



MICRO, SMALL & MEDIUM ENTERPRISES (MSME'S) IN INDIA – ITS PROBLEMS AND PROSPECTS

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ABSTRACT

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. In a country like India, the position of MSMEs is quite worth mentioning. The number of small scale units has been increasing in a comprehensive manner in recent years, more particularly after the introduction of economic reforms. The statistics in almost all the countries show that the SMEs are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on obtaining the gross domestic product and the supply of jobs. In spite of having huge potentialities, the Indian MSMEs could not progress satisfactorily as these industries are suffering from various weaknesses. In this backdrop, this paper presents the performance MSMEs in India and its problems and prospects.

KEYWORDS: Employment, Economy and MSMEs

INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. 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. MSME sector including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of

schemes/ programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises, are some of the other features of the Act.

NEED OF THE STUDY

In a country like India, the position of MSMEs is quite worth mentioning. The number of small scale units has been increasing in a comprehensive manner in recent years, more particularly after the introduction of economic reforms. The statistics in almost all the countries show that the SMEs are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on obtaining the gross domestic product and the supply of jobs. In spite of having huge potentialities, the Indian MSMEs could not progress satisfactorily as these industries are suffering from various weaknesses. In this backdrop, there is need to study the MSMEs performance and its problems and prospects in India

OBJECTIVES OF THE STUDY

The following are the main objectives of the study;

- 1) To study the performance of MSMEs in India,
- 2) To analyse the contribution of MSME sector total share to Indian GDP percentage and
- 3) To presents the problems and prospects of MSMEs in India.

RESEARCH METHODOLOGY

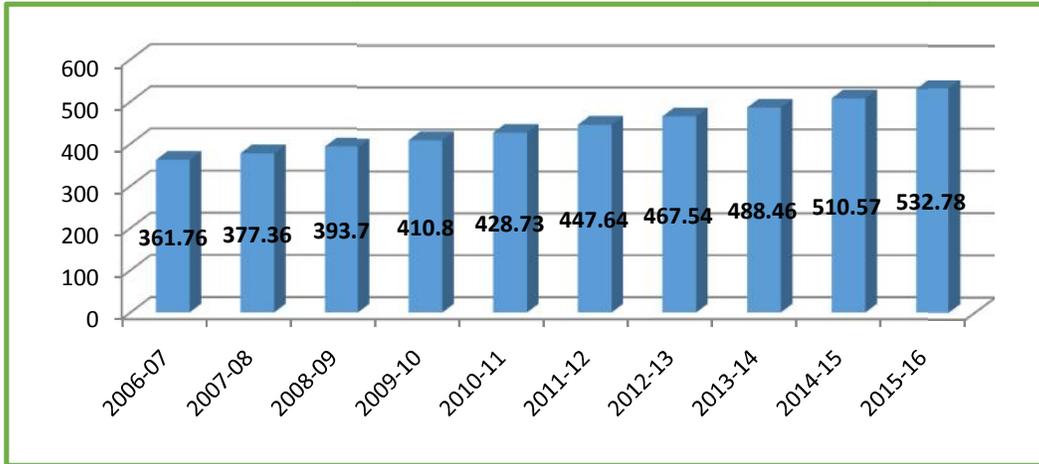
The paper mainly based on secondary data which has been collected from the various issues of Annual Reports of MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI), Newspapers, Magazines, Books Economic journals and Internet etc.

Performance of MSME in India

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. As per the results of Fourth All India Census of MSME, the sector contributes

significantly to the number of enterprises, employment and market value of fixed assets of the country and their impact on Indian economy are presented below; The MSME 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) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The graph-1 presents the growth of working enterprises of MSME in India covering the study period of ten financial years i.e. from 1st April, 2006 to 31st March, 2016.

