

## Micro, Small and Medium Enterprises (MSMEs) In India—Problems and Prospects

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**Abstract :** Micro, Small and Medium Enterprises (MSMEs) have emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades and not only played crucial role in providing large employment opportunities at comparatively lower capital cost but also helped in industrialization of rural and backward areas, thereby reducing regional imbalances and 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 socioeconomic development of the country. It contributes significantly to India's GDP and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. With the introduction of reform measures in India since 1991, the Government has withdrawn many protective policies for the MSMEs and introduced promotional policies to increase competitiveness of the sector. According to the fourth all India census of MSME, it has shown constant growth rate of more than 10% every year till 2010-11, whereas in the year 2011-12 the growth rate was 19% which is approximately twice the growth rate recorded for the previous years.

This paper analyzes the definition of MSMEs, the role and performance of MSMEs in Indian economy and government policies towards MSMEs as well as the various challenges and opportunities associated with MSMEs in India.

**Key-words :** Micro, small and medium enterprises, role and performance, Government policies, problems and prospects.

### 1. Introduction

Micro, Small and Medium Enterprises (MSMEs) have been globally considered as an engine of economic growth and key instruments for promoting equitable development. The labour intensity of this sector is much higher than that of large enterprises as it constitutes more than 90% of total enterprises in most of the economies and are credited with generating the highest rate of employment growth and account for a major share of industrial production and exports. With its agility and dynamism, this sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. The MSMEs in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services and levels of technology. This sector caters to the needs of small entrepreneurs with lower capital and thus renders enormous service to the rural and backward classes who are empowered to contribute to the overall national growth. In recent years, the MSMEs play an important

role in the overall industrial economy of the country and has consistently registered higher growth rate compared to the overall industrial sector.

## 2. Literature Review

Mali (1998) observed that micro, small and medium enterprises have to face increasing competition in the present scenario of globalization. They have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological upgradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighbouring countries.

Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector by emphasizing that small industry had suffered in terms of growth of units, employment, output and exports. He also suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment. Sudan (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by raising different questions related to MSMEs. Rathod (2007) analysed the growth and pattern of the SSI sector and identified the reasons for success and failures, evaluated the impact of globalization on SSIs and export opportunity and identified the barriers and constraints that SSIs were facing to cope with globalization. Singh, Verma and Anjum (2012) analyzed the performance of MSMEs in India and focused on policy changes which have opened new opportunities for this sector and concluded that MSME sector has made good progress in terms of number of MSME units, production and employment levels. Venkatesh and Muthiah (2012) found that the role of MSMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing MSME sector is essential for the economic well-being of the nation. Srinivas (2013) analysed about the performance of MSMEs, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

## 3. Objective of the Study

The major objectives of the present study are to—

- analyse the conceptual framework, growth and performance trends of MSMEs in Indian economic development;
- identify the sickness, various strategies adopted for the revival of viable units relating to MSMEs;
- identify the various problems and future prospects associated with MSMEs;
- evaluate the government initiatives to revitalize the Indian MSMEs;
- finally, make recommendations for further improvement of MSMEs in Indian scenario.

#### 4. Methodology

The study is descriptive in nature and based on secondary data. Relevant information have been collected from various research papers, journals and magazines of national and international publications, various issues of RBI, annual reports from the Ministry of MSME, handbook of statistics of Indian economy and also includes websites of both public and private sector banks.

#### 5. MSMEs—Conceptual Framework

MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In recent years, the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 MSMEs are classified in two categories—manufacturing and service.

I. 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. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

II. Service Enterprises—The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery/equipment for manufacturing/service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are given in Table-1.

Table-1 : Classification of Micro, Small and Medium Enterprises (MSMEs)

Manufacturing Sector		Service Sector	
Enterprise	Ceiling on Investment in Plant and Machinery	Enterprise	Ceiling on Investment in Equipment
<i>Micro</i>	Does not exceed twenty five lakh rupees	<i>Micro</i>	Does not exceed ten lakh rupees
<i>Small</i>	More than twenty five lakh rupees but does not exceed five crore rupees	<i>Small</i>	More than ten lakh rupees but does not exceed two crore rupees
<i>Medium</i>	More than five crore rupees but does not exceed ten crore rupees	<i>Medium</i>	More than two crore rupees but does not exceed five crore rupees

Source : MSMED Act, 2006

MSMEs are established in almost all major sectors in the Indian industry such as food processing, textiles and garments, agricultural inputs, leather goods, chemical and pharmaceuticals, electrical, sports goods, plastic products, electro-medical equipments and computer software etc.

