

Emerging Opportunities and Challenges for MSMEs

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ABSTRACT

With India's vast cultural diversity, geographical expanse and entrepreneurial spirit, Micro, Small and Medium Enterprises have always played a significant role in the growth of Indian economy. The MSME sector contributes in the manufacturing output, employment and export thereby constituting a formidable component of the country's economic growth. It is expected that Indian economy will grow by over 8% per annum until 2020. MSMEs have made an impact on various issues from industrial progress to entrepreneurship and from job creation to economic empowerment. The MSME sector remains a key driving force for India's complete transition from an agrarian economy to an industrialised one. MSMEs account for more than 90.0 per cent of total industrial units in India. Further it contributes 45.0 per cent to manufacturing output and 40.0 per cent to exports. The major advantage of the sector is it provides employment potential at low capital cost. The MSMEs provide employment to about 73 million people across the country. In the present paper an attempt has been made to know the challenges and opportunities in MSME sector.

Key Words: MSMEs, GDP, CAGR, SSIs.

Introduction

The Micro, small and medium enterprises play a significant role in the economic development of country. This sector helps in creating employment, exports, investment in fixed assets, contribution to GDP and giving boost to manufacture, service and infrastructure sectors. The MSME sector has progressed over the years.

Micro, Small and Medium Enterprises (MSMEs) in India have evolved considerably since independence. MSME sector has progressed in scale and in the scope of business activities over the years. Today, MSMEs are present across sectors (manufacturing, trade and services) in India, thereby constituting a formidable component of the country's outstanding economic

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growth. MSMEs have made an impact on a range of issues, from industrial progress to entrepreneurship and from job creation to economic empowerment. The inclusiveness of the MSME sector is highlighted by the fact that around 50.0 per cent of MSMEs in India are owned by underprivileged groups. Due to its low capital structure, coupled with high labour absorbing power, the sector has played a noteworthy role in achieving rural industrialisation as well. The MSME sector remains a key driving force for India's complete transition from an agrarian economy to an industrialised one. Subsequently, MSMEs have been awarded a host of incentives by governments across India. A number of other organisations in the private and non-profit domain have also been aiding MSMEs to remain competitive in a more globalised economic order.

MSMEs need to attract venture capitalists and private equity investors to get sufficient investments and enter in new markets. Innovation has always been the hallmark of Micro, Small and Medium Enterprises. Studies conducted by UD department revealed that since World War II, 50% of all innovations and 95% of radical innovations have come from smaller firms. Although Indian MSMEs realize the importance of technological innovation, most of the Indian MSMEs still believe in importing technology, rather than developing it (Pratihari and Swain). Some of the innovative schemes used in MSME sector are:

- Marketing assistance scheme
- International cooperation scheme
- Design clinic scheme

