

## *International Journal of Scientific Research and Reviews*

### **Opportunities and Challenges for MSMEs in the Indian Economy-A Study**

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#### **ABSTRACT**

The growth of entrepreneurship can be a major means of aggressive economic inertia in rural areas that are located far from the main industrial centre of a country. MSMEs are playing important role in the economic development of a every country. MSME (Micro, Small and Medium Enterprises) are the heart of Indian Industry. Their contribution especially to a developing country like India is very valuable. In developing countries, like India, most of the space is not always suitable for set up of large investments and such type of lacuna can be minimized by lesser amount of investment. With the advent of planned economic structure of Indian Democracy, Micro, Small and Medium Enterprises (MSMEs), widely accepted “engine of economic growth of India” have gained attention of policy makers due to its potential of generating large output from a lower investment. This labour intensive sector has the capacity of reducing regional imbalances through income and employment generation, economic independence of rural folk and helps in sustainable development. It is essential to remove the constraints which limit the competitive strength of Indian MSMEs. The present study focused on performance and growth of MSMEs in Indian economy, to analyse the opportunity and threats of MSMEs in India and find out the contribution of MSMEs in economic development of the country. The paper has been depended on secondary sources of information.

**KEYWORDS:** Employment, Enterprise, MSMEs, Challenges, Opportunities, Sustainable Development.

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## **INTRODUCTION:**

MSME have great role in the balanced development of the economy. MSME sector presently employs over 100 million people over 44 million units and MSME accounts for 9 per cent of the country's GDP. The ministry of MSME says that the sector accounts for about 45 per cent of total export of the country. MSME sectors produce more than 6000 quality products.

MSME sector, thus, shows great opportunity for expansion and diversify its activities in various sectors. It is estimated that there are 1.6 million registered MSMEs in India and major share of MSME working in India are not registered. MSME are dominated by micro enterprises with 94.9per cent share followed by small enterprises with 4.9per cent of share. These enterprises deployed throughout India by operating 55 percentages in rural India and respite operating in semi-urban and urban region of India. Hence, the MSME contribute a commendable portion to the balanced growth of Indian economy. On the activity basis, if we are exploring, it can be seen that 67.1 per cent of total registered units are manufacturing units, 16.8 per cent of total registered units are service units and 16.1 per cent units of total registered units are repair and maintenance units. From the diagram given below we can get some clearer picture about the distribution of 6000 units of MSME into their respective sectors.

In Indian states like Tamil Nadu, Uttar Pradesh, Gujarat and West Bengal are the foremost states in MSME sector. MSMEs in India are very much heterogeneous. The present paper will focus on existing scenario and trends of MSME in India. There is state wise variation in various sort of MSME. Some states are leading in terms of registration and some are in unorganized sector. Thus spatial variation clearly exists in India in terms of micro, small and medium enterprises. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. Entrepreneurship is indispensable to accelerate the industrial growth. Small and Medium enterprises are an effective means for the development of entrepreneurship. This sector is a only solution to the problems of poverty, insecurity, unemployment, over population he modern world. This article attempted at highlighting the significance MSME in economic development of India. At present firms are acknowledging the efficient management of human resources as a critical factor in their success or failure.

## **THE CONCEPT:**

In India the MSMEs are defined just according to the amount of investment ceiling for plant, machinery or Equipment. There are two types of enterprises in MSME, viz. manufacturing sector

and service sector and the subdivision of micro, small and medium enterprises are based on the following criteria (See Table 1).

