

# Issues and Problems in the Growth of Micro, Small and Medium Enterprises in Goa: An Empirical Study

Anthony Sathish<sup>1</sup>, Atmaram M. Tarpe<sup>2</sup>

<sup>1</sup>Associate Professor in Commerce, H.O.D. PG Dept of Commerce & Research,  
Govt. College of Arts, Science & Commerce, Quepem – Goa, India

<sup>2</sup>Assistant Professor, Department of Commerce, M.E.S. College of Arts & Commerce, Zuarinagar, Goa, India

**Abstract:** *The MSMEs are considered the engine of economic growth and development as it generates large employment at low capital cost. Major issues concerning MSMEs in Goa is that it generally abstain from filing Entrepreneurs Memorandum Part-II/PMT Registration on the simple pretext that the registration under the MSMED Act is not mandatory and moreover on the grounds that some of the authorizing does not demand for the same except for availing incentives under the schemes. The general estimation is that this ratio could be around 5:1 which could be derived on the basis of 3237 E.M Part-I issued and 251 units have only filed Entrepreneurs Memorandum Part-II under MSMED Act, 2006. It is also noted that many of the registered units shutdown their business on varied grounds. As the owners do not seek de-registration, the circumstances of closure remains unspecified in the records of DITC and the figures of permanent registered units continues unaltered in the register.*

**Keywords:** Entrepreneurs Memorandum Part –II (EM -II), De- Registration, Working and Closed Units

## 1. Introduction

The Micro Small and Medium enterprises (MSMEs) have been accepted as the engine of economic growth and play an important role in the equitable economic development of country. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. MSMEs have been established in almost all-major sectors in the Indian industry such as: Food Processing, Agricultural Inputs, Chemicals & Pharmaceuticals, Engineering; Electricals, Electronics, Electro-medical equipment, Textiles and Garments, Leather and leather goods, Meat products, Bio-engineering, Sports goods, Plastics products, Computer Software, etc.

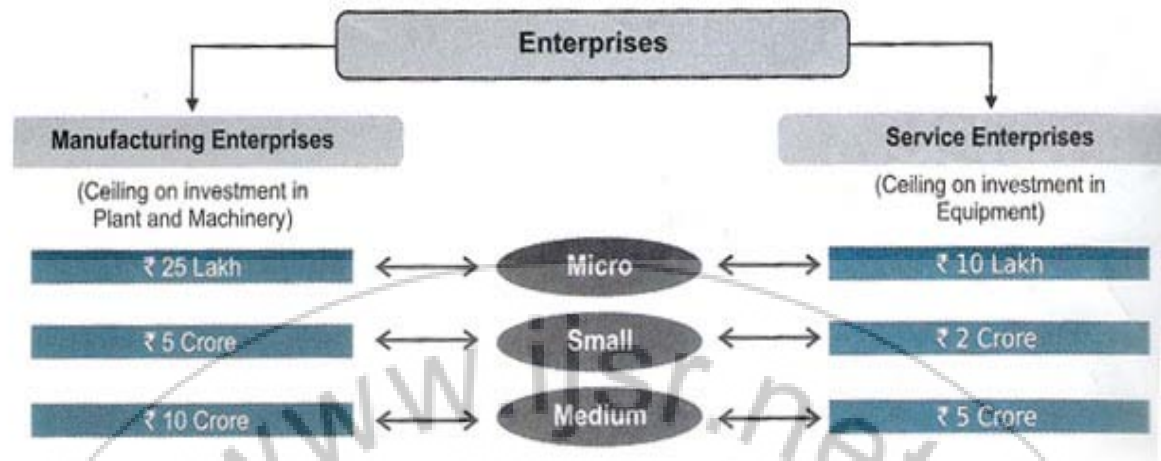
As per available statistics (4<sup>th</sup> Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the

definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

Definition of Micro, Small and Medium Enterprises

- a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
  - i. A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
  - ii. A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
  - iii. A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.
- b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.
  - i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
  - ii. A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and
  - iii. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.



## 2. About Goa

The breath-taking natural beauty of Goa attracts tourists from all over the world creating a flourishing tourism industry that is a significant source of revenue and employment generation. The mining sector itself depended and continues to depend on the natural ore resources available in the State.