### 6. Growth and Performance Trends of MSMEs in Indian Economic Development

It can be observed from Table 2 that the total number of MSMEs has increased from 101.1 lakh units in 2000-2001 to 447.73 lakh units in 2011-2012. There has been a steady growth in fixed investments, production and employment during 2011-2012 over 2000-2001. The fixed investment and production increased from Rs. 1,46,845 crores and Rs. 2,61,297 crores in 2000-2001 to Rs. 11,76,939 crore and Rs. 18,34,332 crore in 2011-2012 respectively at current prices. Similarly, there has been a steady increase of employment in MSMEs from 238.73 lakh in 2000-2001 to 1012.59 lakhs in 2011-2012.

**Table-2 : Growth of Indian MSMEs**

Year	Total No. of working MSMEs units (in lakh)	Fixed Investment (Rs. Cröre)	Production at current price (Rs. Crores)	Employment generated (lakh persons)
2000-01	101.10	146845	261297	238.73
2001-02	105.21	154389	282270	249.33
2002-03	109.49	162317	314850	260.21
2003-04	113.95	170219	364547	271.42
2004-05	118.59	178699	429796	282.57
2005-06	123.42	188113	497842	294.91
2006-07	261.01	500758	709398	594.61
2007-08	272.79	558190	790759	626.34
2008-09	285.16	621753	880805	659.35
2009-10	298.10	693835	982919	695.38
2010-11	311.52	773487	1095758	732.17
2011-12	447.73	1176939	1834332	1012.59

Source : RBI and Ministry of Micro, Small and Medium Enterprise (MSMEs), GOI (2012-13)

Table-3 shows that the contribution of the MSMEs to total industrial production has increased from 39.71% in 2000-2001 to 45.12% in 2011-2012. Similarly, the contribution of the MSMEs to the gross domestic product (GDP) has increased from 6.04% in 2000-2001 to 8.52% in 2011-2012 which justifies the need for continuous efforts to sustain the progress of MSME sector.

**Table 3 : Contribution of MSMEs**

Year	Total Industrial Production (%)	Gross Domestic Product (%)
2000-01	39.71	6.04
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72
2009-10	45.10	7.98
2010-11	44.96	8.10
2011-12	45.12	8.52

Source : RBI and Ministry of Micro, Small and Medium Enterprise (2012-13).

Financing to MSMEs has always been the priority area for the policy makers in the country. Considering the ability of employment generation and contribution to GDP, Government of India formulated MSME Act, 2006. Since then banks have been able to direct their MSMEs lending activity in a considerable manner.

**Table-4 : Status of Outstanding Bank Credit to MSMEs in India (Rs. in Crores)**

Year as on last reporting Friday of March	Banks			All Scheduled Commercial Banks	Growth (%)
	Public Sector	Private Sector	Foreign		
2004-05	67800	8592	6907	83498	—
2005-06	82438	10421	8430	101285	21.30
2006-07	102550	13136	11637	127323	25.71
2007-08	151137	46912	15489	213538	67.71
2008-09	191408	46656	18063	256127	19.94
2009-10	278398	64534	21069	364001	42.12
2010-11	376625	87857	21461	485943	33.50
2011-12	395976	105085	19839	520900	7.19

Source : Annual Report of Ministry of MSME (2012-13)

Table 4 shows that during the year 2011-12, the total outstanding credit by all scheduled commercial banks to MSMEs in India stood at Rs. 5,20,900 crores. Among bank categories, public and private sector banks have registered impressive growth in MSMEs lending in the year 2011-12. However, public sector banks account for a major share compared to private and foreign banks. In the year 2005-06, there was a growth of 21.30% in comparison to the previous year 2004-05. Highest growth of credit achieved in the year 2007-08 i.e. 67.71% with least growth i.e. 7.19% seen during the year 2011-12.