**Table-01 MSMEs Definition in India (Micro Small Medium Enterprise Development Act, 2006)**

| Type   | Manufacturing Sector(Investment in Plants and Machinery) | Service Sector (Investment in Equipments) |
|--------|--|---|
| Micro  | Up-to Rs. 25 lakhs                                       | Up-to Rs. 10 lakhs                        |
| Small  | More than Rs. 25 lakhs upto Rs. 5 crores                 | More than Rs. 10 lakhs up-to Rs. 2 crores |
| Medium | More than Rs. 5 crores upto Rs. 5 crores                 | More than Rs. 2 crores up-to Rs. 5 crores |

Source: The Gazette of India, 16<sup>th</sup> June, 2006

## KEY HIGHLIGHTS OF THE MSMEs SECTOR:

- ❖ MSMEs account for about 45 percent of India’s manufacturing output.
- ❖ MSMEs account for about 40 percent of India’s total exports.
- ❖ The sector projected to employ about 73 million people in more than 31 million units spread across the country.
- ❖ MSMEs manufacturing more than 6000 products ranging from traditional to high tech items.
- ❖ For FY 11, total production coming from MSMEs sector was projected at 10957.6 billion, an increase of more than 11 per cent over the previous year.

## REVIEW OF LITERATURE

A very brief review of studies on the subject has been made here under:

According to a report by *Harvard Kennedy School*, in the prosperous countries Small and Medium Enterprises (SMEs) constitute the largest part of industries followed by large enterprises and Micro enterprises whereas they constitute the lowest share of industries in the low income countries where the share of micro enterprises is largest followed by large enterprises and lastly by SMEs. This absence of SMEs in the low income countries is known as ‘The Missing Middle’. This acts as a proof of their significance of their role in development of the country.

*Grimsholm and Poblere (2010)* identified the detailed qualitative study of external and internal factors hampering the growth of Small and Medium Enterprises in Thailand. It reproduced fairly generalized results applicable to most of the south Asian countries producing low cost, low value added and labour intensive products. Significant factors hampering growth according to the study are lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology.

*Ministry of Micro, Small and Medium enterprises (2013)* published the Inter Ministerial Committee for Accelerating Manufacturing in MSMEs’ paper reporting slowdown in the overall growth of MSMEs in recent years, especially post 2009. The author highlighted the significance of MSMEs, changing trends in employment growth in this sector and addressed concerns regarding

establishing an enterprise and running it successfully. Finally, the authors It also recommended support systems for encouraging start-ups, doing and expanding business and ease of closure and exit and also drew light on the need to do so. It also suggested changes in labour laws and gives product specific recommendations.

A. V. Naser (2013), a research paper entitled *A Critical Evaluation of the Contributions Made by the Micro, Small and Medium Enterprises in Indian Economy*, evaluated the contributions made by the micro, small and medium enterprises in the balanced growth of the Indian economy. The study found that the 55 per cent of the total enterprises operate in the rural areas they promote inclusive growth and regional equity; they play a very important role in employment generation and contribute a commendable portion to the GDP, industrial production and export of the country. The paper also highlights the challenges faced by the sector and its need for structural support.

A study by Srinivas, K. T, (2013), entitled *Role of Micro Small and Medium Enterprises in Inclusive Growth*, studied the performance of micro, small and medium enterprises, their contribution in India's economic growth. The author identified that the number of enterprises, employment in MSMEs and concluded that MSMEs play an important role in inclusive growth of Indian economy.

## **OBJECTIVES:**

Objectives of the present paper are to focus on the following

1. To focus on performance and growth of MSMEs
2. To analyse the opportunity and threats of MSMEs in India
3. Find out the contribution of MSMEs in economic development of the country.

## **METHODOLOGY:**

Present paper is descriptive and analytical in nature. For the purpose of analysis, the secondary data were being used. From that perspective this paper is quantitative and qualitative both. Data sources are following: Fourth All India Census Report of MSME, Annual Report of MSME, The Gazette of India, Ministry of Micro, Small and Medium Enterprises, Entrepreneurs Memorandum Part-II data on MSME sector (2007-2015), Udyog Aadhar Memorandum (UAM) replacing EM-II.

