



## Micro, Small and Medium Enterprises in India: Current Scenario and Challenges

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### ABSTRACT

Micro, Small and Medium Enterprises (MSME) sector have been playing a momentous role in overall development of the economy of a country like India where millions of people are unemployed and facing the problems of poverty. This has been considered as the dynamic and vibrant sector of Indian economy as it provides large number of employment to rural as well as urban segment. Keeping these points in mind this paper is an attempt to highlight the growth of this sector and various problems and challenges faced by MSME sector

### KEYWORDS

Momentous, Economy, Dynamic, challenges

### Introduction

The micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. 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. In India, MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.

### Objective of the study

The objective of our study is just to analyse the growth, opportunities available and the problems/challenges faced by MSMEs in India.

### Scope and Source of Study

The scope of this study is limited. The secondary data has been taken which is available on internet, annual reports and some online published conferences.

### Definition of MSMEs

According to MSME Act, 2006, MSMEs can be categorised in two parts.

#### (a) Manufacturing Enterprises

the limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as follow:

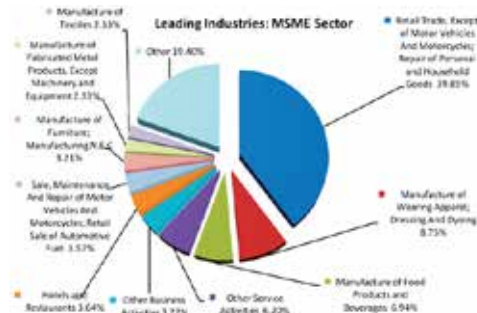
Category	Investment
Micro	• doesnot exceed '25 lakhs
Small	• more than '25 lakhs but doesnot exceed '5 cr.
Medium	• more than '5 cr. but doesnot exceed '10 cr.

**(b) Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as follow:

Category	Investment
Micro	• doesnot exceed '10 lakhs
Small	• more than '10 lakhs but doesnot exceed '2 cr.
Medium	• more than '2 cr. but doesnot exceed '5 cr.

At present India having 12.50 million micro small and medium enterprises which facilitate:

- Employ 30 million people
- Contribute approx. 50% Industrial Production
- Contribute approx. 40% of Export



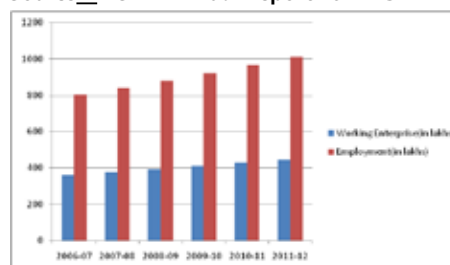
### Growth of MSMEs in India

The MSMEs have made a significant growth in the recent years. Here growth has been studied with the help of various indicators like total number of MSMEs, fixed investment, production volume and employment generation. This has been discussed as below.

#### A) Number of Enterprises & Employment in MSME Sector

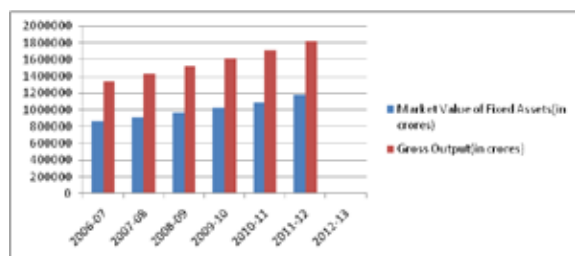
Years	Working Enterprises	Employment
2006-07	361.76	805.23
2007-08	377.37	842.23
2008-09	393.70	881.14
2009-10	410.82	922.19
2010-11	428.77	965.69
2011-12	447.73	1012.59

Source: MSME Annual Report 2012-13



## B. Fixed Investment & Gross Output in MSME Sector(In Crores)

Years	Fixed investment	Gross output
2006-07	8,68,543.79	13,51,383.5
2007-08	9,17,407.49	14,35,179.3
2008-09	9,71,407.49	15,24,234.8
2009-10	10,29,331.5	16,19,355.5
2010-11	10,34,893.4	17,21,553.4
2011-12	11,76,939.4	18,34,332.1



### Opportunities before MSMEs

#### Finance and Subsidies provided by Govt.

Government of India has approved the new programme called Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. The main objective of this scheme is to generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures.

#### Opportunities offered by Globalisation

Global competition has thrown up various opportunities and challenges to the MSME sector in India. This will help this sector to enhance productivity and look at new domestic and international markets and these opportunities will compel the MSMEs to upgrade their competences to avoid obsolescence.

#### Role of Trade fair and Exhibitions

To increase competencies of Indian SSIs and to capture market opportunities, NSIC participates in International and National Exhibitions and Trade Fairs every year. Participation in these events exposes SSI units to international practices and enhances their business prowess.

#### Credit & Finance

Easy and adequate availability of credit is important for the sustainable growth of the MSME sector. For this the Government has announced a 'Policy Package for Stepping up Credit to SMEs'. For better flow of credit to SMEs, the Ministry of MSME has introduced the following schemes: Credit Guarantee Scheme, Performance & Credit Rating Scheme

#### Competitive Technology

For growth of the MSME sector in the country, the Government has set up ten 'state-of-the-art' Tool Rooms and Training Centres. The Ministry of MSME has implemented the following schemes and programmes for the up-gradation of technology of the MSMEs: ISO 9000/14001 Certification Fee Reimbursement Scheme, Credit Linked Capital Subsidy Scheme

#### National Manufacturing Competitiveness Programme

NMCP is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. This Programme was initiated in 2007-08. There are ten components of the NMCP, targeted at enhancing the entire value chain of the MSME sector.

