

Msmes In India - Growth,challenges And Issues In Present Scenario

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ABSTRACT

Micro, Small and Medium Enterprise (MSME) sector has emerged as a highly vibrant and active sector of the economy. MSMEs play avital role in providing huge employment opportunities at relatively lower cost than large industries. MSMEs are helping in the industrialization of rural & backward areas by reducing regionalimbances, assuringevenhanded distribution of wealth and income. MSMEs are ancillary to large industries and contribute highlyto the socio-economic development of the country. The MSMEs are widely dispersed across sectors of the economy, producing avaried range of products and services. The MSMEs contribute to 6% of GDP, 33% of total manufacturing and 45% of total export. On one hand MSMEs are growing at brisk pace, but on the other hand,they are struggling to continue their operations due to various problems. Majority of MSMEs lack finance to run their business and ultimately becomes sick. With the growing industrialization and globalization,there are aplethora of opportunities for MSMEs. But these opportunities cannot be harnessed until these MSMEs are provided sufficient support. The present paper tries to study the growth of MSMEs in India and highlight various issues related to MSMEs in present scenario.

Keywords: MSMEs, Industrialization, Socio-economic, Globalization

1. INTRODUCTION

MSMEs have become the engine of economic growth in India. MSMEs in India constitute more than 90% of the total number of industrial enterprises and form the backbone of industrial development. Not only in India, MSME sector well recognized all over the world, owing to its significant contribution to employment generation, GDP contribution and export. The importance of MSMEs in Indian economy cannot be ignored given the fact that MSMEs contribute to 6% of GDP, 33% of total manufacturing and 45% of total export.

The performance of MSME sector directly affects the economic growth of any country. The total production of goods and services produced within the country is largely affected by the contribution of MSME sector. In major economies like United States, United Kingdom, Germany, France and Italy the contribution of MSMEs in GDP is respectively 48 percent, 50 percent, 54 percent, 59 percent and 68 percent. MSME sector is the second largest employment provider in the country after agriculture sector. The share of the MSME sector is 21% of the total employment provided by the entire sector in the economy. In major economies like United States, United Kingdom, Germany, France and Italy the contribution of MSME in employment generation is respectively 53 percent, 52 percent, 62 percent, 63 percent, 80 percent respectively.

However, with Liberalization and entry of Multi-National Corporations, Indian MSMEs are facing stiff competition. Rapid changes in technology, unpredictable market scenario and information asymmetry have also contributed to their increased problems. Some MSMEs manage to cope with such an intense competition and survive in the market. Those MSMEs who do not change their operations with the changes in the market situation, fails to survive and becomes sick.

CLASSIFICATION OF MSMEs

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 has classified MSMEs by defining investment limits for both manufacturing and service enterprises as follows:

TABLE- 1 CLASSIFICATION OF MSMEs

Class/Category	Manufacturing Industry	Service Industry
Micro Enterprises	Investment up to Rs.25 lakh	Investment up to Rs.10 lakh
Small Enterprises	Investment above Rs.25 lakh and up to Rs.5 crore	Investment above Rs.10 lakh and up to Rs.2 crore
Medium Enterprises	Investment above Rs.5 crore and Rs.10 crore	Investment above Rs.2 crore and up 5crore

Source: MSME Development Act, 2006, Ministry of DIC, Government of India.

2. REVIEW OF LITERATURE

(Bhawani, 2010) Highlighted the issue of employment generation by the small scale industries and criticized the short term attitude of increasing the volume of employment generation compromising with quality. The author argued that employment generation by the SSIs may be high in quantitative term but very low in quality. Author suggested technological upgradation as a choice to enable the small firms to create quality employment by improving skill of employees. This structural change may take time to provide instant shift and may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run.

(Seshasayee, 2006) Discussed problems faced by SMEs in India. As per researcher social contribution made by SMEs is even more significant than economic contribution. It is seed-bed for nurturing entrepreneurial talent. Researcher presented wide range of issues which could lead to betterment of SMEs. If not taken

seriously these issues may harm SMEs and ultimately reduce productivity. Researcher has also incorporated various financing instrument in promotion financing and development of SMEs.

(Sharma & Gupta, 2015) Studied the problems related to MSMEs in day to day operations and discussed the various measures taken by government for addressing those problems. Researchers suggested that availability of professional managers, achieving economies of scale, establishment of trading exchange for MSMEs and larger flow of venture capital and private equity funds would be helpful for MSMEs to survive.

3. RESEARCH METHODOLOGY

OBJECTIVES

1. To analyse growth and performance of MSMEs in India
2. To study the development MSMEs in India.
3. To study challenges and issues faced by MSMEs in India.