## **PERFORMANCE AND GROWTH OF MSMEs IN INDIA:**

MSME in India always has shown a progressive and healthy growth. Roles of MSMEs in Indian economy are very crucial. It is very important for the national aims of growth with equity and

inclusion. It ensures maximum opportunities for both jobs and self or group employment (Srinivas, 2013). From 2006 onward when the Micro Small and Medium Enterprises Act was introduced, MSMEs in India always has shown a progressive and healthy growth. In India, 95 percent of industrial units (3.4 million) are in small-scale sector with a 40 percent value addition in the manufacturing sector. Enterprises of this type provide the second highest employment level after agriculture and account for the 40 percent of industrial production. These units contribute 35 percent to India's exports. In this setting, Indian MSMEs are fundamentally important to the Indian economic system. Their potential to generate employment, bolster exports and bring flexibility into India's business environment deserves close attention from India's policy makers and research scholars.

### **MSMES AND EMPLOYMENT GENERATION: OPPORTUNITIES:**

Employment opportunities are one among the important variables of economic growth of a country. Presently, the world is facing the problems created by its unemployed unrest people. No economy can economically sustain unless and until it provide lively hood to its local people. Traditionally the MSMEs are labour intensive and alleviating unemployment problems to a great extent. Indian MSMEs sector is the second largest employment generator next to agricultural sector. Here more than 101 million people and creates 4 million employment opportunities a year. The number of MSMEs has been increasing progressively. After 1991 New economic reforms there were only 67.87 lakh units, but it increased multi folded by 2011- 2018. This change might be the result of conducive policy environment during the liberalization era. As MSMEs, generally are labour intensive, employment generation always follows the increase in the number of units. It seems to be a boon to rural people as MSMEs does not demand highly skilled employees and semi-skilled and even unskilled people can be employed in such units.

### **REGISTERED AND UNREGISTERED SECTOR:**

There are two types of sectors running under MSMEs. One is Registered and another one is Unregistered. Enterprises that registered with District Industries Centre (by filling up Entrepreneur Memorandum II) in the state/ UTs, Khadi and Village Industries Board as on 31-03-2007 and factories under the coverage of section 2m (i) and 2m (ii) of the factories Act, 1948 used for annual survey of industries (Muthu, 2015) are included in Registered MSMEs. Again all enterprises covering both in manufacturing and providing/ rendering services but not registered with District Industries Centre (that means no case of filling up EM-II) on or before 31-03-2007 are considered as

Unregistered MSMEs. In 2017-18, India registered 633.88 lakhs enterprises whereas unregistered MSMEs constitute 346.11 lakhs (4th All India Census on MSME, 2006-2007). There are enormous anomalies regarding state-wise distribution registered and unregistered sector. In terms of registered sector, Tamil Nadu holds the leading position followed by Gujarat and Uttar Pradesh. Other states show relatively lower number of enterprises. The scenario for unregistered sector is quite different. Uttar Pradesh stands first with 89.99 lakh of enterprises followed by West Bengal (88.67 lakhs) and Tamil Nadu (49.48 lakhs).

## **CHALLENGES:**

The Challenges Thrown open by Domestic Liberalization and new world trade regime are:

- ✚ Inadequate capital
- ✚ Inadequate working capital
- ✚ Expensive bank loan
- ✚ Technological weakness
- ✚ Weak bargaining power
- ✚ Absence of brand equity
- ✚ Lack of development policy framework
- ✚ Product reservation policy
- ✚ Low recognition and appreciation of this sector in view of its contribution to industry output exports
- ✚ Lack of infrastructure facilities
- ✚ Lack of developed information system and so on.

