

Micro, Small and Medium Enterprises (MSME) in India: Opportunities, Issues & Challenges

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Abstract: Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing countries. Contribution of MSMEs to the Indian economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing export potential of the country has been quite phenomenal. Despite some infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages, this sector has registered remarkable success with regard to increase in number, quantum of investment, scale of production and overall contribution to national GDP. The study makes an attempt to focus on the huge growth potential and opportunities available in India for development of MSME sector, to identify important issues and challenges and offer suggestions to address the same.

Keywords: *Micro, small & medium enterprises (MSME); growth potential; challenges; market linkages;*

1. Introduction

Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy. As a catalyst for socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. 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 of growth and holistic development. It is equally important that the MSME sector must address the infrastructural deficiencies and is well empowered to meet the emerging challenges for its sustainable growth and survival in a globally competitive order.

2. Objectives of the Study

The objectives of this study are to briefly highlight on the functional scenario of micro, small and medium enterprises in India, to focus on the huge growth potential and opportunities available for development of this sector; to identify some important issues, challenges and constraints confronted by these enterprises and to offer suggestions to overcome the same.

3. Methodology

The study involves a critical analysis of functioning of some micro, small and medium scale enterprises in the country both in manufacturing and service sector and intends to identify the potentialities for growth, opportunities, major issues and challenges experienced by these enterprises. The data are collected mostly from secondary sources by way of access to various Government policies/ programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of entrepreneurs, industry workers and other stake-holders.

4. Literature Review

Although the MSMEs continue to dominate the industrial sector in most of the countries including India, the literature and the studies on their varied functioning are not many especially with reference to changing perspectives. The available research literature rather indicates some missing gaps that need to be addressed appropriately.

Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde, (2006) in their paper have examined the ways in which financial sector development policy might contribute to poverty reduction, particularly by supporting the growth of micro and small enterprises (MSEs). This paper highlights on the changing role of MSEs in the development process and the access of MSEs to informal and formal finance, including the role of microfinance. Nanda, Ramana & William R. Kerr (2009) have expressed the view that financing constraints are one of the biggest concerns impacting potential entrepreneurs around the world.

De, Sankar (2009) in his article has viewed that SME's in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term.

K, Vasanth, Majumdar M., K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems underlying the industrial ecology, enterprise resilience, and global supply chain sustainability.

Export-Import Bank of India, (2012) has critically analysed the present situation of MSMEs and support systems available in India as well as in the global context. It has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises, and their contribution in India’s economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

5. MSMEs- An Indian Perspective

Micro, Small and Medium Enterprises in India offer a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, scale of production and application of technology. These enterprises are quite complementary to the large scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly. The MSMEs in India constitute about 80% of the total number of industries and produce about 8,000 value added products.

An appropriate definition of Micro, Small and Medium Enterprises and their proper classification in a national or international context offers a varied perspective. The term ‘MSME’ is normally used to describe small industrial or business units in private sector. MSMEs have been classified differently in different contexts in terms of their nature of assets and scale of production etc. while others have defined those units in term of employment generation, shareholder funds, scale of investment or sale of products etc. The definition according to the World Bank is that, a business classified as MSMEs when it meets two of the three criteria – employee strength, size of assets or annual sales.

| | | | |
|--------|------|-------------------------------------|-------------------------------------|
| Medium | <300 | <USD 15 Million <INR 750 Million | <USD 15 Million <INR 750 Million |
| Small | <50 | <USD 3 Million <INR 150 Million | <USD 3 Million <INR 150 Million |
| Macro | <10 | <USD 10,000 <INR 500,000 | <USD 10,000 <INR 500,000 |

Source: International Finance Corporation (IFC) World Bank

The enactment of Micro, Small & Medium Enterprises Development (MSMED) Act, in 2006 by the Government of India (GOI) gave a legal basis and framework to the micro, small and medium enterprises by defining and classifying these enterprises on a uniform basis. This classification covers industries both under manufacturing and service sector and the above limits are excluding the cost of land, building and other specified items.

| Enterprises | Micro | Small | Medium | Remarks |
|----------------------|------------------|------------------------------------|------------------------------------|---------------------------------|
| Manufacturing Sector | Up to Rs.25 lakh | Above Rs.25 lakh- up to Rs.5 crore | Above Rs.5 crore up to Rs.10 crore | Investment in plant & machinery |
| Service Sector | Up to Rs.10 lakh | Above Rs.10 lakhs up to Rs.2 crore | Above Rs.2 crore- up to Rs.5 crore | Investment in equipment |

Source : MSME Annual report

The growth and development of MSME sector in our country has been consistent and remarkable over the preceding decades. Statistics show that the number of such enterprises has increased from about 1.1 crore in 2001-02 to 4.1 crore units in 2009-10 and again to 4.48 crore enterprises in 2014-15. The MSMEs produce more than 7,500 products and also contribute to about 35% of the India's exports. MSMEs contribute 8% of the country's GDP, 45% of the manufactured output and 40% of exports (Prime Minister's Task Force on MSME, 2010).