With a well-spread network of banking and financial institutions, the State is in an ideal position to attract investments. Goa today has over 7621 Small Scale Industrial units, 210 Large and Medium Scale Industries employing over 50,000 people. The State has developed/established 20 industrial estates; some of them are among the best in the country. The industrial activities encompass about 50 sub sectors which include tourism, pharmaceuticals, electrical and automobile accessories etc. In spite of this, we are yet to achieve lot in the industrialisation process. Goa has done fairly well in the last two decades on the Industrial front in spite of various handicaps. The explanation for this does not lie in any planned development strategy that the State adopted- indeed there was a pointed lack of any such strategy - but in Goa's natural advantages and inherent strengths. The Government is now gearing up for accelerated industrial development and overall economic growth. Proper environmental concern, social infrastructure, well being of its people and various needs of existing industries had been taken into consideration while drafting this Policy.

### 2.1 Acts / Rules which are applicable to all units in the State of Goa irrespective of the product & number of employees

- 1) The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act).
- 2) The Micro, Small and Medium Enterprises Development Rules, 2006.
- 3) The Goa Value Added Tax Act, 2005 (Goa Act of 2005).
- 4) The Goa Value Added Tax Rules, 2005.
- 5) Air (Prevention & Control of Pollution) Act, 1981.
- 6) Water (Prevention & Control of Pollution) Act, 1981.

- 7) The Environment (Protection) Rules, 1986.
- 8) The Hazardous Waste (Management & Handling) Rules, 1989.
- 9) The Central Sales Tax Act, 1956.
- 10) The Goa Shops & Establishment Act, 1973.
- 11) The Minimum Wage Act, 1948.
- 12) The Goa Minimum Wages Rules, 1975.
- 13) Registration with local authorities. i.e. with Municipalities/ Panchayats.

### 2.2 Objectives of the Study

1. To analyse the performance of MSME in Goa
2. To examine the issues related to filling of EM-II
3. To identify the reasons for closure of units

## 3. Research Methodology

### 3.1 Period of the Study

For the purpose of this study the period after the introduction of MSME Act 2006 is considered i.e. the required data is collected from the period 2007-08 to 2012-13 (Six Years).

### 3.2 Sources of Data

Primary data is collected from the semi structured interviews conducted on SSIs managers and Govt. officials. Secondary data is collected from the Directorate of Industries Trade and Commerce, Panjim, MSME Margao; other sources include reference books, research publications of individual and institutional, bulletins and journals.

### 3.3 Analytical Tools

For the purpose of this study a simple bar diagram is used to show and represent data to make the better understanding of available data.

**Table 1.1:** Growth of MSME in Goa

Sr. No.	Year	Number of Units	Proposed investment in Land, build., Plant and Machinery (in lakhs)	Proposed Employment
1	01.04.2007 to 31.03.2008	439	9228.08	3568
2	01.04.2008 to 31.03.2009	532	16909.04	5283
3	01.04.2009 to 31.03.2010	537	25512.01	6610
4	01.04.2010 to 31.03.2011	654	28303.11	7403
5	01.04.2011 to 31.03.2012	602	32726.82	7102
6	01.04.2012 to 31.03.2013	676	43374.12	8436
Total		3440	156053.18	38402

**Source:** Directorate of Industry Trade and Commerce (DITC)

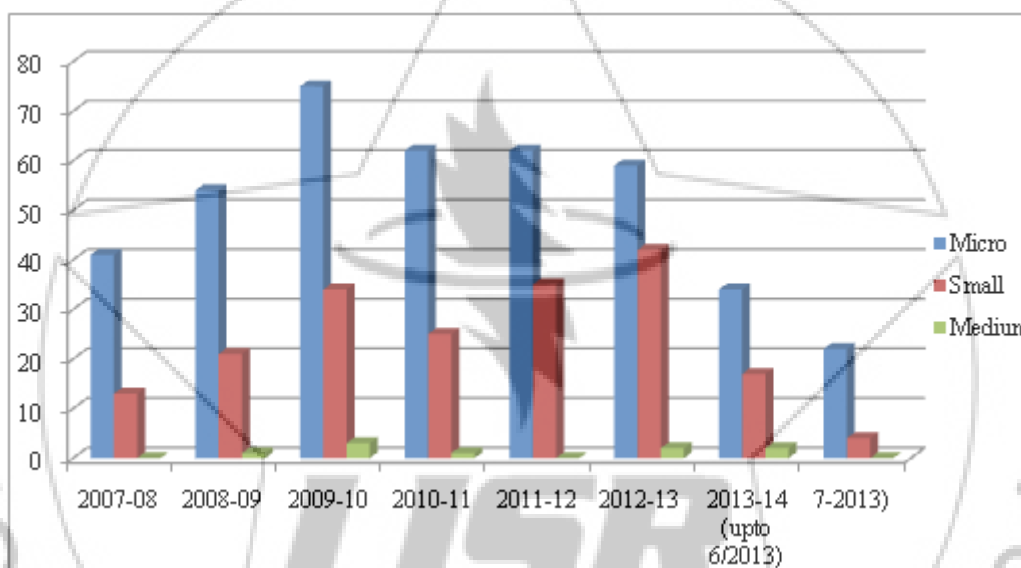
The above Table depict that the no. of MSME Units has grown over last 6 (Six) years along with the increase in employment and amount of investment in the plant and