Graph – 01: Growth of MSME Working Enterprises in India (in Lakh)



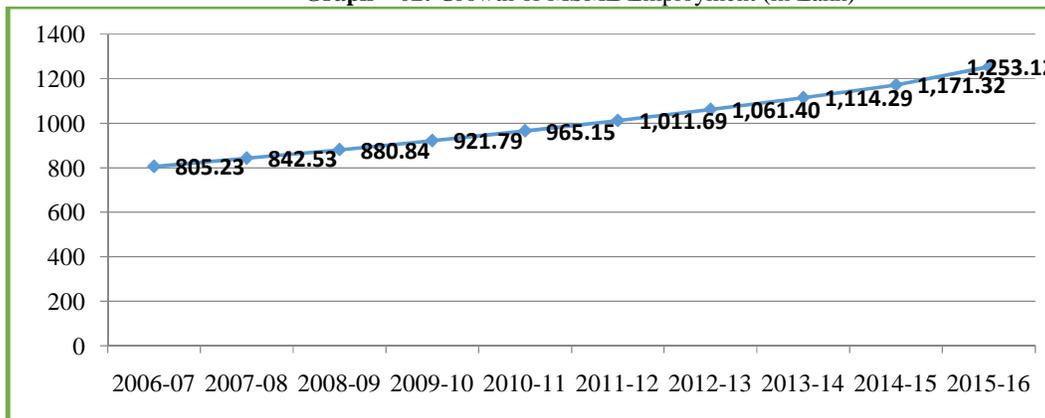
Source: Annual Reports of MSME -2015-16.

The above graph indicates that the last ten years MSME working enterprises in India. The 361.76 lakh total working MSME enterprises in the financial year 2006-07 and it has increased to 532.78 lakhs in the financial year 2015-16. There is continuous growth of working MSME enterprises in India and this clearly indicating that the MSME are continuously contributing the overall production of India.

Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small

and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of infusion of technology, capital and innovative marketing techniques etc. In this background there is need to study the employment through MSMEs in India. Figure – 02 presents the growth of Employment in MSMEs in India during the past ten years i.e. from financial year 1st April, 2006 to 31st March, 2016.

Graph – 02: Growth of MSME Employment (in Lakh)

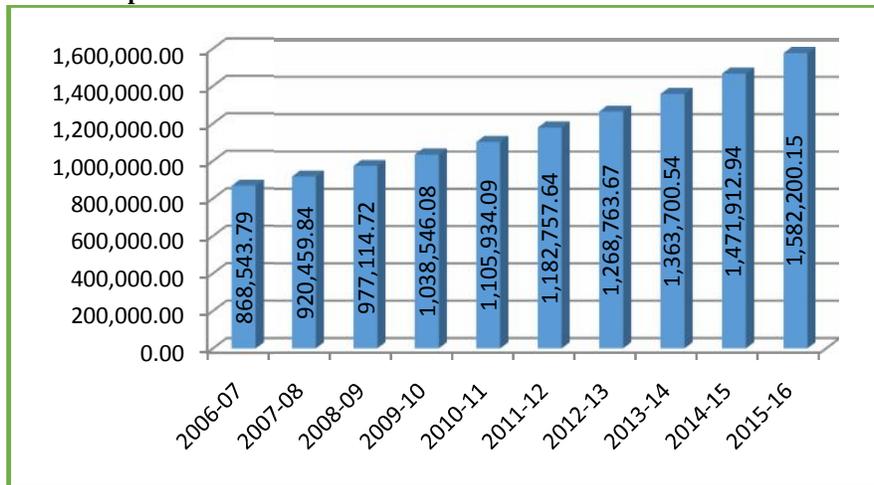


Source: Annual Reports of MSME -2015-16.

The above graph indicates that the employees in MSMEs increased during the last ten year. In the financial year 2006-07, 805.23 lakh employees are worked in MSME and it has increased 1,253.12 lakh employees in current year 2015-16. The employment has grown three times in a span of ten years. This indicates that the contribution of MSMEs has been much higher as compared to overall industrial sector in India. The father of nation, Mahatma Gandhiji said that the small and micro enterprises are the backbone of Indian industrial sector. The sayings of father of nation has been holding true in Indian economy.

Therefore, the central as well as state governments should give priority in the development of this sector by making them more competitive. Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and they have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance. Graph – 03 presents the market value of fixed assets of MSMEs in India during the past ten years i.e. from financial year 1st April, 2006 to 31st March, 2016.