Definition of Micro, Small and Medium Enterprises in India

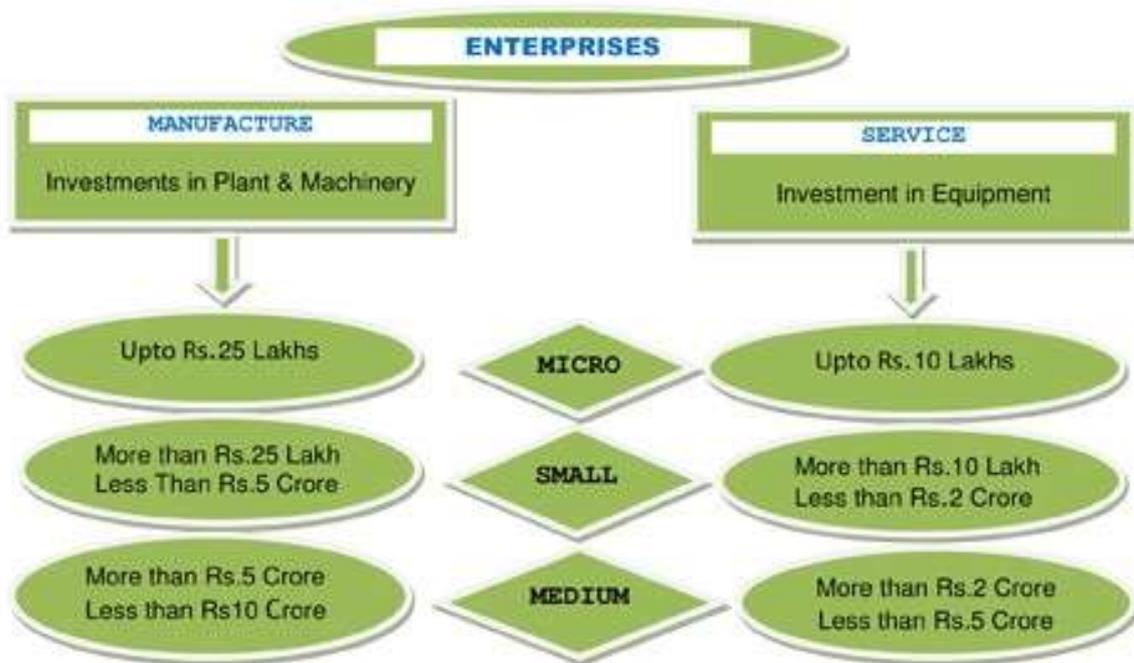
There are various definitions of the term small and medium enterprises (SMEs), which are differ from country to country and varying between sources reporting. The criteria which are commonly used at International level to define SMEs are the number of employees, total net assets, sales and investment level.

In the Indian context, micro, small and medium enterprises as per the MSME Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services. According to the Micro, Small and Medium Enterprises (MSME) Development Act 2006, a micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees. A small enterprise is where the investment in plant and machinery is more than 25 lakh but less than 5 crore. A medium enterprise is where the investment in plant and

machinery is more than five crore rupees but does not exceed ten crore rupees. In the case of the enterprises engaged in providing or rendering of services, as

- (a) A micro enterprise is where the investment in equipment does not exceed ten lakh rupees.
- (b) A small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.
- (c) A medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Definition according to MSME development act 2006



Highlights of MSME Sector in India

- MSMEs account for about 45% of India are manufacturing output.
- MSMEs contribute about 40% of India's total export.
- This sector has given employment to 73 million people spread across the country.
- MSMEs manufacture more than 6000 products ranging from traditional to high tech products.
- For FY11, total production of MSME sector was 10957.6 billion, which shows an increase of more than 11% over the previous year.

ITEMS RESERVED FOR MSMEs IN INDIA

As on 10oct. 2008, following items are reserved for exclusive manufactured by micro, small and medium enterprise sector.

- **Food and allied industries:** Pickles and chutneys, bread, mustard oil and ground nut oil.
- **Wood and wood Products:** wooden furniture and fixtures.
- **Paper products:** exercise books and registers
- **Glass and ceramics:** glass bangles.
- **Chemical products:** wax candles, laundry soap, safety matches, firework and agrabatties.
- **Mechanical engineering excluding transport equipment:** steel almirah, rolling shutters, steel chairs, steel tables, steel furniture and domestic utensil aluminum, padlocks and stainless steel utensil.

ACTIVITIES NOT COVERED UNDER MSMEs

- ✓ Hotels, Tourism, Cinema house.
- ✓ Pharmaceutical companies working on loan licensing policy.
- ✓ Diagnostic Centre.

Objectives

- To study an overview of MSMEs.
- To study the opportunities available for MSMES.
- To know the major challenges faced by the MSMEs.

Methodology

The study is descriptive in nature. Data used in this study is secondary and has been collected with the help of Books, Magazines, Newspapers, Research Articles, E-Journals and MSMEs Report, etc.