machinery. But in the year 2011-12 a fall in the no. units and employment is seen, where in the fall in no. of units is approx. 2% and fall in employment is approx. 1% of the previous year.

**Table 1.2:** EM-II filled by MSMEs in Goa

Number of Entrepreneurs Memorandum (Part-II) filed by MSMEs					
Sr.No	Period	Micro	Small	Medium	Total
1	2007-08	41	13	0	54
2	2008-09	54	21	1	76
3	2009-10	75	34	3	112
4	2010-11	62	25	1	88
5	2011-12	62	35	0	97
6	2012-13	59	42	2	103
7	2013-14 (upto 6/2013)	34	17	2	53
8	7-2013)	22	4	0	26
Total --		410	192	9	611

**Source:** DITC Panaji



The above bar diagram depict that over past six years more of Micro enterprise has gone for filling EM-II followed by Small enterprises. This indicate that more of Micro firm are going for permanent registration certificate compared to Small and Medium

#### 4. Procedure for Setting up of Industries

An Entrepreneur coming up with an idea for setting up of the unit, approaches the DITC for procedure and other details, is provided with the relevant details and is asked to file Entrepreneurs Memorandum Part-I highlighting the features of his proposal/project. The memorandum is accepted and processed and relevant Acknowledgement of Entrepreneurs Memorandum - Part I under MSMED Act, 2006 is issued immediately.

Prior to MSMED Act, the Registration was issued in the form of Provisional Registration Certificate (PRC) under Industrial (Development & Regulation) Act, 1951. The Entrepreneurs Memorandum Part-I issued under MSMED Act is valid for 2 years, and to those under Industrial (Development & Regulation) Act, 1951 for 5 years.

Once the Entrepreneurs establish its project and commences the operation, the Entrepreneurs Memorandum Part-I/Provisional Registration is converted into PMT i.e. Entrepreneurs Memorandum Part -II under MSMED Act, 2006 or Permanent SSI Registration under Industrial (Development & Regulation) Act, 1951.

#### 5. Issues related to filing of PMT / EM Part – II under MSMED Act, 2006

The MSMED Act or the Industrial (Development & Regulation) Act, 1951 does not prescribe mandatory registration for an enterprise. However, in order to avail the benefit construed under different policies / schemes, the entrepreneurs are frequenting the Department for obtaining Entrepreneurs Memorandum Part-I/Provisional SSI Registration. The relevant authorities are providing the facilities to an entrepreneur on the basis of the Provisional Registration/ Acknowledgement Part-I which includes availing loans, release of power, registration of plots, issue of licenses etc. Therefore, an enterprise seeks relevant services licenses on the basis of this provisional registration and commences the operation of the unit. Those unable to

complete the formalities within the validity period of the said registration which is generally for 2 years in case of E.M. Part -I Acknowledgement and 5 years for PRC holders are approaching for fresh Acknowledgement Part-I. However, it is noticed that once the unit starts operation, it generally abstain from filing Entrepreneurs Memorandum Part-II/PMT Registration on the simple pretext that the registration under the MSMED Act is not mandatory and moreover on the grounds that some of the authorizing does not demand for the same except for availing incentives under the schemes.