The Government of India has introduced several major policy initiatives for support and promotion of micro, small & medium enterprises in the country. These include; establishment of Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of MSME sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) was in 2000 to offer credit facilities to eligible borrowers and the Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self-employment ventures / projects / micro enterprises.

Available data from the Fourth All India Census of MSME in 2006-07, indicate that around 60 % of these enterprises are based in rural areas of the country and 45% of total manufacturing output is contributed by the MSME sector. The share of MSME sector in the total exports of India is about 40%. Statistics reveal that the number of such enterprises set-up, employment generated and the investments made in the MSME sector in India has shown an increasing trend over the years as evident from Table - 1.

Table – 1
Performance of MSME sector in India

| Sl. No. | Year | Total Working Enterprises | Employment Generated (In Lakh) | Market Value of Fixed Assets (Rs. in crores) |
|---------|---------|---------------------------|--------------------------------|--|
| 1 | 2006-07 | 361.76 | 805.23 | 868,546.79 |
| 2 | 2007-08 | 377.36 | 842.00 | 920,459.84 |
| 3 | 2008-09 | 393.70 | 880.84 | 977,144.72 |
| 4 | 2009-10 | 410.80 | 921.79 | 1,038,546.08 |
| 5 | 2010-11 | 428.73 | 965.15 | 1,105,934.09 |
| 6 | 2011-12 | 447.64 | 1,011.69 | 1,182,757.64 |
| 7 | 2012-13 | 447.54 | 1,061.40 | 1,268,763.67 |
| 8 | 2013-14 | 488.46 | 1,114.29 | 1,363,700.54 |
| 9 | 2014-15 | 510.57 | 1,171.32 | 1,471,992.94 |

Source: Annual Report of MSME, Government of India, 2015-16.

The contribution of MSME sector towards GDP and total manufacturing output has been depicted in Table – 2. It is clear that the share of service sector MSMEs to the GDP has been increasing indicating robust growth and changing nature of economy.

Table – 2
Contribution of Manufacturing Output of MSME in GDP
(at 2004-05 Prices)

| Year | Gross Value of Output of MSME Manufacturing Sector (Rs. in Crores) | Share of MSME sector in total GDP (%) | | | Share of MSME output in total Manufacturing Output (%) |
|---------|--|---------------------------------------|---------------------|-------|--|
| | | Manufacturing Sector MSME | Service Sector MSME | Total | |
| 2006-07 | 1198818 | 7.73 | 27.40 | 35.13 | 42.02 |
| 2007-08 | 1322777 | 7.81 | 27.60 | 35.41 | 41.98 |
| 2008-09 | 1375589 | 7.52 | 28.60 | 36.12 | 40.79 |
| 2009-10 | 1488352 | 7.45 | 28.60 | 36.05 | 39.63 |
| 2010-11 | 1653622 | 7.39 | 29.30 | 36.69 | 38.50 |
| 2011-12 | 1788584 | 7.27 | 30.70 | 37.97 | 37.47 |
| 2012-13 | 1809976 | 7.04 | 30.50 | 37.54 | 37.33 |

- Source:1. Fourth All India Census of MSME 2006-07,
 2. National Accounts Statistics (2014), CSO, MOSPI and
 3. Annual Survey of Industries, CSO, MOSPI.

Flow of credit or availability of finance from banking institutions is a major factor contributing to the growth and success of MSMEs. Available information on flow of credit to this sector indicates a declining trend from 17.34% in 2010 to 10.20 % in 2013. The credit flow by the Scheduled Commercial Banks to this sector in subsequent years has however, shown an increased trend as depicted in Table-3.

Table – 3
Flow of Credit by Scheduled Commercial Banks (SCBs)
to MSME Sector in India

| Year | Outstanding in Rs. crore | | Share of MSME to Gross Credit (%) |
|-------------|--------------------------|--------------|-----------------------------------|
| | Credit to MSMEs | Gross Credit | |
| March, 2009 | 431350 | 2647368 | 16.3 |
| | | | |
| March, 2010 | 506166 | 3088569 | 16.4 |
| | (17.34) | (16.67) | |
| March, 2011 | 561759 | 3749500 | 15.0 |
| | (10.98) | (21.40) | |
| March, 2012 | 623414 | 4371400 | 14.3 |
| | (10.98) | (16.59) | |
| March, 2013 | 687000 | 4964200 | 13.8 |
| | (10.20) | (13.56) | |
| March, 2014 | 878508 | 5657200 | 15.5 |
| | (27.88) | (13.96) | |

Note: Figures given in brackets are % change over the previous year.

