CHALLENGES AND OPPORTUNITIES FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) SECTOR IN INDIA

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of India. The MSME sector contributes in the manufacturing output, employment and exports. It plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. MSME sector has emerged as a dynamic and vibrant sector of the economy. It is expected that Indian economy will grow by over 8% per annum until 2020. 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 its commendable contribution to the Nation's economy, SME Sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which is a handicap in becoming more competitive in the National and International Markets. SMEs face a number of problems - absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, identification of new markets, constraints on modernization & expansions, non-availability of highly skilled labour at affordable cost, follow-up with various government agencies to resolve problems etc. It is very important to empower the SME sector to utilize the limited resources (human & economic) they have in an optimum manner. The SMEs 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. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. This paper analyses the various challenges and opportunities associated with MSMEs in India.

KEYWORDS: Economic Growth, Enterprises, GDP, MSMEs, Challenge.

INTRODUCTION

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. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

During the first 4 years of XI Plan, MSME Sector exhibited a growth rate of 13% on an average, an impressive performance compared to most of the other sectors. However, the sector is suffering from quite a few impediments, which need to be addressed immediately to make Indian MSMEs a global hub of entrepreneurship and global supplier of competitive and innovative products of highest quality. To identify issues inhibiting growth of the sector, a Task Force was constituted by the Prime Minister in 2009. In its report, the Task Force made 85 recommendations to unshackle the Indian MSMEs. While most of the recommendations have already been implemented, there are some specific issues related to policy and Government support which need immediate attention.

Planning Commission constituted the present Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for the 12th Five Year Plan (2012-17) with 46 members representing various Ministries/Offices of Government of India, representatives of selected State Governments and Industry Associations, NGOs etc. in May, 2011. The terms of reference of the Group were to carry forward recommendations of Prime Minister’s Task Force and suggest specific action plan and milestones to be achieved within 12th Plan period. Further, the terms of reference of the Group also mandated suggestions to address problems of un-organized Sector and proposals for devising programmes/schemes to facilitate overall growth of the MSME sector. In its first meeting, the Group constituted following 11 Sub-Groups with representation from MSME Associations and experts on the respective subjects to focus on specific issues related to growth of MSME sector and suggest specific action plans: The summary of the recommendations of the Working Group under major verticals and sectors are given below.

**OBJECTIVES OF THE STUDY**

- To study the need of importance of MSME
- To review the challenges to be faced by MSMEs in India
- To evaluate the opportunities in India
RESEARCH METHODOLOGY

- The descriptive methodology has been used to collected data.
- Secondary data has been collected from various published sources and websites.
- The explanation of the data is more qualitative than on quantitative terms.

DISCUSSION

CREDIT & FINANCE
Credit is a crucial input for promoting growth of MSME sector, particularly the MSE sector, in view of its limited access to alternative sources of finance. Various estimates on the credit availability to the MSME sector however indicate a serious credit gap. Though the heterogeneous and unorganized nature of the sector poses inherent challenges for a credible estimate, the fact remains that there is considerable credit gap, which is a matter of serious concern and needs to be bridged if the sector has to foray into the next level of growth trajectory. While acknowledging the efforts of the Government, RBI and Financial Institutions in providing adequate, timely and affordable credit to the sector which has resulted in substantial increase in the number of accounts and total credit flow, the Working Group felt the need for serious policy prescriptions that goes beyond traditional ways of fixing targets alone. Building an eco-system for facilitating credit flow to MSMEs is important. Government needs to strengthen credit flow to the MSE sector, particularly micro sector by strict implementation of guidelines for year-on-year growth of MSE credit and its prescribed flow to the micro-sector. The reach of the MSEs to the banking net work has to be substantially enhanced through setting up of branches near clusters. In fact, a cluster- centric approach is the best bet for addressing the credit needs of the MSME sector, because of reasons of operational convenience and trust building. Information flow and transparency, through use of IT, would contribute greatly to the process of adequate, timely and affordable credit to the MSME sector.

