
Micro, small and medium enterprises in India: Issues and Challenges

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Abstract

Micro, small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy. Micro, small and medium enterprises including Khadi and village as well as rural enterprises play a pivotal role in the overall industrial development of the country. They have been the significant contributor to the national income, with their huge involvement in country's industrial production, exports and the like. They create a sound entrepreneurial base in the economy by developing and nurturing the talents, and skills of small and medium scale entrepreneurs. MSMEs are the fountain head of several innovations in manufacturing and service sectors, the major link in the supply chain to corporate and the public sector units. MSMEs contributes forty five per cent of industrial output, forty per cent of exports, employing sixty million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. Thus, this sector has been regarded a priority status by both the Central and the State Governments. Despite of this, the MSMEs comprise with several problems in their day-to-day functions, that is, in production and marketing of their products. They find it difficult to sell their output at remunerative prices and cannot invest much on advertising, marketing research and the like. They also face stiff competition from large firms. Inadequate infrastructural facilities and access to credit are other major problems. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting working capital requirement. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. Recognizing the importance of micro, small and medium enterprises in the growth of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base, the Central and State Governments are executing several policy measures, promotional and developmental projects/schemes as well as providing a number of supporting incentives for development and promotion of MSME sector in their respective States/UTs. The present paper aims at focusing the problems of MSMEs and Government policy measures to provide and protect the MSMEs.

Keywords: Government, Entrepreneurs, Problems, MSME

Introduction

Micro, small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy. Micro, small and medium enterprises (MSMEs), including Khadi and village as well as rural enterprises, are credited in the overall industrial development of the country with their effective, efficient, flexible and innovative entrepreneurial spirit. They have been the significant contributor to the national income, with their huge involvement in country's industrial production, exports, etc. The significance of MSMEs is attributable to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products. They not only help in providing employment opportunities to millions of people across the country, especially to the village artisans and rural people, but also check the problem of economic concentration in the hands of a few. Micro, Small and Medium Enterprises play a essential role for the development of Indian economy by contributing 45 per cent of industrial output, 40 per cent of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. There are approximately 30 million MSME Units in India. MSMEs are the fountain head of several innovations in manufacturing and service sectors, the major link in the supply

chain to corporate and the public sector units. MSMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector. The labour intensity in the MSME sector is estimated to be considerable higher than the large enterprises. Thus, this sector has been regarded a priority status by both the Central and the State Governments.

Objectives

The main objectives of the present study are:

- to examine the growth and performance of MSMEs,
- to analyze the problems of MSMEs and
- to present the Government strategies for the progress of MSMEs.

Classification of MSMES

The MSMEs of manufacturing enterprises have been classified into micro, small and medium enterprises based on the amount of investment in plant and machinery and on equipment for enterprises providing (or) rendering services as follows:

Classification	Manufacturing Enterprises Investment in Plant & Machinery	Service Enterprises Investment in Equipments
Enterprises	INR	INR
Micro Enterprises	Up to Rs. 25Lakhs	Up to Rs. 10Lakhs
Small Enterprises	above Rs. 25 Lakhs & up to Rs. 5 Crores	above Rs. 10 Lakhs & up to Rs. 2 Crores
Medium Enterprises	above Rs. 5 Crores & up to Rs. 10 Crores	above Rs. 2 Crores & up to Rs. 5 Crores

Table 1: Growth and performance of MSMEs in India.

Sl. No.	Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
1	2007-08	377.37	842.23	917437.46	1435179.26
2	2008-09	393.70	881.14	971407.49	1524234.83
3	2009-10	410.82	922.19	1029331.46	1619355.53
4	2010-11	428.77	965.69	1094893.42	1721553.42
5	2011-12	447.73	1012.59	1176939.36	1834332.05

Source: Annual Reports of Ministry of Small and Medium Enterprises

Performance of MSMEs in India

Table 1 show that the total numbers of MSMEs have increased from 377.37 lakhs in 2007-08 to 447.73 lakhs in 2011-12. The MSMEs has grown consistently in a span of five years. The fixed investments in these industries have gone up from Rs.917437.46 crores in 2007-08 to Rs.1176939.36 crores in 2011-12. The fixed investments in these industries have increased. Like the growth rate in number of industries, the fixed investment in these industries grow at around 5 per cent. This indicates that lot of investment has been made in MSMEs to increase their development in the interest of nation. The production from these industries has grown constantly from 2007-08 to 2011-12. Further, these industries contributed lot in providing employment opportunities to unemployed workforce. The numbers of persons employed in these industries have increased from 842.23 lakhs in 2007-08 to 1012.59 lakhs in 2011-12, which indicates the people's aspiration for the employment in MSMEs.