DATA COLLECTION

The study is descriptive in nature and based on Secondary data. The major sources from which data has been taken to accomplish the objectives include:

1. MSME Annual Report 2015-16
2. MSME Annual Report 2016-17
3. Resurgent India Report on MSMEs
4. FICCI report MSME vision 2020
5. Research Papers from Journals
6. Content from different websites

4. GROWTH AND PERFORMANCE OF MSMEs IN INDIA

Performance of Micro, Small & Medium Enterprises (MSME) Sector in the country is assessed mainly:

- A. By conducting periodic All India Census of the Sector.
- B. By collecting the number of Entrepreneur Memorandum Part- II filled at DICs (which is now replaced with Udyog Aadhaar online filing system since September 2015)

The latest census conducted was Fourth All India Census of MSME. The Census was conducted with the reference year 2006-07, wherein the data was collected till 2009 and results published in 2011-12. The results made use of Economic Census, 2005 (EC, 2005) conducted by Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MoSPI).

TABLE-2 SUMMARY RESULTS: FOURTH ALL INDIA CENSUS OF MSME

S.NO.	Characteristics	Registered Sector	Unregistered Sector	Economic Census-2005	Total
1.	Size of Sector (In Lakh)	15.64	198.74	147.38	361.76
2.	No. of rural units (In Lakh)	7.07	119.68	73.43	200.18
3.	No. of Women enterprises (In Lakh)	2.15	18.06	6.40	26.61
4.	Total Employment	93.09	408.84	303.31	805.24
5.	Per unit employment	5.95	2.06	2.06	2.23

Source: MSME Annual Report 2016-17, Government of India

As per table-2 above based on the census it can be seen that size of unregistered sector is greater than registered sector in terms of units, employment and women entrepreneurship. There is not much difference in number of units as per their location in urban and rural areas. 60% of the unregistered units were located in rural areas. It can be seen that per unit employment is more in registered sector than in unregistered sector and women enterprises are also more in registered sectors.

On the basis of Fourth All India Census of MSME increase in the number of enterprises, increase in employment and increase in investment is projected till 2014-15. Growth of total working enterprises, employment and market value of fixed assets of MSMEs is detailed in the table-3 below:

TABLE-3 PERFORMANCE OF MSMEs, EMPLOYMENT AND INVESTMENTS

S.No.	Year	Total working Enterprises (in lakh)	Employment (in lakh)	Market Value of Fixed Assets (in crore)
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08 ^s	377.36	842	920,459.84
3.	2008-09 ^s	393.7	880.84	977,114.72
4.	2009-10 ^s	410.8	921.79	1038,546.08
5.	2010-11 ^s	428.73	965.15	1105,934.09
6.	2011-12 ^s	447.64	1011.69	1182,757.64
7.	2012-2013	467.54	1061.40	1,268,763.67
8.	2013-2014	488.46	1114.29	1,363,700.54
9.	2014-2015	510.57	1171.32	1,471,912.94

Source: MSME Annual Report 2016-17, Government of India *-Projected

TABLE-4 CONTRIBUTION OF MSME SECTOR IN GDP AND TOTAL MANUFACTURING OUTPUT

Manufacturing Output at current price			Share of MSME GVA to GVA\GDP at constant price for base year 2011-12 (%)					
Year	MSME Manufacturing Output ¹ (Rs. in crore)	Share of MSME Manufacturing Output in total Manufacturing Output (%)	MSME Manufacturing Sector		MSME Services Sector		Total	
			In GVA	In GDP	In GVA	In GDP	In GVA	In GDP
2011-12	2167110	33.12	6.64	6.16	25.66	23.81	32.29	29.97
2012-13	2385248	33.22	6.77	6.27	26.05	24.13	32.89	30.40
2013-14	2653329	33.27	6.79	6.27	26.40	24.37	33.19	30.64
2014-15	2783433	33.40	6.63	6.11	26.72	24.63	33.34	30.74

Source: MSME Annual Report 2016-17, Government of India

The MSMEs sector's share in manufacturing output is nearly Rs. 24 Lakh crore every year. In percentage terms, MSMEs share in total manufacturing output is 33%. The manufacturing sector's Contribution in GDP is 6% each year and service sector contribution is 26%.

5. DEVELOPMENT OF MSMEs IN INDIA

MSMEs have evolved significantly over the years. To develop MSMEs and help them compete in the dynamic environment, a handful of efforts have been made continuously since independence. To clearly and concisely understand the development of MSMEs in India, we can divide their development into 3 phases:

1948-1991: From Independence to New Economic Policy

To uplift MSMEs different initiatives were taken by government after independence, the Coir Board was setup in 1953, an apex body known as Small Industries Development Organization (SIDO) was created in 1954 to monitor sustained growth of Micro and Small Enterprises (MSEs), The National Small Industries Corporation (NSIC) 1955, Khadi and Village Industries Commission (KVIC) 1956 were also established later on. Small enterprises were provided supportive measures in the way of reservation of items for their exclusive manufacture, prioritized access to bank credit, the establishment of institutes for entrepreneurial and skill development all over the nation. Development institutes for small industries were established for training and development of youth in skills/entrepreneurship. District Industries Centers (DICs) were established for small scale units to ensure availability of raw materials, machines and equipment, market survey, arrangement of credit etc.

