MSME in India: Opportunities and Challenges

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Abstract

Worldwide, micro, small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. 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. Indian SMEs represent the model of socio-economic policies of Government, which emphasize job creation at all levels of income stratum and diffusion of economic power in the hands of few thereby discouraging monopolistic practices of production and marketing; and in all prospects contributing to growth of economy and foreign exchange earning with low import-intensive operations.

Key Words: MSME, Economy, Industry

Introduction

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Indian SMEs also play a significant role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defense Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training. Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully to contribute 22% to GDP.

In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms of value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over 6 crore people. Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 6 crore persons spread over 2.6 crore enterprises and the labour intensity in the MSME sector is estimated to be almost 4 times higher than the large enterprises.

### Definition of MSMEs in India

<table>
<thead>
<tr>
<th>Manufacturing Enterprises – Investment in Plant &amp; Machinery</th>
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<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>Micro Enterprises</td>
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</table>
Small Enterprises  above Rs. 25 Lakh & upto Rs. 5 Crore  above $ 62,500 & upto $ 1.25 million
Medium Enterprises  above Rs. 5 Crore & upto Rs. 10 Crore  above $ 1.25 million & upto $ 2.5 million

Service Enterprises –
Investment in Equipments

<table>
<thead>
<tr>
<th>Description</th>
<th>INR</th>
<th>USD($)</th>
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</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>upto Rs. 10Lakh</td>
<td>upto $ 25,000</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>above Rs. 10 Lakh &amp; upto Rs. 2 Crore</td>
<td>above $ 25,000 &amp; upto $ 0.5 million</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>above Rs. 2 Crore &amp; upto Rs. 5 Crore</td>
<td>above $ 0.5 million &amp; upto $ 1.5 million</td>
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Objectives of MSME

MSME development as a tool of state policy aims at:

- Generation of Employment
- Dispersal of Economy
- Utilization of local skills and resources
- Meet demands locally

Factors Affecting MSMEs

- Accessing adequate and timely financing on competitive terms, particularly longer tenure loans
- Accessing credit on easy terms has become difficult in the backdrop of current global financial crisis which has held back the growth of SMEs and impeded overall growth and Development
- factors that include policy, legal/regulatory framework (in terms of recovery, bankruptcy and contract enforcement), institutional weaknesses (absence of good credit appraisal and risk management/ monitoring tools), and lack of reliable credit information on SMEs
- It has become difficult for lenders to be able to assess risk premiums properly, creating differences in the perceived versus real risk profiles of SMEs.
- Access to skilled manpower, R&D facilities and marketing channels is limited
- Availability of finance at cheaper rates, skills about decision-making and good management and accounting practices, and access to modern technology
- Bribery, Corruption, Red Tapism

Categorization of activities under Manufacturing or Services under the MSME Act 2006:

<table>
<thead>
<tr>
<th>Manufacturing</th>
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<tbody>
<tr>
<td>1. Printing</td>
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<tr>
<td>2. Medical equipment</td>
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<tr>
<td>3. Ayurvedic product</td>
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<tr>
<td>4. Beedi,cigarette manufacturing and other tobacco products</td>
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<table>
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<tr>
<th>Services</th>
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<tbody>
<tr>
<td>Publishing</td>
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<td>Hospitals</td>
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<td>Restaurant</td>
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<td>Hotels</td>
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<tr>
<td>Education</td>
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<tr>
<td>Training</td>
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<tr>
<td>Software services</td>
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Opportunities of MSMEs

MSMEs are the backbone of the Indian economy. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. MSME Sector are increasing enormously in India. India has nearly 12 million MSMEs, which is almost 50% of industrial output and 42% of India’s total export. The reasons are as follows:-

- Less capital intensive
- Most important employment generating sector. It provides 50% of private sector employment
- Reservation for Exclusive Manufacture by small scale sector
- Effective tool for promotion of balanced regional development
- It is extensively promoted and supported by the Government
- Finance and subsidies are provided by the government
- Produced goods are purchased by the Government
- 40% exports in India are through MSME channel and Increasing Export Potential for Indian products
• Procurement of machinery and raw material
• Globalization has offered new opportunities for the MSMEs
• Growth in demand in the domestic market size due to overall economic growth
• Reservation for Exclusive Purchase by Government
• Tooling & Testing support

