

Present Status of MSMEs in India: Challenges and Opportunities

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ABSTRACT

Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector in many developed and developing countries including India. This sector has been playing an essential role in accelerating Gross Domestic Product and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the economy. Despite of facing various major problems from the establishment, its performance was unexpected. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs. The current paper is an attempt to critically analyze the performance of MSME with respect to economic parameters namely Number of units, production, employment, quantum of investment and contribution to overall national GDP. This study is descriptive in nature and whatever analysis has been made is based on the secondary data collected from the government Websites and other reliable sources.

1. Introduction

Indian economy is characterized by agriculture and rural based as well as low capital formation economy. In order to encourage the industrial growth, generating exportable surplus and creating a fair volume of employment opportunities, it is essential to expand the industrial units of micro and small size which require low capital and started at village and town level. From the beginning of second five year plan itself it was experienced that industrial units at all the levels should be promoted so as to reduce unemployment and poverty among the rapidly increasing population. Small scale industries (SSI) sector, hence, was identified as a majorly focused area which has contributed significantly in the economic growth of the nation. With the introduction of reform measures in India since 1991, the Govt. introduced promotional Policies to increase competitiveness of the sector. The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED ACT, 2006.

With the introduction of new MSME Act 2006, the Govt. has tried to resolve some major issues related to the MSMEs like complicated bureaucratic registration procedures, lack of finance, lack of managerial skills etc. The MSME Act 2006 has frame worked a strict rule regarding payment of dues by

increasing penalties substantially for delay in payment. Registration in the MSME sector is voluntary and unregistered firms constitute a significant proportion of the total firms. The new MSME Development Act 2006 has made the registration procedure much simple and less time taking.

According to the provision of Micro, Small and Medium Enterprises Development Act 2006 (Section 7) be amended to define units producing goods and rendering services in terms of annual turnover as follows:

- A Micro Enterprises will be defined as a unit where annual turnover does not exceed five crore rupees;

- A Small Enterprises will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;
- A Medium Enterprises will be defined as a unit where the annual turnover is more than Rs 75 crore but does not exceed Rs 250 crore.
- Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises.

2. Objectives of the study

The main objectives of the present study are:

1. To study the present structure and schemes of MSME sector
2. To assess the performance of MSMEs with regard to economic parameters
3. To recommend the measures for improving the performance, if required

3. Review of Literature

From the review of literature it is identified that MSME are facing challenges because of external environmental changes along with changing social, economic, cultural and political changes occurred in the country. Most of the experts, economists, research scholars revealed that MSME sector facing challenges in terms of production, marketing, finance, human resources, external factors etc.

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Bala Subrahmanya (2004) examined the effects of domestic and external setor reforms on small-scale industries sector. The researcher opined that small industry had suffered in terms of growth of units, employment, output and exports. He argued to upgrade technology and knowhow for bringing this sector in the mainstream and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute socio-economic development.

Bargal et al. (2009) analysed the causal relationship among the three pertinent variables GDP, SSI output and SSI exports. The researcher has also made an attempt to compare the performance parameters of SSIs in the pre and post economic reform periods. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties.

Dixit and Pandey (2011) adopted an analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and GDP, total exports and employment in India. Their study brought about the positive correlation between production of SMEs and India's GDP.

Venkatesh and Muthiah (2012) concluded that the role of small & medium enterprises (SMEs) in secondary sector has

become phenomenal and they have become a driving force for future economic growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation.

Singh et al. (2012) assessed the performance of Small scale industry in India and paid attention to policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels

4. Importance of MSME Sector

MSMEs have proved to be complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial growth of the nation. These enterprises are widening their domain across different sectors of the economy, producing diverse range of products and services to meet demands of both national as well as International markets.

It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are working as the engines of growth of any country's economy.

As a mechanism for socio-economic transformation of the country, the MSME sector is extremely vital in addressing the national objectives of bridging the gap between rural and urban status, controlling urbanization, reducing poverty and generating employment to a larger extent. It is therefore, essential that India adopts a suitable policy framework that provides the required impetus to seize the opportunities and create an enabling business environment in order to keep the momentum for further economic development.