### Skill Development

The Ministry of MSMEs has floated several schemes to promote the development of MSMEs in the country with the objective of creating self employment opportunities. The following are two such schemes: The entrepreneurship and skill development scheme, Outreach Programme for Skill Development in Less Developed Areas

#### Export Promotion:

Exports from the MSE sector have been accorded a high priority. To help MSEs in exporting their products, the following facilities/incentives have been provided by the government: Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;(ii)To acquaint MSE exporters with latest packaging standards and techniques training programmes on packaging are organised in various parts of the country in association with the Indian Institute of Packaging, specially for MSME exporters.

#### Infrastructure Development

The Integrated Infrastructural Development (IID) Scheme was launched in 1994 to set up industrial estates and to develop infrastructure facilities such as power distribution networks, water pipes, telecommunication, drainage and pollution control facilities back up services for MSMEs. The scheme covers rural as well as urban areas with a provision of 50 per cent reservation in rural areas and 50 per cent of industrial plots to be reserved for micro enterprises.

#### Schemes and Programs of the Government of India

Ministry of Small Scale Industries is primarily responsible for promotion and development of SMEs in India, for this (SIDBI) has developed various financing schemes. Ministry of Science and Technology (DST, DBT, DSIR) has evolved several measures and programmes for SMEs. Some of the economic ministries such as Ministry of Textiles, Department of Food Processing and Department of Handicrafts etc. have also recently announced initiatives for technical assistance in various firms. Some special schemes

- Khadi and Village Industries Commission
- Mahatma Gandhi Institute for Rural Industrialisation (MGI-RI)
- Coir Board(1953-2013)
- National Small Industries Corporation Limited (NSIC,1955)
- National institute for entrepreneurship and small business development (NIESBUD)
- Training, Entrepreneurship Development and other schemes

#### Recent Steps taken by Govt

- Rs. 18.30 crore provided till November 30, 2013 under cluster development programme.
- As on November 30,2013 a total of 13,13,751 proposals were approved for credit guarantee cover for a total sanctioned loan amount of Rs. 64452.61 crore.
- Budget estimate for 2013-14 is 70 crore, targeted at supporting credit rating of 20,000 enterprises during the year
- Skill development for nearly 5.51 lakh trainees conducted during 2012-13. Target for 2013-14 is 6.5 lakh persons
- A 'Udyami Helpline' is in operation to provide guidance to entrepreneurs

#### Problems/Challenges faced by MSMEs

Key Challenges faced by the MSME Sector are as below

##### Lack of IT Literacy

Many of the employees in SMEs are often holding supervisory and managerial positions. These employees may not be IT literate and often have high resistance to the changes in the working process that they are comfortable with.

##### Lack of Formal Procedure and Discipline

Most SMEs do not have formal procedure or often these are not documented. Furthermore, there is tendency for these

procedures to change frequently. This makes it difficult for third party and newcomer to understand the existing business practices and match them with the IT process.

#### **Lack of Management Skill**

As company grows, new managers are often introduced into the company. There will also be old managers who are promoted from the rank and file. Some of these managers may not been trained in the leadership and management skill. These uneven skill among the managers often caused conflicts during the implementation.

#### **Lack of Financial Resources**

As a SME/SMI, financial resources are often limited. This often forces company to select a solution, which appear to be cheap initially. However, the hidden costs will start to emerge during implementation. This sometime causes the project to be abandoned or sometime sent the company into further financial crisis.

#### **Lack of Human Resources**

Some IT project especially those that require large amount of initial data entries require human resource during the implementation. Some SMEs are often in the stage of frequent fire fighting and shortage of manpower. Furthermore, there is always a conflict between getting the daily routing work going and to do the «Extra» IT implementation.

#### **Lack of Experience of Using Consultants**

Most SMEs are lacked of experience in working with consultants. The lack of knowledge in the field of IT makes them difficult in identifying good consultant for the projects. If the company has no staff that are experience and knowledgeable in the IT project, avoiding external help often costs more to the company eventually.

#### **Availability of Finance**

To receive timely and adequate finance at the agreeable conditions is a tedious and cumbersome exercise for both established as well as budding SMEs. According to the Indian government survey, 90% of the total Micro units in India procure funds from friends, lenders and private lenders only.

#### **Lack of proper Infrastructure**

Transport, adequate electricity, proper location of the SME setup help in reduce cost of procurement of resources and thus lowering the production cost for the SMEs. The responsibility in fact rely on government for better development of infrastructure. Healthcare SMEs – Most find lack of physical infrastructure as the main challenge

#### **Lack of knowledge of foreign markets**

Proper marketing knowledge and information are two of export problems which revolve around lack of knowledge of foreign markets, business practices, competitions and lack of management to generate foreign sales

#### **Competition as a barrier**

A few of researchers who found that competition is a barriers for company are Burgess and Oldenboom (1997), Kaleka and Katsikeas (1995), Hasan (1998), lack of competitive prices and fierce competition in export markets are vulnerable.

#### **Suggestions**

At present, there are less awareness programs or counseling cells provided by the government which will answer the questions in the mind of people about the consequences of MSMEs. Therefore it is suggested that govt. should come with the more awareness camps and programmes in the public. For providing a better understanding on MSMEs the govt. should continuously conduct a research to know the requirements and the problems faced by the people in order to resolve their problems and for further guidance.

#### **Conclusion**

The MSMEs in India face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on 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. has taken several policy initiatives but needs to ensure proper co-ordination and implementation of such schemes. The MSMEs must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, Research and Development activities.

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