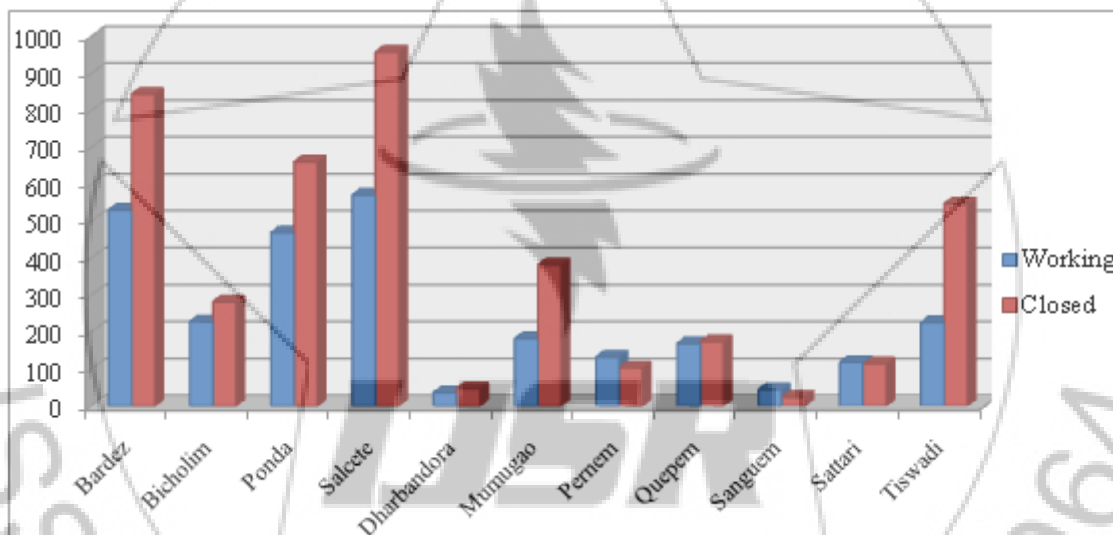
Due to lack of procedural demand for E.M. Part-II/Permanent SSI Registration, most of the entrepreneurs do not come forward for filing EM Part-II/PMT Registration. As a result the statistical data of such unregistered units in operation are not available with the Department and mismatch figures of provisional & permanent units. The general estimation is that this ratio could be around 5:1 which could be derived on the basis of 3237 E.M Part-I issued and 251 units have only filed Entrepreneurs Memorandum Part-II under MSMED Act, 2006. Thus in the

absence of any law or provisions under the Act for compulsorily filing of E.M Part-II/Permanent SSI Registration, and more so only being optional, the enterprises cannot be compelled to file E.M Part – II.

**Table: 1.3:** List of working and closed enterprises in each Taluka in Goa

Nos.	Taluka	Working	Closed	Total
1	Bardez	530	844	1374
2	Bicholim	228	282	510
3	Canacona	87	99	186
4	Ponda	469	661	1130
5	Salcete	571	958	1529
6	Dharbandora	36	47	83
7	Mumugao	182	382	564
8	Pernem	132	103	235
9	Quepem	169	174	343
10	Sanguem	44	24	68
11	Sattari	118	115	233
12	Tiswadi	226	547	773
	<b>Total</b>	<b>2792</b>	<b>4236</b>	<b>7028</b>

Source: DITC Panaji



The above bar diagram depict that except in Pernem and Sattari Taluka all the remaining taluka are have more number of closed units compared to working units in the State of Goa

### 6. Issues related to Closure of units

It is noted that many of the registered units shutdown their business on varied grounds. As the owners do not seek de-registration, the circumstances of closure remains unspecified in the records of DITC and the figures of permanent registered units continues unaltered in the register. As the units do not approach DITC for de-registration by them, the DITC has undertaken the physical survey of the units registered since 1961 to update the actual statistics of the existing and closed units. The survey has been successfully conducted and listing done through the fact-finding teams of the department. The physical visit to the last recorded location revealed that the most of the units has not intimated their closure to the Department and has not sought the cancellation of Registration. Some of the owners

have also expired and the units are disowned by their kins on economical and management grounds. Thus, the figure revealed through recent survey, though reflects total closures as a whole, but resembles the cumulative figures for the last 50 years which has actually occurred in phases and does not indicate closures in recent times.