5. Performance Appraisal of MSME Sector

SCHEMES wise benefits to individuals

SI No.	Name of Scheme	Benefit Type	Total no. of beneficiaries (till Dec,2017)	Total Expenditures (Rs. Lakhs) (till Dec, '17)
1	ATI Scheme(Training Component)	In Kind	1671	296
2	Marketing Assistance Scheme	Cash	334	81.36
3	Coir Udyami Yojna	Cash	319	811
4	MPDA Grant To Khadi Institutions	Cash	342981	6085
5	Coir Vikas Yojana	Cash	1199	32.11
6	SFURTI-SI	In Kind	50000	1203
7	PMEGP Prime Minister Employment Generation Programme	Cash	26072	72073
8	Credit Guarantee Scheme	In Kind	2916910	8200
9	Interest Subsidy Eligibility Certificate for Khadi and Polyvastra-ISEC	Cash	1305	1314
10	National Awards	Cash	50	50
11	MDP-EDP-Skill Development	Cash & In Kind	15236	223.53
12	Zero Effect Zero Defect ZED	Cash & In Kind	58	1015.24
13	Technology And Quality Up-gradation Support Through MSMEs-TEQUP	Cash	1	0

14	MATU Scheme Excluding Vendor Development Programme and International/National Workshop/Seminar	Cash	129	50.55
15	Credit Linked Capital Subsidy Scheme CLCSS	Cash	4081	283444.16
16	IPR Building Awareness On Intellectual Property Rights for MSMEs	In Kind	417	0
17	Lean Manufacturing Competitiveness Scheme for MSMEs	In Kind	1091	321.82
18	Design Clinic Scheme For Design Expertise To Micro, Small And Medium Enterprises	Cash	112	50.53
19	Incubation Centre Support For Entrepreneurial And Managerial Development Of SMEs Through Incubators	In Kind	56	80.74
20	Performance And Credit Rating Scheme	Cash	11424	25836.7
21	International Co-operation (IC) Schemes	Cash	567	2993.7
22	Trade Related Entrepreneurship Assistance And Development Scheme For Women	Wound up during 2017-18		

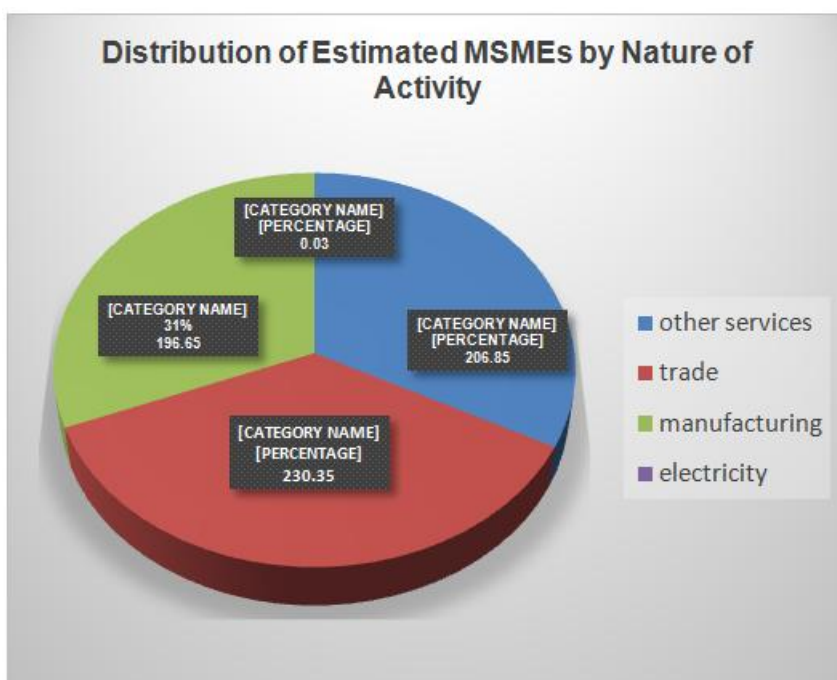
The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations.. As per the data available with Central Statistics Office (CSO),

Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices for the past five years is as below:

YEAR	MSME GVA	GROWTH(%)	TOTAL GVA	SHARE OF MSME IN GVA(%)	TOTAL GDP	SHARE OF MSME IN GDP (IN %)
2011-12	2583263	-	810	31.86	8736329	29.57
2012-13	2977623	15.27	6946	32.36	9944013	29.94
2013-14	3343009	12.27	9202692	32.26	11233522	29.76
2014-15	3658196	9.43	1036315311481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Categorical Distribution of MSMEs in India

Activity Category	Number of Enterprises(in lakhs)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Electricity*	0.03	0.01	0.04	0
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100



In the above table and diagram, total MSMEs have been distributed as per their major category area. Most of the enterprises are dealing with the trading activities which is accounting for 230.35 lakh units. They are followed by Services sector having 206.85 lakh units. Manufacturing sector also has a significant share of 31 percent in the total number of enterprises whereas relatively very few units are involved in electricity related activities.