Opportunities for MSMEs

- **Increase in production and export**

MSMEs play an important role in economic growth of country. MSMEs account for more than 90.0 per cent of total industrial units in India. The MSME sector has registered significant growth over the years; total number of units increased from 150.21 lakh in 2001-02 to 428.77 lakh in 2010-11. MSMEs contribute 45.0 per cent to manufacturing output, 40.0 per cent to exports and 8.0 per cent to the country's GDP. Given strong growth and rising potential, the MSME sector experienced a significant increase in investment flows. For example, fixed investments rose at a CAGR of 19.6 per cent during FY02–11. Analysts believe that a major portion of investments has been directed towards technological developments, resulting in an improvement in volume and quality. Production in the MSME sector outpaced overall growth in industrial production.

Table: 1 Production and export from MSMEs

Year	No. Of MSME (In lakh)	Production (R.S Crore)	Export (R.S Crore)
2001-02	150.21	282270	71244
2002-03	109.49	314850	86013
2003-04	113.95	364547	97644
2004-05	118.89	429796	124417
2005-06	123.42	497842	150242
2006-07	361.76	1351383.45	182538
2007-08 #	377.37	1435179.26	202017
2008-09 #	393.70	1524234.83	N.A
2009-10 #	410.82	1619355.53	N.A
2010-11 #	428.77	1721553.42	N.A

Source: Annual report of MSME 2012-13, # means projected data.

Table shows that number of MSMEs unit has been increased from 150.21 lakh in 2001-02 to 428.77 lakh units in 2010-11. Value of output produced by MSMEs also increased from

282270 crore in 2001-02 to 1721553.42 crore in 2010-11. This data shows that contribution of MSMEs in growth of country has been increased. Value of export also increased from 71244crore in 2001-02 to 202017crore in 2007-08. In this way MSMEs contribute significantly in the export of the country.

- **Increase in Employment**

The MSME sector is the second largest employment generator in India after agriculture. It generated employment for 73 million people in FY11; the figure is set to increase by another 12.0 million over FY12–14. In MSMEs labour intensive technique is used and low capital is required to set up the MSMEs, so they have capacity to create large employment. MSMEs provide employment to low skilled and semi skilled labour, so the sector has been working hard towards upgrading the skill base and attracting more talent. For upgrading the skill base of MSMEs the government and various private players are heavily investing in training centres. A good example for this is up gradation of nearly 1,390 Industrial Training Institutes (ITIs) across India through public private partnerships (PPPs). MSMEs have been coordinating with private sector players in upgrading skills and delivering quality. To ensure product quality, these firms often coordinate with smaller suppliers to impart the requisite skills and ensure adherence to standardised processes.

Table: 2 Employment in MSMEs

Parameter	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Employment (In lakh)	282.57	294.91	805.23	842.23	881.14	922.19	965.68

Source: Annual Report of MSME 2012-13

Table shows that employment provided by MSMEs in 2004-05 to 282.57 lakh people and it is estimated that employment provided by MSMEs in 2010-11 raise to 965.68 lakh people. In this way MSMEs sector is second largest employment provider after agriculture.

- **Exposure to foreign markets**

Due to globalization it is easy for MSMEs to sell their products and services to the world market rather than being confined into domestic market. MSMEs have opportunity to access bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

- **Flow of foreign investment and technology**

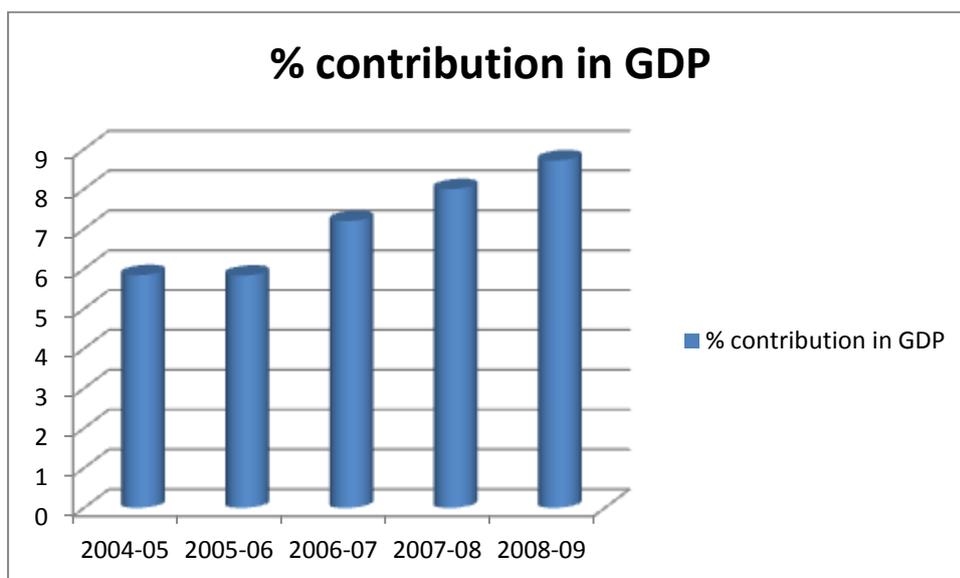
MSMEs face a problem of outdated technology in India. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology and managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes etc.

