

# Problems and Government Measures to Improve MSME'S in India

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**Abstract:** *The Micro, Small and Medium Enterprises (MSMEs) sector is an important constituent of India's industrial sector. MSME's including village / rural enterprises. It contribute significantly to India's Gross Domestic Product and export earnings besides meeting the social objectives including that of generating employment opportunities to millions of people across the India. With the reform of LPG measures in India since 1991, the Govt. has introduced new policies to increase competitiveness of the sector. The Micro, Small and Medium Enterprises in India are acting as supreme and spirit of economic development in the present era. This paper analyzes the definition of MSMEs, the silent features, role and performance of MSMEs in Indian economy, Government policies towards MSMEs and problems of MSMEs.*

**Keywords:** Micro, Small and Medium Enterprises

## I. INTRODUCTION

In India, since last many years, the MSME'S are organized as means of production and service rendering with utilization of limited resources. The effective utilization of resources, greater operational flexibility, mobility and higher innovations and low investment are the strength of MSME'S. MSME'S sector worldwide considered as the growth engine of the economy. In European Union and in USA, more than 99% and 80% enterprises are under this sector, respectively. In India; much potential are available towards a equal regional development and optimum utilization of scarce resources. More than 95% units belong to MSME sector and about 45%; products produced by MSME sector. The contribution of MSME'S towards this sector is highly remarkable as compared to any other sector of economy.

MSME'S contribution towards, investment, employment generation, GDP, production etc, in every area it is very important. Definition of MSME's: In accordance with the provision of MSME's development act 2006, the MSME's classified into two categories:

### 1.1 Manufacturing Enterprises

The enterprises engaged in the manufacture or production of goods, pertaining to any industry specified in the first schedule to the industries (development and regulation) act 1951, having investment in plant and machinery of Rupees up to 25 lacs, above 25 lacs and up to 5 crores. crores and up to 10 crores called micro, small and medium enterprises, respectively. manufacturing concern. The financially strong MSME'S will survive strongly at globalized platform. Bhavani, T.A. (2011), This study reveals that how the all aspects of the MSME'S (Employment, Leading sector of MSME'S, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSME'S through various subsidy schemes and liberal availability of credit will be a great help.

### 1.2 Service Enterprises

The enterprises engaged in providing or rendering services having investment in equipment of Rupees up to 10 lacs, above 10 lacs and up to 2 crores, above 2 crores and up to five crores called micro, small and medium enterprises, respectively. In India, MSME's account for more than 80% of total number of industrial enterprises and employs over 6 crores people. As per estimates and statistics, out of 26 million MSME's, only 1.5 million are registered and remaining unregistered. The state wise distribution of MSME's is not equal because 55% of MSME's are in 6 states

only, namely, Uttar Pradesh, Maharashtra, Tamilnadu, West Bengal, Andhra Pradesh and Karnataka. Further, women own about 7% of MSME's and more than 94% of the MSME's are proprietorship or partnerships.

## **II. CHALLENGES TO MSME**

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME's Contribution towards GDP in 2011 was 17% which is expected to increase to 22% by 2012. There are approximately 30 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years.

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporates which is proving to be a hurdle in the growth path of the MSMEs. The list of the problems that are faced by existing/new enterprises in MSME sector are as under:

- Absence of adequate and timely banking finance
- Limited capital and knowledge
- Family problems
- Low production capacity
- Ineffective marketing strategy
- Constraints on modernisation & expansions
- Non availability of skilled labour at affordable cost
- Fear on future .

It is very important to empower the MSME sector to utilize the limited resources (human & economic) they have in an optimum manner. The MSMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. MSMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector.

To counter the challenges faced by SME sector and grab the opportunities in the market, the Chamber has developed key strategies to promote and support the SME sector. The Chamber encourages SMEs to adopt innovative ideas and concepts for the promotion of their business. The goal of the Chamber is to organise Seminars, Conferences, Workshops and Training Programs and other trade promotional activities to educate & create awareness amongst the SMEs. CIMSME has decided to start various activities to empower and educate the SME Sector by organizing various trade promotional activities.