TECHNOLOGY UPGRADATION AND SUPPORT
Technology will be the foremost factor for enhancing the global competitiveness of Indian MSME Sector. Without infusion of appropriate technology, survival in the global market place would be a question mark for a large majority of micro & small enterprises and even the medium enterprises. The Prime Ministers’ Task Force on MSMEs has identified low technology, generally used by the MSME sector, as a major cause for poor competitiveness of the sector.
The immediate challenge is development of appropriate technologies for various manufacturing processes which will lead to substantial reduction in cost of manufacturing by enhancing labour productivity, reducing material wastage and minimizing energy consumption. Such technologies could be developed by close interaction of R&D institutions with industries and through innovative projects of techno-preneurs. Accordingly, a multi-tier support system may be required for inducing technology based competitiveness of the sector with the collaboration of government, industry clusters, industry associations and private R&D institutions. There is a need to support innovative ideas to develop them to marketable products, facilitate linkage of MSME Clusters/Mini Clusters to public and private R&D institutions and finally subsidise the cost of technology available in the international market. Liberal Government policies and assistance are pre-requisites for nurturing innovative ideas both by academic institutions and technopreneurs.

The issue may be addressed by developing collaborations of Public / Private R&D institutions with the cluster/industry associations to take up R&D in focused areas of manufacturing with clear objectives, deliverables, time limit and project budget. This will ensure industry acceptability of the technology developed and delivery of the technology within the specified time frame. The Government assistance may vary from 50% to 100% of the approved budget, depending upon the level of the technology & the transaction cost involved viz., for the projects taken up for technology development for nano-technology, aerospace or the defence sector may be allowed 100% government assistance. Competitive manufacturing technologies are available in the international market for various industries. To facilitate absorption of such globally competitive technologies, government may subsidize the industry. Extent of support may again vary with the type of industry and the level of technology being adopted.

**INFRASTRUCTURE DEVELOPMENT**

Cluster based intervention has been acknowledged as one of the key strategies for comprehensive development of Indian industries, particularly the Micro and Small Enterprises (MSEs). The Ministry of MSME has adopted the cluster approach as a key strategy for enhancing the technical and physical infrastructure as well as capacity building of micro & small enterprises and their collectives in the country. It launched a special scheme known as “Integrated Technology Upgradation and Management Programme” (UPTECH) in 1998. In August 2003, the Scheme was renamed as Small Industry Clusters Development
Programme (SICDP) and made broad-based by adopting holistic development encompassing soft interventions (viz. technology, marketing, exports & skill development) and hard interventions (viz. setting up of Common Facility Centre (CFC), etc.). The SICDP guidelines were comprehensively revised in March 2006. The scheme was renamed as Micro & Small Enterprises – Cluster Development Programme (MSE-CDP) and its guidelines were further modified in February 2010 with enhanced funding support. Since 1994, Ministry had also been supporting creation and upgradation of industrial infrastructure in the States under Integrated Infrastructural Development (IID) Scheme. In accordance with decisions of the Package for Promotion of MSEs, this scheme was subsumed under MSE-CDP in October 2007, with the existing funding pattern.

To strengthen and expand existing IID Scheme of M/o MSME, the Group recommends that the eligible project cost for infrastructure development (excluding cost of land) for Government of India assistance should be enhanced from present limit of Rs. 10 crores to Rs. 15 crores. To complement the efforts of State and Central Government, private sector (companies and SPVs) should also be allowed for development of infrastructure development, with Government of India assistance under MSE-CDP. Assistance for upgradation of existing industrial estate may be made more attractive in order to get proposals from State Government for upgradation of existing and demand based additional IID projects may be permitted in district, subject to 90% allotment and 50% setting up of units in approved IID projects in one district. The Group recommends continuation of the infrastructure development scheme with increased allocation.

MARKETING AND PROCUREMENT
Marketing is the most important tool in business development that leads a product from creation to customer through different channels. In this era of globalization marketing is one area where MSMEs face more challenges than opportunities. The challenges range from procurement of raw materials to lack of market information. Marketing is a dynamic activity that requires constant update on the marketing intelligence and new tools of marketing. It includes a whole gamut of activities such as packaging, labeling, trade mark, bar coding, brand building, advertisement, domestic & international exhibitions, buyer-seller meet, marketing intelligence, e-marketing and customer service to name a few. Compared to large industries, MSMEs face several constraints in the marketing &procurement front due to their limited maneuverability in such wide ranging activities either on account of lack of finance or
on account of lack of awareness. With the increasing global economic integration, international market has become much wider than the domestic market for MSMEs. Over the years, the share of MSMEs in total manufacturing export has risen to a healthy level of over 40 percent. However, this rosy figure comes with a caution that hardly one percent of MSMEs are exporting units. This calls for widening and deepening of international markets by MSMEs. Globalization and WTO norms make profound impact on the existence as well as market of MSMEs. On the other side, there is a rising domestic market due to rising income, especially the rising rural income. MSMEs need to tap these potential markets by way of aggressive marketing, improved technology and better competitiveness. MSMEs should also devise strategies to counter increasing market invasion by branded products of big corporates, a threat which is looming large on MSMEs.