- **Contribution in GDP**

MSMEs contribution in gross domestic product has been increased from 5.84% in 2004-05 to 8.72 in 2008-09. Contribution of MSMEs in GDP has been increased due to number of units and volume of output produced by MSMEs has been increased.

Table:3 Contribution of MSMEs in GDP

Parameter	2004-05	2005-06	2006-07	2007-08	2008-09
% contribution in GDP	5.84	5.83	7.20	8.00	8.72



- **Better industrial relations**

The MSMEs are less prone to industrial disputes. However, workers in small sectors are mostly from unorganized sector and cannot raise their voice collectively. Thus, they enjoy harmonious relation with the firm owners.

Challenges

- **Lack of financial access**

There is lack of financial access to MSME sector in India. MSMEs are often unable to procure adequate financial resources for purchase of machinery, equipment and raw material as well as for meeting day to day expenses. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. Due to inadequate financial access, MSMEs are reluctant to adopt modern methods of management.

- **Lack of IT support**

IT personnel are highly demanded and are often attracted by bigger companies. It is very difficult for SMEs to attract and retain good IT personnel. Moreover, good IT personnel are expensive and may not be affordable by most MSMEs.

- **Marketing Problem**

The Indian MSMEs are facing a lot of problems related to marketing of products in the national and international arenas. This is mainly due to the fact that these organizations belong to rural and semi-urban areas. But when it comes to selling these products, MSMEs have to face difficulty in creating an impression and awareness in the minds of urban and other potential buyers about quality and other aspects of their products and services.

- **Technologically Handicapped**

Technology plays an important role in the development of any enterprise. Today, most SMEs in rural areas manufacture goods and services by using old methods and outdated technology. Nowadays competition is very high, so it is difficult for SMEs to sell their products. There are additional challenges to be met. The low cost products from China have made it even more difficult for Indian manufacturers to compete solely on the price basis.

- **High competition**

MSMEs face high competition from the large domestic firms and multinational companies. The MSMEs have to face difficulty in selling their products in highly competitive market and find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

- **Inadequate Infrastructure**

The quality of infrastructure affects the growth of SMEs, especially in a developing country like India. Here, 69% of the population lives in villages. Many rural areas are facing problem

of inadequate infrastructural facilities like transport, telecommunication and electricity. Inadequate infrastructure facilities create hindrance in the progress of SMEs.

- **Lack of Skilled workers**

MSMES in India are facing a problem of non availability of financial resources. Due to lack of financial resources they cannot procure skilled workers. Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.

Conclusion

MSMEs play an important role in economic growth of country. MSMEs also help in reducing poverty through employment creation and income generation. In addition to these direct effects, MSMEs have also indirect effect on economic growth and poverty reduction through their growth-linkage effects. But there are certain obstacles in the growth of MSMEs, which are: lack of availability of timely finance and inadequate infrastructure facilities including power, water, and roads etc. Outdated technology and lack of access to modern technology hinder the performance of MSMEs. Quality of goods produced by outdated technology is poor and products are not compatible in the market. To fully utilize the potential of this sector, it is essential that the entrepreneurs along with the government support take necessary steps for further development.

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