

A STUDY ON PROBLEMS AND PROSPECTS OF MSME'S IN INDIA

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Abstract

The developing Countries like India, Micro, Small and Medium Enterprises (MSME's) forms the backbone of the Economy and despite many constraints in the last few years. MSME occupies a place of pride covering the largest industries in the world and in India also. It contributes significantly to India's Gross Domestic Product and export earning besides meeting the social objectives including that of providing employment opportunities to millions of people across the Country.

The present study analyses the definition of MSME's and its features, the problems faced by entrepreneurs in India and also give some specific measures to overcome and improve their talent.

In order to analyse, this study adopted both quantitative and qualitative research design. The questionnaire and interview are the research tools used in this study. In general, many results and findings of this study are consistent with the predominant opinions. The recommendations and suggestions from the study will be helpful in improve the entrepreneurial talent.

INTRODUCTION

The 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. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSME's are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country.

In India, MSMEs contributes nearly 8% of the country’s GDP, around 45% of the manufacturing output, and approximately 40% of the Country’s exports. It won’t be wrong to refer them as the ‘Backbone of the Country’.

DEFINITIONS OF MICRO, SMALL & MEDIUM ENTERPRISES:

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises are classified as below:

MANUFACTURING SECTOR	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupess but does not exceed ten crore rupees
SERVICE SECTOR	
Enterprise Category	Investment in Equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees.
Medium Enterprises	More than two crore rupee but does not exceed five crore rupees.

The Government of India has introduced MSME or Micro, Small and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing or preservation of goods and commodities.

MSMEs are important sector for the Indian economy and have contributed immensely to the country’s socio-economic development. IT not only generates employment opportunities but also works hand-in-hand towards the development of the nation’s backward and rural areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSME’s in India.

MSME at a glance :-

- MSMEs provide large employment opportunities at lower capital cost than large industries.
- India’s MSME sector comprises of 633.88 lakh units as per National sample survey 73rd Round (2015-16)
- MSME sector has created about 11.10 crore jobs in the country as per National Sample Survey 73rd Round (2015-16)

A Proposal was made to refine MSME’s by the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, to classify them as manufacturing or service-providing enterprises, based on their annual turnover.

Classification of enterprises into micro,small and medium enterprises

(in Rs)

Kind of enterprise	Act of 2006		Bill of 2018
	Manufacturing	Services	All enterprises
	Investment towards plant and Machinery	Investment towards equipment	Annual turnover
Micro	25 Lacs	10 Lacs	5 Cr
Small	25 lacs to 5 Cr	10 Lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

CREDIT SUPPORT

- Prime Minister’s Employment Generation Programme (PMEGP) – Margin money assistance of Rs.1002.58 crore provided to 32,227 Micro units
- Credit Linked Capital subsidy Scheme – Subsidy worth Rs.454.16 crore disbursed
- Credit Guarantee Trust Fund for Micro and samll enterprises (CGTMSE) – Credit Guarantee cover of Rs.27192 crore approved for 4,07,209 MSEs

SKILL DEVELOPMENT

2,69,005 people trained under the following Schemes/Organisation :-

- Entrepreneurship Development Programme (EDP Scheme)
- Scheme for Assistance to Training institutions (ATI Scheme)
- The National small industries Corporation (NSIC)
- National Institute for Micro, Small and Medium Enterprises (ni-msme)
- Mahatma Gandhi Institute for Rural Industrialization (MGITRI)
- Technology centers

NEW INITIATIVES

A Dashboard with current status of all the schemes and major activities under this Ministry has been made functional during July, 2019 and can be accessed at <http://dashboard.msme.gov.in>

RESEARCH METHODOLOGY

This research study is exploratory in nature that inquires the features and performance of MSME's and key challenges faced by the entrepreneurs in India. In this research Questionnaire through google form is used to collect primary data from the respondents due to pandemic situation. Also secondary data accumulated from various annual reports published on MSMEs, economic journals, Reserve Bank of India (RBI) and other books form a basis of this study. Primary research is conducted directly from the 50 entrepreneurs/owners/Managers by means of self administered questionnaire through google forms. In this study, stratified random sample method has been adopted.

