Commerce and Industry Minister on April 2015 the government removed the remaining 20 items from the original list reserved for exclusive manufacture by the MSME sector this will bring to an end a policy regime which is being followed since the 1960s to promote and facilitate the small sector. The dereservation is done "to encourage greater investment, incorporate better technologies, standard and branch building and enhance competition in Indian and global markets for these products". (The Hindu Business Line, 2015)

According to President of Madurai District Tiny and Small Scale Industries Association V.S.Manimaran protested against dereservation with manufacturers and members of various MSME from the southern district as more than 5 lakh MSE all over the country and 45000 in Tamil Nadu alone is there this deservation will greatly affect the livelihood of the people if large industries enter the manufacturing of these product. MSEs manufactured products at lower cost and produces good quality but after dereservation they have to face tough competition from brands (The Hindu, 2015)

Conclusion:

Due to reservation now large industries can manufacture the products which were exclusively reserved for MSE and on the other hand MSEs engaged in manufacturing activities

will get the opportunity to grow and enhance their scale of operation. Many MSEs will suffer from dereservation as this will decrease employment and it will affect the livelihood of the people. The de-reservation comes on the heels of the government launching the Micro Units Development Refinance Agency (MUDRA) Bank to extend credit to SME which has a funding of Rs 20,000 crore and can lend between Rs. 50,000 and Rs. 10 lakh to small entrepreneurs. Overall this dereservation will benefit the large corporate house and destroy the micro enterprises completely. Now future performance of industry will tell us that whether dereservation of items are in favour of industry or not.

References:

- Bhari, C. (2015, Sept 21). Why Start-ups ,not small industries ,are India's salvation. Business Standard . Retrieved from file:///C:/Users/com/Desktop/dereservation/ Business%20Standard-Why%20start ups,%20not%20small%20industries,%20are%20India 's%20salvation.html.
- Commerce and Industry Ministry. (2015, April 13). Govt. removes last 20 items reserved for production by MSMEs. The Hindu Business Line .Retrived from file:///C:/Users/com/Desktop/dereservation/FNB%20 News%20%20Commerce%20ministry%20delists%20 pickles,%20breads,%20chutneys%20from%20reserve d%20list%20_%20FNB%20News.html
- De-reservation of products means for MSME sector decried . (2015, April 17). The Hindu Business Line . Retrived from file:///C:/Users/com/Desktop /dereservation /Dereservation%20 of%20products%20 meant%20for%20MSME%20sector%20decried%20 0%20C2%A0%20_%20Business%20Line.html
- De-reservation of items of manufacture by MSE. (2015, April 17). Deloitte Tax and Regulatory .Issue no:RA/3/2015Retrived from https://www2.deloitte.com /content/dam/Deloitte/in /Documents/tax/ Regulatory%20Alert/in-tax-ra-de-reservation-of-items-noexp.pdf
- Retrieved from http://msme.gov.in/WriteReadData /Whatsnew/Letter-Secretaries-States-UT.PDF
- Maindola, A. (2015, April, 17). Commerce Ministry Delists Pickles, Breads, Chutneys from reserved list. FnBnews .Retrived from http://www.fnbnews.com/Top-News/Commerce-ministry-delists-pickles-breads-chutneys-from-reserved-list
- Government of India . (2015). Reservation Policy. Ministry of Micro, Small and Medium Enterprises .
- Government of India. (2014). Micro, Small and Medium Enterprises. New Delhi: Ministry of Micro, Small and Medium Enterprises.

Small industries body slams dereservation of products meant for MSME sector. (2015,June 3).

Times of India .

Retrieved from <http://timesofindia.indiatimes.com/business/indiabusiness/Small-industries-body-slams-dereservation-of-products-meant-for-MSME-sector/articleshow/47520717.cms>

Staff Reporter. (2015,May 27). Small Scale Industries protest Dereservation. The Hindu .Retrived from <http://www.thehindu.com/news/cities/Madurai/small-scale-industries-protest-dereservation/article7249711.ece>