Source: Data on Sectoral Deployment of bank credit published by RBI, hubaneswar.

MSMEs sector plays a major role in contributing to India's export performance. This sector contributes 45%-50% of the Indian exports out of which direct export accounts for nearly 35% and indirect 15% to the total exports. Needless to emphasize that while the organized industrial sector with large scale industries requires substantial amount of investment for generation of employment, the MSME sector creates larger employment opportunities with less or same investment.

6. Potentialities for Growth : Opportunities

Micro, Small and Medium Enterprises have substantially contributed to the economic development of our country. The MSME sector in India occupies the second position next alone to agriculture in terms of employment generation. This sector accounts for about 95% of the industrial units, 45% of manufacturing output, 40% of exports total exports of the country. MSMEs have greater opportunities to grow as ancillary industries to unleash higher industrial growth. MSMEs being less capital intensive and more employment-friendly have easier access to raw materials, subsidies and other incentives under cluster programs. The country has huge growth potential to create and enhance the capacity of enterprises both in the manufacturing and service sector by using the available resources. There are huge opportunities for the MSMEs to grow as ancillary industries to unleash greater industrial growth. Development of the sector is therefore extremely important as it holds the key to inclusive growth and plays a pivotal role in holistic development of the country.

India is the fourth largest economy in the world (in terms of PPP mode, and the second largest in developing Asia) which accounts for 22% of GDP, 33.8% population and 32.5% of the potential workforce in developing Asia. The incidence of growth is evident from the increased investment in infrastructure, abundant job opportunities, emergence of a robust private sector with small and big companies/corporate houses and high rise in consumerism. The MSME sector has the potentialities to emerge as the backbone of Indian economy and to continue as an engine of growth provided an environment-friendly policy framework and enabling infrastructural support are made available for its functional operations.

MSMEs in India consistently feed the domestic and the international value chain as manufacturers, suppliers, distributors, retailers, contractors and service provider by accounting for a substantial segment of our industrial units. This sector has been performing appreciably better than the overall rate of GDP (average 8% growth per annum) and the overall industrial output (measured by Index of Industrial Production-IIP). Availability of adequate financial resources, a supportive policy framework to address the areas like entrepreneurial skill development, a competent pool of human resources, application of latest technology and new innovations, adequate international market linkages and bilateral trade agreements etc. would make the Indian MSME sector globally competitive to address the emerging challenges and help ensure their sustainability.

The roadmap for MSME development should include a target for increase in the share of their contribution from the present 8% to 15% by 2020, a substantial increase in generation of employment avenues up to 50%, an enhancement in MSME contribution in the key public and private industry sector by meeting the growing domestic demand, indigenization and important substitution and growth

in foreign exports¹⁵. The recent 'Make in India' initiative by Government of India would make a substantial impact in the area of indigenization and would also attract sizable foreign investment. Similarly, the 'Digital India' program offers huge opportunities to MSMEs to participate in big way in the Information and Communication Technology (ICT) sector.

7. Issues and Challenges

Despite the pivotal role and strategic importance in the context of industrial development and economic growth of the country, the MSME sector experiences several constraints and challenges. Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable industrial development. The Committee on financial architecture of MSME sector in their Report submitted in the February, 2015 have identified some key issues¹⁶. These include; i) Equity as a source of financing is underutilized and the prevalence of investment by venture capital and angel investors is low, ii) MSMEs face the problem of delayed payments from their buyers which adversely impacts their working capital as well as their next cycle of production, iii) MSMEs lack adequate information about various schemes and benefits available by the government, iv) Financial institutions/Banks face challenges in credit risk assessment of MSMEs, v) The utilization of the available credit guarantee and insurance schemes by banks has been low.

Some of the major challenges confronted by these enterprises include; lack of adequate credit and capital, poor and inadequate infrastructural facilities, inadequate access and marketing linkages, technological obsolescence and inadequate application of new technology, lack of skilled human resources, dilatory and cumbersome regulatory practices for clearance and poor adaptability to emerging international trends. This calls for the need for strategic intervention to improve coordination and linkages between various stake-holders including the Government, industries and other agencies/associations working in this field.

i. Lack of Adequate Capital and Credit :

One of the greatest challenges which constrain the growth of MSMEs in our country relates to inadequate capital and credit facilities. Easy and timely access to credit is crucial factor to development and growth of enterprises. The Report of the Working Group on Rehabilitation of sick MSMEs by the Reserve Bank of India has identified this situation as a crucial reason for industrial sickness of this sector. Complex collaterals instead by the banks, cumbersome sanction procedures and delay in disbursement and high rate of interest on term loans further worsen the situation.