#### 7. Sickness in MSMEs

The problem of industrial sickness is persisting in MSMEs despite its appreciable performance and significant contribution in Indian economy. The MSMEs should be considered as sick if it has at the end of any accounting year accumulated losses to or exceeding 50% of its peak net worth in the immediately preceding five accounting years. (Bihar Chambers of Commerce, Sept. 1989)

**Table-5 : Sickness Relating to MSMEs in India**

Year	Total MSME Units (in lakh)	Sick Units (in lakh)	%	Total Investment (Rs. in crores)	Investment in Sick Units (Rs. in crore)	%
2000-01	101.10	2.49	2.46	146845	4505.54	3.07
2001-02	105.21	1.77	1.68	154349	4818.95	3.12
2002-03	109.49	1.67	1.53	162317	5706.35	3.52
2003-04	113.95	1.43	1.25	170219	5284.54	3.10
2004-05	118.59	1.38	1.16	178699	5380.13	3.01
2005-06	123.42	1.26	1.02	188113	4981.13	2.64
2006-07	261.01	1.14	0.43	500758	5266.65	1.05
2007-08	272.79	0.85	0.31	558190	3082.72	0.58
2008-09	285.16	1.02	0.36	621753	3308.00	0.54
2009-10	298.08	0.77	0.26	693835	5231.15	0.75
2010-11	311.52	0.99	0.29	773487	5211.25	0.67

Source : Govt. of India, Ministry of MSMEs Annual Report (2011-2012), RBI, Handbook of statistics on Indian Economy (2011-2012)

It can be noticed from Table 5, that there were 101.10 lakhs MSMEs units in 2000-01 and their number has steadily increased year by year to 311.52 lakhs units in 2010-11. The percentage of sick units among the MSMEs was 2.46% in 2000-01 and it gradually declined to 0.29% level in 2010-11. The total investment in MSMEs units was reported at Rs.1,46,845 crore in 2000-01, of which investment incurred on sick units has been worked out to 3.07%. The maximum percentage of 3.52% was observed during the year 2002-03.

**8. Viability of Sick Units**

A unit may be regarded as potentially viable if it would be in a position after implementing a relief package spread over a period not exceeding five year from the commencement of the package from banks, financial institutions, Government (central and state) and other concerned agencies. Based on the norms, the banks/financial institutions have to decide whether a sick small enterprise is potentially viable or not. While identifying and implementing the rehabilitation package, banks/FIs are advised to do 'holding operation' for a period of six months. This will allow small scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'.

The details of potentially viable MSMEs unit in India are presented in Table 6. As at the end of March 2010, there were 77,723 sick MSMEs unit in the country. But at the end of March, 2011, there has been an increase in the number of sick MSMEs unit to 90,141. The number of sick MSMEs and the enterprises under nursing with the amount out-standing against them from March 2005 to March 2012 are as under—

**Table-6 : Potentially viable MSMEs unit in India**

At the end of March/ Year	Total sick MSMEs unit		Potentially viable		Viable units under nursing	
	No. of Units (in lakh)	Amount outstanding (Rs. in crore)	No. of Units (in lakh)	Amount outstanding (Rs. in crore)	No. of Units (in lakh)	Amount outstanding (Rs. in crore)
2005	138041	5380.13	3922	434.67	2080	259.93
2006	126824	4981.13	4594	498.16	915	233.77
2007	114132	5266.65	4287	427.46	588	268.93
2008	85187	3082.72	4210	246.88	1262	126.92
2009	102951	3308.00	8168	731.68	2330	424.26
2010	77723	5231.15	9160	964.75	2360	478.84
2011	90141	5211.25	7118	1112.98	4698	518.30
2012	85591	6790.00	10315	1721	6648	468.00

Source : RBI Bulletin, 2011-2012

From the above table, it can be observed that at the end of March 2010, banks put only 2360 units under nursing which constituted approximately 3% of the total sick unit. Number of enterprises put under nursing as percentage of total sick MSMEs at 5.2% (approx.) at the end of March-2011 which is very low.

**Companies Act 2013**—It covers the revival and rehabilitation of all companies, irrespective of their sector. In accordance with the requirement of section 253 of the Act, 2013 a company is assessed to be sick on a demand by the secured creditors of a company representing 50% or more

of its outstanding amount of debt—if the company has failed to pay the debt within a period of 30 days of the service of the notice of demand as well as failed to secure or compound the debt to the reasonable satisfaction of the creditors. To speed up the revival and rehabilitation process, the Revival and Rehabilitation of sick companies under Companies Act, 2013 provides a one year time period for the finalization of the rehabilitation plan.

#### 9. Major Problems faced by the MSMEs

MSMEs are very important in the economic growth of India but consequently it faces a number of problems which are as follows.