SKILL DEVELOPMENT & CAPACITY BUILDING
Lack of skilled manpower and information as well as lack of reach to modern technology are key issues affecting the growth of MSME sector. It is often said that India enjoys a “demographic dividend” compared to rest of the world due to its huge population in productive age group. Most of the other developed as well as developing countries face the threat of an aging population. If this comparative advantage can be augmented with adequate skill development, India can become the global supplier of quality manpower. In this backdrop, Ministry of MSME has decided to accord top priority to skill development. The Ministry conducts a large number of short term as well as long term courses to train unemployed youth for self employment, to provide necessary skill to the youth to make them eligible for wage employment and also to upgrade the skill level of existing workers and entrepreneurs of MSME sector. Prime Minister’s Task Force has identified lack of skilled manpower as a road block for the growth of the MSME Sector. The Ministry of MSME has been mandated to provide skill to 42 lakh persons during the 12th Plan period. The challenges before the Ministry are:

i. To upscale the training capacities from the present capacity of training 4 lakh persons per year to train at least 9 lakh persons per year by the year 2017.

ii. Spreading skill development activities throughout the country, particularly in the backward areas & the areas infected by extremism and reach the weaker sections of the society.

iii. Developing an eco-system for the success rate of training in self employment or
job employment through the process of Train - Loan - Link – Support.

Developing a pool of certified trainers with adequate technical competency.

t. Developing a self-sustainable mode for conducting the training programmes with reduction in budgetary allocation over the period.

vi. Standardizing the curricula for the training programmes to be implemented uniformly all over India.

vii. Developing a transparent system for conducting of the programmes, registration of participants etc. and putting it in the public domain.

viii. Addressing the special needs of the weaker sections, people in the backward and insurgent infected areas and of the differently abled persons.

The Working Group recommends up-scaling of the training capacity of the Ministry through the public private partnership mode. Group also recommends that besides the existing programmes for the entry level/new entrepreneurs, training programmes should also be conducted for skill up-gradation of Chief Executives/Owners of the MSMEs with some element of subsidy from the government. To ensure quality of training programmes conducted and transparency in the entire process of selection-registration-administration-handholding of the trainees, it is recommended that a web-based management information system be launched. The respective portal should also host the details of the training curricula, trainer/faculty and process of training.

INSTITUTIONAL STRUCTURE

The Institutional and legal framework for promotion and development of Micro, Small & Medium Enterprise (MSME) sector of India is spread both at the National & State level. The primary responsibility for the development of MSMEs lies with the State Governments. Government of India supplements their efforts through a range of initiatives. The employment intensive MSME sector has suffered extensively due to plethora of laws, rules and regulations that have accumulated during the years of control regime. Ensuring the compliance with so many regulations coupled with Inspector Raj has stifled growth of the sector considerably. Prime Minister’s Task Force, in its report, have made significant recommendations on liberalising the policy regime for the MSME sector, viz., introduction of Insolvency Act, liberalisation of labour laws, liberalisation of Apprenticeship Act, strengthening of District Industries Centres etc. The Group has identified the following issues to be immediately addressed to unshackle the growth of the MSME sector –
i. Environmental issues
ii. Labour issues
iii. Exit policy
iv. Amendment of MSMED Act
v. Restructuring of the DICs and MSME-DIs

On the environmental issues, it is recommended that the relevant policies be made uniform all over India with appropriate relaxation of the controls for MSMEs. Regarding labour issues, the immediate need is to consolidate plethora of labour laws and acts into one user friendly law. The enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is a harbinger for the growth of MSME Sector. However, there is an urgent need to strengthen various provisions of the Act along with enactment of the rules under various sections.

SUPPORT PACKAGE FOR START-UPS IN EMERGING AREAS

The Sub Group on Emerging Technologies has made a number of recommendations on supporting the start-ups. Start-ups are enterprises with innovative ideas, often in the areas of emerging technologies, launched by technically qualified entrepreneurs. The basic infrastructure requirement of any start-up is a minimum working facility, mostly ICT based, for experimenting with the idea. The global model is “Plug and Play” modules for immediate starting of activities. These should be preferably located near a premier institution in the respective subject where required testing and handholding facilities will be available.