1991-2006: From New Economic Policy to enactment of MSMED Act

With the introduction of economic liberalization of the 1990's, a new policy for small, tiny and village enterprises was formulated in August, 1991 to provide a framework for governmental assistance to promote competitiveness in place of protectionism and to inject more growth in MSMEs so that MSMEs would be able to face stiff foreign and could compete in open market of the liberalized environment. Government's supportive initiatives emphasized for the provision of better infrastructure, technology and quality. Testing Centers (TCs) were established to provide quality certification. The Small Industries Development Bank of

~~India (SIDBI) was created in 1990 to facilitate financial and technical services to the SME sector. The Ministry of MSME was created in 1999 and a new Policy was started in August 2000 to counter the prevailing problems connected to credit availability, minimum infrastructure, sophisticated technology and marketing strategy.~~

2006 onwards: Since enactment of MSMED Act

Much needed Micro, Small and Medium Enterprise Development act was enacted in 2006, which is labelled as a landmark step for the development of MSMEs. Prior to the enactment of the MSMED Act 2006, small scale industries were controlled by a number of Ministries and Departments of the Government of India. The MSMED Act for the first time defined all three tiers, namely Micro, Small and Medium scale industries. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. National Manufacturing Competitive Programme (NMCP) was also announced in order to ensure a conducive environment for the growth of MSME sector, implementation of quality management system, building awareness on intellectual property rights and providing marketing assistance to MSMEs to market their products through proper intermediaries. The growth of total working enterprises, employment and market value of fixed assets of MSMEs is detailed in the table below:

6. MAJOR PROBLEMS FACED BY MSMEs:

Presently, Indian MSMEs are facing various types of problems. Most of the problems are controllable but some of them are beyond their control. Major problems of MSMEs are listed below:

1. **The absence of adequate and timely banking finance:** one of the greatest challenges which hinder the operational flow of MSMEs is inadequate capital and credit facilities. Availability of credit easily and timely is essential for MSMEs to survive. Lack of credit hampers the growth of MSMEs.
2. **Poor and inadequate infrastructure:** Inadequate basic facilities like water supply, power supply, transport facilities etc. adversely affects the working of MSMEs.
3. **Lack of skilled manpower:** Most of the MSMEs don't have sufficient skilled manpower who can handle the operations efficiently. Non-availability of skilled workforce creates problems.

4. **Ineffective marketing strategy:** In this modern era Marketing of product is essential to Most of these MSMEs do not also have aseparate department for separate activities. So they cannot focus solely on a particular thing.
5. **The high cost of credit:** despite various efforts from government MSMEs face problem in procuring funds from financial institutions due to high-interest rates, therequirement of collateral etc.
6. **The problem of designing, packaging, storing and product display:** MSMEs operate in the low-cost environment. They cannot spend much on product designing product packaging etc. they cannot build large warehouses and have limited opportunities to showcase their products in exhibitions.
7. **Lack of modern technologies:** use of technology can help MSEs to improve the quality of their product and services with less cost and less time. But lack of technical know-how, lack of sufficient funds deprivesthem to adopt those technologies.

7. OPPORTUNITIES FOR MSMEs:

With the continuous efforts from the government, changing market situations, and its inherent nature, MSMEs enjoy a wide range of opportunities. Some of the major opportunities are listed below

1. **An effective tool for promotion of balanced regional development:** MSMEs have a wide existence all over the countries. If they are treated well they could help each and every region grow by providing employment and quality products.
2. **The advantage of Make in India:** MSMEs could join hands with large enterprises to support them in making in India campaign. Thus it would ultimately provide MSMEs with new contracts and more jobs.
3. **New government schemes:** The government has been initiating new schemes continuously for the MSMEs. MSMEs should avail benefits of those schemes.
4. **Trade fair and Exhibitions:** MSMEs should participate in trade fair and exhibitions organised by various government bodies. Through this, they will get a chance to promote their product and business.
5. **Export Contribution:** presently MSMEs contribute to 45 percent of the total export of India. With the increased number of bilateral trade agreement by the government, MSMEs have opportunities to produce high-quality products and export to other countries.
6. **Digitalization:** It is the Era of Digitalization and ICT. MSMEs should take advantages of this technology and digital platform for procurement, production marketing etc.

7. **Public procurement policy:** The government has mandated that defence and public sector enterprises should procure at least 25 percent of their total procurement from MSMEs. So, they have a golden opportunity for MSMEs to produce more.

8. CONCLUSION:

MSME sector is the growth engine of economy. The Government of India has been continuously offering support to MSMEs through various means. But a lot needs to be done in this challenging scenario. There are a plethora of opportunities available for MSMEs and Government support is needed to harness those opportunities. The Government agencies, regulators and financial institution should come together to solve problems of MSMEs. MSMEs themselves should adopt a pro-active approach and innovate regularly. Through Innovation they would be able to differentiate their products. They also need to approach for modern methods of financing like venture capitalist and private equity investment. MSMEs need to plan their operation carefully, minimize costs and produce quality goods at affordable price. They should continuously participate in trade exhibition and trade shows to market their product as they are the cheapest source of marketing for them. They should try to avail government schemes for their advantage. MSMEs should be nurtured with care. Not only it provides employment to a large population but also promotes entrepreneurship. The future of MSMEs is bright and MSMEs will surely play a major role in making India a developed nation.

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