### 7. Reasons for Closure

The Promoters do shy away in approaching DITC for getting the units de-registered and hence the reasons for closure are unknown. In the absence of such data, there was great amount of ambiguity in the figures of working and closed units which was revealed only after undertaking the physical survey by the Department. Some of the reasons for closures figured out during survey could be summed up as follows:

- Some of the reasons identified are non availability of skilled labour
- Technology obsolescence
- Market fluctuation



- Overall global recession
- Management problems,
- Lack of incentives
- Non availability of timely credit etc.,

## 8. Closure of units in the Industrial Estates

Although, the overall picture in Goa resembles more closures in comparison to working units, the percentage of closure as compared to units in Industrial Estate is only 16% to those outside Industrial Estates. One of the reasons for more closure of units outside the Industrial Estate is fast Urban Development & Environment cautious approach of the people. The units established prior to urbanization are facing stiff Objections from residents and are forced to close down the business as the availability of plots in Industrial Estates is limited.

## 9. Conclusion

The MSMEs are considered the engine of economic growth and development as generate large employment at low capital cost. The major finding of this paper is that there exist various issues and problems with regard to the filling of EM-II and Closure of MSME in the State. It is noticed that once the Entrepreneurs Memorandum Part-I issued under MSMED Act which is valid for 2 years the unit starts operation, and it generally abstain from filing Entrepreneurs Memorandum Part-II/PMT Registration on the simple pretext that the registration under the MSMED Act is not mandatory and moreover on the grounds that some of the authorizing does not demand for the same except for availing incentives under the schemes. The general estimation is that this ratio could be around 5:1 which could be derived on the basis of 3237 E.M Part-I issued and 251 units have only filed Entrepreneurs Memorandum Part-II under MSMED Act, 2006. Those unable to complete the formalities within the validity period of the said registration which is generally for 2 years in case of E.M. Part -I Acknowledgement and 5 years for PRC holders are approaching for fresh Acknowledgement Part-I.

It is also noted that many of the registered units shutdown their business on varied grounds. As the owners do not seek de-registration, the circumstances of closure remains unspecified in the records of DITC and the figures of permanent registered units continues unaltered in the register. One of the reasons for more closure of units outside the Industrial Estate is fast Urban Development & Environment cautious approach of the people. This issue can be addressed by State Government by undertaking development of more Industrial Estates as well as expansion of some existing Industrial Estates.

However present study also revealed that MSME in the State of Goa has shown a remarkable and significant growth in last six years. As with the increase in these units there has been also increase in employment and investment level in the plant and machinery in the State, one of the reason could also be attributed to enactment of MSME Act, 2006, Which has brought more celerity and simplicity in various procedures and processes relating to starting and operation

of MSME units. Thus in the near future along with the enactment of New Industrial policy 2013 by the Government of Goa which ensure accelerated Industrial Development, catalyze Economic Growth, ensure balanced Regional Growth, protect Environment and above all create sustainable Employment to local youth of the State, MSME Act 2006 can play the role of a facilitator to ensure accelerated growth of MSME so that the State is able to contribute to the National GDP growth in more meaningful manner.

## References

- [1] Agarwal, H. (2010), Retrieved December 29, 2012, from Policy Proposals for India: <http://www.policyproposalsforindia.com/article>.
- [2] Annapurna Dixit, A. K. (2011), SMEs and Economic Growth in India: Co integration Analysis. IUP Journal of Financial Economics, Vol. IX 41-59.
- [3] Chakraborty, D. K. (2012). Empowering MSMEs for Financial Inclusions and Growth - Role of Banks and Industry Association, Mumbai.
- [4] Dubey, A. K. (2010). SMEs - A Road To Economic Sustainability. SME World. Editorial. (Vol. XXXVIII, No. 36.
- [5] Ismail H. S., J. P. (2011). An Interventionist Frame Work for Promoting Sustainable Growth in SMEs: The Role of HEIs as Implementation Specialists. EPC, Vol. 24 [4], 622-640.
- [6] Jeswal, R. (2012). Role of SME in Indian Economy. National Conference on Emerging Challenges for Sustainable Business.
- [7] Mathew, P. M., Nanjudan, S. (1994). Changing Role of Small Scale Industry- International Influences, Country, Experiences and Lesson for India Vol. XXIX, No. 22. Economic and Political Weekly.
- [8] Nanjudan, S. (1996). Economic Reforms and Small Scale Industry. Economic and Political Weekly Vol. XXXI, No. 4.
- [9] Yogesh S., D. G. (2008). Retrieved December 19, 2012, from National Institute of Science Technology and Development Studies Web Site: <http://www.nistads.res.in/indiasnt2008/>.