## **III. ROLE OF MSME**

MSMEs play a pivotal role in the Indian economy which can be seen from the following facts1. MSME sector contribute nearly 45 percent of the manufacturing output and 40 percent of the exports. 2. This sector contribute 8 percent of country's GDP 3. MSME sector provide the largest share of employment after agriculture and this sector has a better record of employment generation per rupee investment as compared to large industries. 4. Economic independence (i.e. self-reliance) can be achieved only by the growth of small sector. Over the period myopic policies of our leadership has created such a situation that a country of more than 1 billion population has just become a market for the big players. We spend billions of dollars of foreign currency on importing items (e.g. electronic items, consumer durables etc.) 5. Apart from economic relevance, growth of small sector plays an important role in maintaining the overall social & cultural structure. Development of SSIs in dispersed geographies reduces the rate of migration to cities and thereby reducing the burden on cities to accommodate the large population

**The government policies towards the MSMEs in India:**

The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations, namely, Micro, Small and Medium Enterprises Development Organization (MSMEDO) or Development Commissioner (MSME), the National Small Industries Corporation Limited The Prospects the Khadi and Village Industries Commission (KVIC), the Coir Board and three National Level Entrepreneurship Development Institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA (V.P.), National Institute for Micro, Small and Medium Enterprises (NIMSME), Hyderabad and the Indian Institute of Entrepreneurship (IIE), Guwahati. The Prime Minister's Employment Generation Programme (PMEGP) is being implemented by the Ministry through KVIC. The Ministry of MSME is having two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division. The SME Division is allocated the work, inter-alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development/training organizations. The Division is also responsible for implementation of the schemes relating to marketing and export promotion. SME Division is also responsible for preparation and monitoring of Results-Framework Document (RFD) as has been introduced from last two years by Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Division looks after the administration of two statutory bodies called the Khadi and Village Industries Commission (KVIC)

**IV. PROBLEMS OF SMALL-SCALE AND COTTAGE INDUSTRIES**

The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. The following are the main problems that the small-scale units have to face.

- **Finance and Credit:** The scarcity of finance and credit is the main obstacle in the development of MSMEs. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is usually very weak since they generally have partnership or single ownership.
- **Infrastructural constraints:** In their survey of 1,063 firms, Keshav Das and Sebastian Morris found that as many as 716 firms (or more than 67 percent) said that they faced significant infrastructural problems. This is very large and confirms the well recognized and popular conceptualization that many productive activities are being constrained by inadequate physical infrastructure. The most severe constraint is power
- **Inverted tariff structure and raw material availability:** As noted earlier, small-scale industries contribute significantly to the export earnings of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastian Morris, despite import liberalization during 1990s, the tariffs on materials like steel, copper, and many non-ferrous metals, plastics, many chemicals, paper etc.
- **Machines and other equipment:** Machinery and other equipment in many small industries have grown obsolescent. On account of this reason while their costs of production are high, the quality is inferior as compared to the large-scale units. Moreover, the small-scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernization and rationalization are urgently required in small-scale industries. Problems of marketing: One of the main problems faced by the small-scale units is in the field of marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage visà-vis large-scale units. Because of the shortage of capital and financial resources, these units do not have adequate „staying capacity“ and are often forced to sell their products at unremunerative prices

**V. ADVERSE EFFECTS OF ECONOMIC REFORMS AND GLOBALIZATION**

The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, opening up the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have had an adverse effect on the small-scale sector. Cheaper and better quality imported goods are posing a serious threat to small scale units operating in various industries like chemicals, silk, auto

components, toys, sports goods, footwear etc. The most serious threat is being posed by cheap Chinese imports as the so called “China price” (which is a rock-bottom price) is forcing many small-scale units to close down.

#### **VI. CONCLUSION**

The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 perhaps is the most crucial of these recent policy changes. The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations. The growth of small scale industries can be evaluated on the growth rates of units, employment, output and exports of Small scale industries in 2013 with that of 1990s. At the same time MSMEs sector faced key challenges like as Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw material at a competitive cost. Problems of storage, designing, packaging and product display, Lack of access to global markets, inadequate infrastructure facilities, including power, water, roads, Low technology levels, lack of skilled manpower for manufacturing, services, marketing, etc. Despite the various challenges it has been facing the MSME sector has shown admirable innovation, adaptability and to survive the recent economic down turn and recession. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSME’s sector constituted an important segment of our economy. MSME’s are a very important segment in the Indian industrial sector /and would continue to play an important role in the Indian economy in the future. A rewarding feature of economic development in India is due to impressive growth of modern MSME’s.