Graph – 03: Growth of market value of fixed assets of MSMEs in India



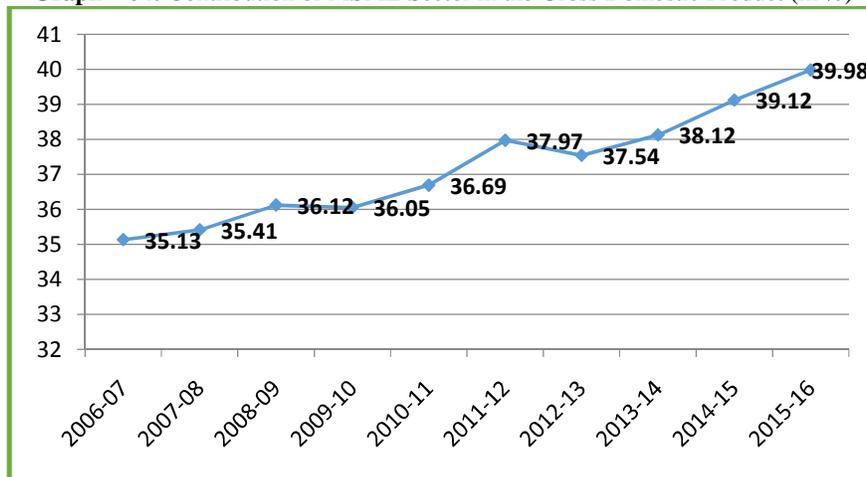
Source: Annual Reports of MSME -2015-16.

Above graph indicates that the market value of fixed assets of MSMEs increased from 868,543.79 crores in the financial year 2006- 07 to 1,582,200.15 crores in the financial years 2015-16. The fixed asset has grown six times in a span of last ten years. It clear indicates that in a country like India, the position of MSMEs is quite worth mentioning. The number of small scale units has been increasing in a comprehensive manner in recent years, more particularly after the introduction of economic reforms.

Contribution of MSME Sector in the Gross Domestic Product

As per the revised methodology suggested by CSO, MoSPI, on the basis of the data on Gross Domestic Product (GDP) published by CSO, MoSPI and final results of the latest Census (Fourth Census), the estimated contribution of MSME sector to GDP, during 2006-07 to 2015-16, are as noted below:

Graph – 04: Contribution of MSME Sector in the Gross Domestic Product (in %)



Source: Annual Reports of MSME -2015-16.

The graph indicates that the contribution of MSME sector total share to Indian GDP percentage from the last ten years i.e. from the financial year 1st April, 2006 to 31st March, 2016. The contribution of MSME sector total GDP share 35.13 per cent in 2006-07 and it has increased to 39.98 per cent in the year 2015-16. Therefore, it can be clearly indicates that there is continuous growth of contribution of MSME sector total share to Indian GDP percentage from the last ten years.

PROBLEMS AND PROSPECTS OF MSMEs:

In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. The major problems of the MSMEs are following.

- Inefficient human factor
- Faulty and irregular supply of raw materials
- Lack of machinery and equipment
- Absence of credit facilities
- Absence of organized marketing facility
- Competition from large scale units and imported articles
- Old and orthodox designs
- High degree of obsolescence
- Substantial under utilization of capacity varying between 47 to 58 percent
- Huge number of bogus concerns
- Unsuitable locations etc.

Due to all these weaknesses the development of small scale industries could not reach a prestigious stage. The Seventh Plan has rightly observed that “All these constraints have resulted in a skewed cost structure placing this sector at disadvantage vis-à-vis the large industries both in the domestic and export markets.”

Small scale industries are occupying a very important place in the industrial structure of the country. Thus, suitable steps should be taken to remove all those weaknesses from which these industries suffer. The remedial measures are following:

- Conducting detailed surveys of the existing small scale industries and drawing productive programme for them.
- Improvement in techniques and adoption of modern technology in SSI units.
- Imparting proper education and training to workers engaged in small scale units.
- Regular supply of inputs at reasonable rates.
- Adequate credit arrangement.
- Provision for cheap and regular supply of electricity.
- Effective marketing managements like sales depot and exhibitions.
- Conducting research on the techniques of production.
- Maintaining standards and quality of the output produced by SSI units.
- Temporary protection through reservation of spheres of small scale industries.
- Establishing separate suitable machinery with large powers and initiative to tackle different

typical problems of small scale industries of the country.

CONCLUSION

MSMEs have been playing an important role in Indian economy in terms of employment generation and growth. In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. If remedial measures are taken in proper time and spirit the MSMEs will be able to utilize huge development potential available in the country and the MSMEs will prove itself as one of the most dynamic and vibrant sector of the economy of the country. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the M/o MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

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