If we look at the location of these enterprises, we find that almost equal number of representation is there in rural and urban areas. The numbers of enterprises working in rural areas are marginally more than those in urban locations. The breakup of these units is 51.25 % and 48.75% respectively in rural and urban areas.

GROWTH OF MSMEs:

Parameter	Fourth All India Census of MSMEs, 2006-07	NSS 73 rd Round, 2015-16	Annual Compound Growth Rate (%)
No. of MSME (Total)	361.76	633.88	6.43
Manufacturing	115.00	196.65	6.14
Services	246.76	437.23	6.56
Parameter	Fourth All India Census of MSMEs, 2006-07	NSS 73 rd Round, 2015-16	Annual Compound Growth Rate (%)
Employment (Total)	805.24	1109.89	3.63
Manufacturing	320.03	360.42	1.33
Services	485.21	749.47	4.95

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs(360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. It is really a satisfactory position with respect to employment generation program of the nation.

6. Opportunities and Challenges

MSME sector is having some opportunities that are the signs of the better prospects of this sector. They can be presented through the following points:

1. After the start of economic reforms and globalization, the MSMEs are enjoying the benefits of selling their products and services to the world market rather than being confined into domestic market. This has resulted in accessibility to bigger markets, greater linkages for SMEs with larger companies and benefitting from enhancement in the competitive capacity
2. The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc.
3. MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology etc.
4. As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.
5. Being labor-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas.

6. As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in best possible way.
7. The products produced by MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc.) have an excellent foreign market.
8. The MSMEs are less prone to industrial disputes. However, the truth behind the scene is the workers in small sectors are mostly from unorganized sector and cannot raise their voice collectively.

7. Challenges or Constraints

Despite of various efforts made by the government and entrepreneurs to make the small and medium enterprises economically and technologically viable, there are certain problems and challenges that they are still facing. As far as the factors like efficiency, modernization, surplus earning etc. are concerned, these enterprises by and large not able to compete the large enterprises, be it domestic or MNCs.

1. The MSMEs face tough competition from the large domestic firms and multinationals corporations having advanced methods of production and technology, managerial ability, skilled workers, better product quality, and diversified range of products.
2. Another shortcoming of the MSMEs in India is use of outdated technology and low quality raw material. A very few firms operate with sophisticated technology. They, therefore, suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.
3. Non- availability or inadequacy of Infrastructural facilities is also a feature of Small and medium enterprises. These facilities include power supply,

transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit. They have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production.

4. In spite of mass of population in India, there is shortage of skilled man power. Moreover small firms can not apply division of labor and cannot engage specialized personnel. The MSMEs have to operate with unskilled or semi-skilled workers. Because of this labor productivity is lower in these enterprises.
5. Most of the MSMEs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques. Hence the awareness about their brand is lower among domestic as well foreign markets.
6. The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services).
7. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms. Moreover many MSMEs do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.
8. Globalization process seems to favor the developed countries and the multinationals more than that of developing countries and the MSMEs. The MNCs use domestic wealth, infrastructure, and local

unskilled workers at a lower cost and repatriate huge profits to their own countries.

8. Conclusion

It has been observed that the number of MSMEs in India has been increasing right from the formulation of MSME Act, 2006. It has mainly contributed in service sector with respect to production and employment generation. However the share of MSME sector in the GDP during the present decade has been almost similar which is close to 30 percent. These enterprises are facing a tough competition with large industries due to withdrawal of subsidy, lack of infrastructure, anti-dumping policy, challenges on product standardization, total quality management etc. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Govt. from protection to promotion of the MSMEs. The Govt. needs to ensure proper co-ordination and implementation of the various schemes introduced so far. The MSMEs must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, Research and Development activities.

If the Government, Financial Institutions and other agencies take proper initiatives and corrective measures in this sector, these challenges can be solved and these enterprises will definitely contribute in achieving targeted economic growth as focused in "Vision 2022 A New India".

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