Contributions of MSMEs in Leading Industries

In order understand the impact of SMEs on the Indian economy; one must study the trend and pattern that have been prevalent in the preceding years. It gives us the vivid picture of what follows next. Following graphics help us to understand the present scenario and their contributions of MSMEs in India.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector besides providing wide range of services. The leading industries with their respective shares are as depicted below:

Key challenges faced by Indian MSME sector

There are some evidences that the MSMEs contributions prominently to the Indian economy through creating employment opportunities, generating production volumes and exports, introducing innovations and development of entrepreneur skills. However, the MSMEs faces many problems in India.

Inability to access finance

The present domestic market conditions do not provide enough opportunities for the MSME sector for raising low cost funds. It is estimated that the unorganised sector comprises 95% of the total industrial units, employing more than 65 million people. Yet only 8% of the total bank credit finds its way into this sector. Though credit to MSMEs fall under the category of priority sector lending, but with the expansion of the priority sector lending to accommodate fast growing areas such as home loans, education loan, the percentage share of credit to MSMEs is falling.

Lack of technological innovation and the knowledge of market demands

This is true particularly in the textiles sector. Most of the household units still work on obsolete technology because of which not only the cost of production remains high but the product also fails to meet the demand of the market in terms of quality. Because of liberalization and opening up of the economy, the MSEs are now facing stiff competition from imports and therefore need technological upgradation to manufacture better quality products at cheaper rates. The competitiveness of any economy depends on how efficiently all the resources in the process of production are utilized and how efficiently these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. This improvement can come through the use of latest technology. Though India has a vast pool of technical talent with a well developed intellectual infrastructure, the country still scores low in the matter of developing and adapting new technologies in the MSME sector.

Lack of market accessibility

Lack of market accessibility for the poor artisans, weavers, household unit owners, etc. Most MSEs do not have money to invest in market research and are unable to carry out design and technical improvements to keep up with market demands. It is because of this lack of information that the middlemen are able to take advantage of and exploit the poor artisans, weavers by paying a paltry sum for their products and selling those products in the international market at exorbitant prices.

Lack of skilled manpower

Access to people Human Resource is one of the most essential growth indicators for organizations today. Large firms who are targeting high growth rates scour the market for talent and MSMEs can never outplay large companies in terms of salary. The other challenge faced by MSMEs is to preserve the horizontal structure that was prevalent when they were young. As the organization grows, the cohesiveness present at the start slowly starts to fade away. MSMEs will need to ensure that they undertake effective HR planning and ensure that the plan supports a growth aspiration, be geared to increasing the firm's flexibility and responsiveness and help the company develop its change management Innovations and challenges. The key issues would be talent attraction, talent retention and competency & skill development.

Infrastructural bottlenecks

Lack of proper infrastructural facilities can cause serious damages to an enterprise’s value chain process, like production, consumption and distribution of the products. Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs. There is a need for common infrastructure projects for MSMEs. MSMEs, through coming together and sharing the costs of infrastructure, which are otherwise prohibitive for individual MSMEs, could benefit from economies of scale, synergy and collective bargaining by collaborating with each other particularly on aspects of common infrastructure, common facilities for raw material procurement, marketing & transportation of finished goods, testing laboratory, common tooling/ machining, Research & Development etc

Ineffective marketing strategies and Non-Identification of new markets

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance
its contribution towards output, employment generation and exports. A published research has highlighted that a huge opportunity exists for SMBs to reach their desired financial goals by optimizing their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.

Lack of proper information System

The MSME sector today needs an effective information system to support and deliver information to different users. Such information systems will be used to provide effective interface between users and computer technology and will also provide information for managers on the day-to-day operations of the enterprises.

Conclusion

Indian MSMEs – A Snapshot Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. The Indian MSMEs contribute 8% to the Country’s GDP thereby creating 100 million jobs through the 46 million units from the rural and the urban areas across the Country. MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned government Departments, banks, financial institutions and corporate. This proves hurdle in the growth path of the MSMEs.

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