- i. Lack of availability of adequate and timely credit from banks—Presently, high interest rates, high risk perception among the banks, unreasonable collateral demand, restrictive and conditional working capital limits and huge procedural transaction cost often creates problem for the MSMEs in availing easy credit from the banks as it does not have any alternative sources of finance.
- ii. Complex labour laws and red tape—All the laws and regulations related to the aspects of manufacturing and service units of MSMEs are very complex and practically very difficult to comply with.
- iii. Poor infrastructure—MSMEs in India are either located in industrial estates set up many decades ago or have come up in an unorganized manner in rural areas. Inadequate and unreliable infrastructure including power, roads, water etc. acts as a handicap in the emerging global market resulting to lower production capacity and higher production cost.
- iv. Lack of marketing and promotional support—MSMEs in India faces the problem of marketing its products due to insufficient finance and market intelligence amongst the entrepreneurs for their business development, unlike the multinational companies. Low technological level and lack of access to modern technology had a profound impact on the competitiveness of the MSMEs.
- v. Issues relating to taxation (direct and indirect) and regulatory norms—Rigid, complex as well as cumbersome and time consuming regulatory norms create unnecessary problems in the functioning of MSMEs and therefore cost of doing business is much higher in India in comparison to other countries.

#### 10. Initiatives Undertaken by the Government

The Ministry of MSME implements the following schemes and programmes for the upgradation of technology to revitalize the promotion of MSMEs.

- i. ISO 9000/ISO 14001 certification reimbursement schemes—This scheme is introduced in March, 1994 to enhance the competitive strength of the MSMEs by way of technological upgradation, quality improvement and better environment or management. For acquiring quality management system—ISO 9000 certification or environment management system—ISO 14001 certification, this scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000.



- ii. **Credit Linked Capital Subsidy Scheme (CLCSS)**—It aims at facilitating technology upgradation by providing 15% upfront capital subsidy to manufacturing MSMEs on institutional finance up to Rs. 1 crore availed by them for induction of well-established and improved technologies in the specified sub-sectors/products approved under the scheme.
- iii. **The MSE-Cluster Development Programme (MSE-CDP)**—This programme is implemented for holistic development of selected MSEs clusters through value chain and supply chain management (skill development, technology upgradation of the enterprises, improved credit delivery, marketing support, setting up of common facility centres) based on diagnostic studies carried out in consultation with cluster units on co-operative basis.
- iv. **Laghu Udyami credit card scheme (LUCCS)**—It was introduced and implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the small sector in November, 2001. Credit limit per enterprise has been increased from Rs. 2 to Rs. 10 lakhs having satisfactory record only.
- v. **National Equity Fund Scheme (NEF)**—This scheme provide equity type (cost should not exceed Rs. 50 lakhs) support to entrepreneurs for setting up new projects in small industrial sector for undertaking expansion, modernization, technology up gradation and diversification of existing MSEs and for rehabilitation of viable sick units.
- vi. **Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI)**—This scheme covers collateral free credit facility to new and existing MSMEs upto a maximum limit of Rs.50 lakh to realize the small entrepreneur's dream of making it big and successful.
- vii. **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**—To establish a regenerated, holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in khadi, village and coir sectors with an intention to make more productive and competitive and increases the employment opportunities in rural and semi-urban areas, this scheme was launched in 2005.

#### 11. Prospects in MSMEs

The lots of potential are available in the field of MSMEs. The prospects of properly developed MSME sector are:

- i) employment generation, ii) customer satisfaction oriented, iii) minimization of regional imbalance, iv) enhancement of export and finally, v) attraction to the foreign investment.

#### 12. Recommendations

To enable MSMEs to be competitive in domestic and global market, a few recommendations are given below to overcome the problems.

- Providing credit to the MSMEs at base rate and devise a strategy for cost effective finance and improve the delivery points for credit to MSMEs in terms of quantity and quality.
- Providing better infrastructure facilities like roads, rail, ports, airports, water, sewage and power should be ensured.

- Enhancing skill among the work force to meet industry requirements.
- Relaxing complex labour laws for better compliance.
- Suggesting measures to prevent industrial sickness and revival of viable sick units.
- Adopting total quality management and ISO standards in MSMEs units.
- Promoting quality competitiveness and research and development for strengthening the MSMEs units.
- Treating the employees of MSMEs as an asset and give them recognition with an eye towards the need to improve their skill.

### 13. Conclusion

In a nutshell, MSMEs have emerged as an engine of growth in Indian economy by way of their significant contribution to GDP and industrial production. The MSMEs needs to improve its productivity and quality, reduce costs and innovate. Government policy should help MSMEs to increase their efficiency and competitiveness within a market driven economy. In order to prevent the major sickness in MSMEs, new approaches like the cluster approach or harnessing the power of industry association should be encouraged.

To keep this growth engine on the right path and direction, it is necessary to put emphasis on the formulation of friendly policies, conducive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modern technology for MSMEs.

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