Challenges and problems of MSMEs

The MSMEs have been accepted as the engine of economic growth and for promoting equitable development. The MSMEs constitutes more than eighty per cent of the total number of industrial enterprises of the country. Despite of

commendable contribution to the nation's economy, strategic importance in overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector confront several challenges at every stage of their operation. Technological obsolescence and financing problems have been associated with the sector since long. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day working capital requirements. Also, constraints such as high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, inadequate infrastructure facility, including power, water, roads, etc., and regulatory issues related to taxation (state-central), labour laws, environmental issues etc. They find it difficult to sell their output at remunerative prices and cannot invest much on advertising, marketing research, etc. They also face stiff competition from large firms. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. They are mainly reluctant to adopt modern methods of organisation and management. These industries are therefore not in a position to secure the internal and external economies of scale.

Table 2: State- wise distribution of principal characteristics of MSME sector*.

Sl. No.	State/UT	Enterprises (lakh)	Employment (lakh)	Market Value of Fixed Assets (Rs. Crore)	Gross Output (Rs. Crore)
1	Jammu and Kashmir	1.33	3.07	8475.28	16035.39
2	Himachal Pradesh	1.72	2.92	5599.25	17247.20
3	Punjab	10.14	18.31	37126.69	81625.05
4	Chandigarh	0.29	0.70	607.05	1888.55
5	Uttarakhand	2.23	4.42	6014.98	16187.64
6	Haryana	5.20	12.23	25998.80	53198.68
7	Delhi	1.78	6.52	10164.54	29672.34
8	Rajasthan	9.68	18.42	25452.90	50004.43
9	Uttar Pradesh	24.21	59.30	56161.03	111089.69
10	Bihar	7.98	17.45	8405.45	16709.30
11	Sikkim	0.07	0.57	72.16	189.76
12	Arunachal Pradesh	0.25	0.88	937.48	1101.73
13	Nagaland	0.18	1.17	1273.67	2845.03
14	Manipur	0.49	1.58	646.03	1094.70
15	Mizoram	0.13	0.56	403.14	677.21
16	Tripura	0.28	0.76	661.73	1177.84
17	Meghalaya	0.50	1.17	468.55	1150.80
18	Assam	2.34	6.58	6941.15	13403.27
19	West Bengal	21.23	58.53	39433.22	78880.05
20	Jharkhand	4.43	8.99	5020.72	10040.29
21	Odisha	9.97	23.67	12284.89	29075.42
22	Chhattisgarh	3.01	5.43	3303.41	8437.34
23	Madhya Pradesh	12.57	20.30	10530.40	34388.44
24	Gujarat	15.32	34.42	166753.68	55306.91
25	Daman & Diu	0.02	0.28	1881.53	7735.73

Source; Annual Reports of Ministry of Small and Medium Enterprises

**Excluded activities under wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage).*

Thus, despite of the immense contribution of such a pre-capital sector towards economic development, it is infested with a host of

challenges and problems. The challenges and problems are not only many in number but they are multidimensional also.

A few acute challenges and problems of MSMEs in India are mentioned below:

- Absence of adequate and timely supply of bank finance,
- Limited access to equity as well as risk capital,
- Lack of power,
- Low quality inputs,
- Low return,
- Low production capacity,
- Ineffective marketing strategies,
- Identification of new markets,
- Non availability of raw materials at competitive cost,
- Constraints in modernization and expansions,
- Inadequate Infrastructure facilities,
- Lack of adequate warehousing,
- Lack of information,
- Lack of training,
- Non availability of highly skilled labour at affordable cost,
- Technology obsolescence,
- Managerial inadequacies,
- Delayed Payments,
- Lack of quality control and testing facility,
- Incidence of Sickness,
- Extreme Competition in the global market,
- Complex labour laws and complicated procedures to compliance of such laws,
- Issue relating to taxation and their procedure,
- Poor scientific and industrial research,
- Lack of linkage between large industries and MSMEs and the creation of sub-contracting facilities at the national, regional and international level,
- Lack of information collection and dissemination about various aspects among MSMEs.

Governmental measures

Recognizing the importance of small and medium enterprises in the growth of Indian

economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base, the Central and State Governments are undertaking several policy measures and incentives as well as implementing schemes and programs for promotion and development of these enterprises. For this, entrepreneurship development and training is one of the key steps, particularly, for the first generation entrepreneurs. Entrepreneurship Development Programs (EDPs) of various durations are being organized on regular basis by a number of organizations, such as, National and State level Entrepreneurship Development Institutes (EDIs); Micro, Small and Medium Enterprises Development Institutes (MSMEDIs); National and State level Industrial Development Corporations, Banks and other training institutions/agencies in private and public sector; etc. These EDPs aims to create new entrepreneurs by cultivating their dormant qualities of entrepreneurship and enlightening them on various aspects necessary for setting up micro and small enterprises. Besides, skill development programs (SDPs) and entrepreneurship-cum-skill development programs (ESDPs) are also being organized by various public as well as private training institutions. However, there are still wide spread variations in the success rate, in terms of actual setting up and successful running of enterprises, by the EDP/SDP/ESDP trained entrepreneurs. Also, new entrepreneurs generally face difficulties in availing full benefits under available schemes of the Governments / financial institutions, completing and complying with various formalities and legal requirements under various laws/regulations, in selection of appropriate technology, etc. In order to bridge the gap between the aspirations of the potential entrepreneurs and the realities, there is a need to support and nurture the potential

first generation entrepreneurs by giving them handholding support during the initial stages of setting up and managing their enterprises.