So far, financing the projects are concerned, generally the bank loans are not readily available for such start-ups due to the unverified business model and high risk of failure. World over, angel funds and subsequently, venture capital provide the capital support to the start-ups. When the business model reach the stage of commercial success, the growth rate of the start-ups become phenomenal and naturally they shift to full-fledged offices/industrial premises for scaling up of the activities with the conventional sources of finance like bank credit etc.

The Group recommends that during the 12th Plan period, modular industrial estates with plug and play facilities in the respective areas may be launched as pilot projects. Towards providing starting capital, globally angel/venture fund are the prime source of funds to the start-ups. The venture capital fund launched by SIDBI can play major role in this regard. For reducing initial interest burden on the start ups, the Group suggested a scheme of 5% interest subvention for new enterprises in focal areas which include start ups in emerging sectors. Towards protecting the Intellectual Properties generated by the start ups, Government may
assist in filing of patents or alternative IP protection mechanisms.

**ENABLING GLOBAL FOOTPRINTS OF MSMES**

Today, India is the 4th largest economy in the World and vying to take the 3rd position. Besides the large enterprises, a significant section of Indian MSMEs have acquired global competitiveness, particularly in sectors like Auto components, Leather Goods, Garments, Engineering items, Gems and Jewellery etc. In the services sector education, health care, grooming and beauty therapies have enormous export potentials. Direct export from these enterprises particularly to countries in developing world like Africa could be multi folded through enabling services like information on new markets/products, offshore warehousing, product promotion etc. As individual enterprises do not have sufficient resources to take up such initiatives, Government can provide necessary facilitation by cluster / consortia based initiatives through PPP mode.

Besides focusing on global markets for product exports, time is also ripe for Indian MSMEs to shift their manufacturing bases. With the overall development and recent inflationary pressure, very soon the MSMEs, particularly in the high growth sectors are going to lose their low cost advantage. To remain competitive in the global as well as domestic market, at least the leading MSMEs should plan for shifting their manufacturing bases abroad. Government can facilitate the global footprint of Indian MSMEs by providing support for conducting market studies in new markets for newer products, developing brand equity of Indian MSMEs particularly for niche products like herbal medicines, health care, education etc., developing market intelligence on enterprises available for take over etc.

**UNORGANISED SECTOR**

The Sub-Group on Un-organised sector has recommended outlay of Rs. 45,550 crores under different heads – skill development (Rs. 17550 crore), hand holding support (Rs. 2500 crore), credit support (Rs. 7500 crore), infrastructure development (Rs.16000 crore) and creation of data-base (Rs 2000 crore) for the 12th Five Year Plan. It is the considered view of the Working Group that since the issues relating to unorganized sector are being addressed by different Ministries under different schemes, it may not be appropriate to recommend a huge allocation for the sector under the Plan Budget of the Ministry of MSME, especially since the Ministry does not have currently any mechanism for addressing the issues relating to the sector, which are gigantic in nature. The Ministry recommends independent examination of
the recommendations of the Subgroup on Unorganised Sector by the Planning Commission while evolving a unified set-up for addressing the issues relating to the sector by bringing under one folder various schemes/proposals for the sector as implemented by different Ministries.

SPECIAL AREAS AND GROUPS
The Sub-Group on Special Areas and Groups has recommended specialized area specific funds for development of backward areas and special groups. The Working Group is of the view that the recommendations of the Sub-Group constituted on Special Areas & Special Groups may not be taken up separately and the most feasible way to address the issues related to the backward areas like North Eastern Region, Special areas like Jammu & Kashmir, hilly States, Left wing Extremism affected States is to provide exclusive components and delivery systems for these areas within the Schemes/Programmes proposed under the identified verticals. For providing exclusive handholding of the weaker sections of the society viz., SC, ST, Women and differently abled persons to join the main stream Industrial and Entrepreneurial process, the Working Group recommended that special components for such weaker sections be made under each programme/scheme of the Ministry with enhanced Government support and facilitation.

CONCLUSION
MSME sector of India is today at the gateway of global growth on the strength of competitive and quality product range. However, facilitation from the Government is required to minimize the transaction costs of technology upgradation, market penetration, modernization of infrastructure etc. History shows that only with persistent and effective Government support in these areas, the SMEs of countries like Japan, Korea etc. emerged as global players. The PM’s Task Force has already taken significant initiatives in this regard. The above recommendations of this Working Group for the 12th Plan period will be vital enabler towards implementation of the initiatives of the Task Force through participative, transparent and scalable policies and schemes of Government of India.
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