ii. *Poor and Inadequate Infrastructural Facilities:*

Deficiencies in the infrastructure and poor support facilities marked by inadequate access to basic facilities like water, power supply, road/rail connectivity etc. adversely affect this sector and contribute to enhance their operational cost by rendering the MSMEs less competitive in the challenging market situations.

iii. *Inadequate Access and Marketing Linkages:*

Poor marketing linkages characterized by inadequate Government support and patronage, lack of adequate marketing infrastructure/ network facilities continue to be a greater challenge for marketing and sale of MSME products. In a non-cluster situation, these enterprises get segregated and are unable to ensure reduction in procurement cost from big companies and fail to streamline the output-supply chain.

iv. *Lack of Skilled Human Resources:*

Non-availability of skilled workforce and better managerial/entrepreneurial expertise at affordable cost near the location of enterprises is another such big challenge for the MSMEs in our country. Lack of managerial competence, absence of proper training on resource planning and capital management etc. hinders the growth of enterprises.

v. *Lack of Access to New Technology:*

Most of the industries today require application of advanced technology in their operations whereas in the Indian context continuance of low technology base results in low productivity by making these enterprises uncompetitive in the ever-widening market contexts. Apart from enhancing productivity and quality, new technology should be adopted for an overall transformation and competitive edge.

vi. *Dilatory and Cumbersome Regulatory Practices :*

Cumbersome and dilatory regulatory clearances relating to sanction and disbursement of loans from commercial banks, collateral securities/guarantees, for construction permits, resolving insolvency and taxation etc. continue to be the constraining factors for many MSMEs. Absence of a common regulatory body and inadequate provisions for start-ups affect the growth of such enterprises. Non-adherence to RBI guidelines regarding revival/rehabilitation of seek enterprises by the Banks is another such constraint that needs to be addressed.

8. Suggestions

Although the performance of the MSME sector has been commendable over the years in terms of employment generation, growth of exports and in

bringing about social transformation, a lot more need to be done for their continued growth and sustained development. The issues and constraints that hinder their growth need to be identified and properly addressed. Some suggestions to improve the performance of MSMEs are indicated below;

1. Easy Access to Finance and Credit :

Institutional finance/credit from banks and other financing institutions should be promptly available without long and cumbersome procedures. Sanction of credit / loan applications by public sector banks should be made within a reasonable time frame at affordable and reduced rate of interest.

2. Stepping up Infrastructural and Support Facilities:

Deficiencies in basic infrastructural facilities like water, power supply, road/rail and telephone connectivity, etc. should be addressed on priority basis. Use of solar or renewable energy as an alternative source should be encouraged in rural areas on subsidized basis. A cluster-centric or cluster development approach should be adopted for a number of enterprises working in closer proximity.

3. Creation of adequate Marketing Linkages :

For enhancing sale of products, regular trade fairs/exhibitions etc. should be conducted for creation of a larger platform for better marketing facilities. The Govt. of India policy regarding 20% mandatory procurement of MSME products by government Departments/ State PSUs should be ensured

4. Skill Development and Capacity Building:

Initiatives should be taken for skill / competency development of human resources. Infrastructural and professional support from Rural Self Employment Training Institutes (RSETI) and suitable training institutes may be obtained for conducting training of entrepreneurs and workers engaged in different activities. Awareness / sensitization programmes and TV/Radio talks should be conducted

5. Access to Modern Tools and Technology:

MSMEs today need to adopt and adhere to quality parameters of international standards in the context of a globalized market. Technological obsolescence should be replaced by adoption of modern and latest tools and technology for increased productivity and quality product for competitive advantage

6. Policy Intervention and Support Mechanisms:

Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities and for easy availability of finance by the scheduled banks. Government and Banks should take steps for revival of sick units as per RBI Guidelines and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGAMSE) Scheme.

Sick enterprises should be given one time settlement (OTS) facility by the banks before enforcing measures under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. Single window system for approval of MSME projects may be streamlined for clearance.

Creation of an apex National MSME Authority under the Ministry of MSME, universal registration and financial inclusion of MSMEs, increase the flow of equity to the MSME sector and steps to enhance effectiveness and utilization of credit guarantee/insurance schemes etc. are some of the recommendations of the Committee on financial architecture of the MSME, 2015.

9. Conclusion

MSMEs over the years have assumed greater significance in our burgeoning national economy by contributing to employment generation and rural industrialization. This sector possesses enough potential and possibilities to push-button accelerated industrial growth in our developing economy and wellpoised to support national programme like 'Make in India'. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for themselves under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

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