Some of the Governmental measures for MSMEs include:

- Micro, Small and Medium Enterprises Development Act, 2006 was enacted to facilitate the promotion and development as well as to enhance the competitiveness of micro, small and medium enterprises. It included the establishment of specific funds, notification of particular schemes/programs, progressive credit policies and practices, preference in Government procurements to products and services of these enterprises, following more effective mechanisms for justifying their problems and the like. The Act also provides statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly, these enterprises, and with a wide range of advisory functions.
- The de-reservation of products in the MSMEs intended at providing opportunities for technological up-gradation, promotion of exports and economies of scale, with a view to encourage modernization and enhance competitiveness in the sector. As on 13 March 2007, 125 items were de-reserved, reducing the number of items reserved for exclusive manufacture in micro and small enterprise sector to 114. As on 8th February, 2008, 79 items more were de-reserved. Further, 14 items in October 2008, followed by a revision in July 2010.
- The National Manufacturing Competitiveness Program (NMCP) was launched to provide support to the manufacturing sector, particularly MSME sector, in their endeavor to become

competitive. It consists of ten components and programs as the initiatives for development and promotion of MSMEs.

- Several Credit schemes and policies was undertaken to provide adequate credit to enterprises. It is one of the critical inputs for the promotion of small and medium enterprises. It is a part of the priority sector lending policy of the banks. One of such scheme is the Credit Linked Capital Subsidy Scheme (CLCSS) which was launched to facilitate technology up-gradation by upfront capital subsidy to micro, small and medium enterprises, including tiny, Khadi, village and coir industrial units, on institutional finance (credit) availed by them for modernization of their production equipment and techniques in specified sub-sectors/products approved under the Scheme. To make the credit guarantee scheme more attractive, the following amendments have been made: enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh; reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North-East Region; and raising the extent of guarantee cover from 75 per cent to 80 per cent for (a) micro enterprises for loans up to Rs. 5 lakh, (b) MSEs operated or owned by women and (c) all loans in the North-East Region.
- Besides, the State and Union Territories (UTs) Governments are executing several promotional and developmental projects/schemes as well as providing a number of supporting incentives for development and promotion of MSME sector in their respective States/UTs. Around 30 MSME-District Industries and 28 Branch MSME-District Industries have been set up in State capitals and other industrial cities all over the country, with a view to provide assistance to prospective entrepreneurs as well as to existing units. The State

Industrial Development and Financial Institutions and State Financial Corporations also look after the needs of the MSME sector.

Apart from these, Government has under taken protective measures, promotional measures and institutional measures for the growth and to provide liberal and manifold assistance to MSMEs. Recently, major initiatives have been taken by the government to revitalize the MSME sector.

Suggestions

- Arrangements could be made by the Government to ensure the supply of trained and professional managers for the MSME sector.
- It would be required to consider policy initiatives to incentivize MSMEs to achieve economies of scale by expanding production.
- To facilitate the MSME sector to acquire resources.
- It is essential that a separate trading exchange be set up exclusively for the MSMEs.
- Provide special incentives for encouraging larger flow of Venture Capital & Private Equity funds into the sector.
- To devise measures for tackling the problem of loss of fiscal benefits when the micro and small-scale units graduate into larger units, etc.

Conclusion

Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. MSMEs constitute over ninety per cent 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. Further, in recent years the MSME sector has consistently registered higher growth rate

compared to the overall industrial sector. In spite of the problems, the MSME sector has grown by leaps and bounds and has caught the fancy of corporate India. The responsibility of promotion and development of MSMEs lies primarily with the State/Union Territory (UT) Governments. However, in recognition of the role of this sector in both creation of wealth and widespread employment and of the need for countrywide framework of policies and measures to facilitate its promotion and development, the Government of India has always supplemented the efforts of the States and UTs in several ways. Over the years, the Central Government has thus formulated policy packages and implemented a number of schemes and programs, to mainly provide infrastructural, technological, credit, marketing and entrepreneurial development support to the MSME sector. The MSMEs must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, Research and Development activities. "MSME sector shall grow significantly above the overall GDP growth in the country". Therefore the sector needs to adopt a proactive strategy approach where the Government should propose a medium to long term strategy to sustain themselves in the changing economic scenario and progress beyond the current GDP growth.

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