## **OPPORTUNITIES:**

Opening up of the economy in the 90s with accelerated pace of liberalization has thrown up number of opportunities in many areas. They are:

- ✚ Untapped export potential in sectors such as computer software, leather and leather products. Light engineering products, hand tools and implements, auto components and ancillaries, garments including hosiery.
- ✚ Growing service sector
- ✚ Security and stability of access under the Government schemes and WTO regime
- ✚ Tariff reduction by all countries
- ✚ Phasing out of MFA

## **GOVERNMENT SCHEMES FOR MSMEs:**

The government of India have taken several policy and programs towards the development of MSMEs in India. They are:

- ✚ Prime Minister Employment Generation Programme(PMEGP)
- ✚ Performance and Credit Rating Scheme, Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
- ✚ Interest Subsidy Eligibility Certificate (ISEC)
- ✚ Science and Technology Scheme, Market Promotion & Development Scheme (MPDA)
- ✚ Revamped Scheme Of Fund for Regeneration Of Traditional Industries (SFURTI)
- ✚ Coir UdyamiYojana (CUY)
- ✚ Coir VikasYojana (CVY)
- ✚ Skill Up gradation & Mahila Coir Yojana (MCY)
- ✚ Development Of Production Infrastructure (DPI)
- ✚ Domestic Market Promotion Scheme
- ✚ Export Market Promotion
- ✚ Trade and Industry Related Functional Support Services (TIRFSS)
- ✚ Financial Support to MSMEs in ZED Certification Scheme
- ✚ A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)
- ✚ Credit Linked Capital Subsidy for Technology Up gradation
- ✚ ISO 9000/ISO 14001 Certification Reimbursement
- ✚ Marketing Support/Assistance to MSMEs (Bar Code)
- ✚ Lean Manufacturing Competitiveness for MSMEs
- ✚ Technology and Quality Up gradation Support to MSMEs
- ✚ Entrepreneurial and Managerial Development of SMEs through Incubators
- ✚ Enabling Manufacturing Sector to be Competitive through QMS&QTT
- ✚ Building Awareness on Intellectual Property Rights (IPR)
- ✚ International Cooperation
- ✚ Marketing Assistance Scheme
- ✚ Marketing Assistance & Technology Up gradation (MATU)
- ✚ MSME Market Development Assistance (MDA)
- ✚ Assistance to Training Institutions (ATI)
- ✚ Micro & Small Enterprises Cluster Development (MSE-CDP)
- ✚ EDP/MDP schemes
- ✚ NER Schemes

✚ TCSP Schemes and so on.

## CONCLUSION:

It may be said, MSME is a real-sense development and developmental, but especially developed country for any country's economic growth engine. It is the silver bullet to eradicate poverty and human well-being and quality of life prove to be the way it is, especially for the poor of the Indian economy, there are very diverse and regional diversity of all the states MSME. Year-by-year industries show that increasing production or services and increasing its share in the country or state GDP is showing a tendency towards some fluctuations. Numbers of working enterprises are higher in informal sector and it's playing vital role in employment generation too. But registered enterprises suppressed unregistered sector in output generation. So we can say that unregistered MSMEs in some states to some extent is labour intensive and registered sector in other way is capital intensive in some states. Micro enterprises occupied the leading position naturally in all states but some developed states like Gujarat, Tamil Nadu, and Goa in the south, Himachal Pradesh, Punjab, Haryana in the north and the north eastern states like Arunachal, Mizoram, Manipur, Nagaland and Tripura are improving their small and medium scale enterprises also. States like West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa where small and medium enterprises are lesser in number. There is seen a normal path that those states who are leading in working enterprises, creates more employment, generate more income and do registration whether filling EM-II or UAM. Though registration through UAM has shown a rocket speed increase but people are far behind of registration may be due to lengthy process of filling forms or they are not aware at all particularly at the rural set up or they are unwilling to register their units to escape the tax. All states are not equable capable of utilizing the fruits of MSMEs. Inspire of some critical reviews, MSMEs has act as a catalyst of Indian economy and some proper planning with incentives and assistance for both registered and unregistered sector from central or state government and private agencies as well, will help to boost up the economy very faster. And this in turn will reduce regional disparity and creates regional development.

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