Data Analysis and Findings

This study was set out to rank the major problems of MSME's, their future prospects and to provide some important recommendations for entrepreneurs and policy makers. The questionnaire used for the study was emailed to the entrepreneurs of MSME's via Google forms and raw data then transferred to a spreadsheet for further analysis.

Table 1 depicts the sample distribution as Micro, Small and Medium business

Years in Operations	Micro business	Small business	Medium business	Total (N=50)	
< 5 years	8	3	1	12	24%
5 – 10 years	3	7	2	12	24%
10 – 15 years	5	2	5	12	24%
>15 years	1	8	5	14	28%
Total	17	20	13	50	

The sample is evenly distributed for years in operations at 24% for upto 5 years, 5-10 years and 10-15 years and for more than 15 years it is 30%.

Problems of MSMEs in India

From the above it is clear that these owners/managers had a vast experience in their business operations and they all are involved in finance related decision making process. In order to understand the problem of MSME financing, first of all we need to understand the ways the owners raises funds.

Table 2 depicts the distribution of ways of funds procurement

Enterprises	Bank Loans	NBFCs	Private money lenders	Funding from friends	Personal savings	Ploughing back of profits
Medium	8	3	1	1	0	0
Small	6	1	0	0	6	7
Micro	0	2	2	3	5	5

It depicts from the above table that 0% of the seventeen Micro units from the sample has ever applied for bank loan owing to rejections whereas only 6 (30%) out of 20 small enterprises applied for it due to lengthy and complex paperwork. They all have been financing their units from personal savings or ploughing back of profits. On the other hand, 8 out of 13 medium enterprises have been applying bank loans rather than using other sources.

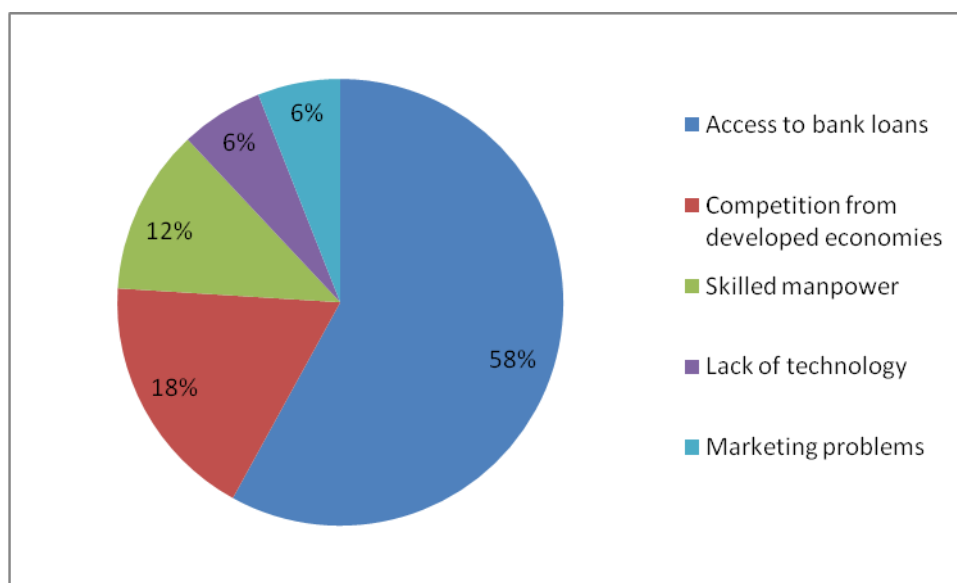
The reasons MSME's in India performing under par:

From the responses collected through the respondents, the following key problematic areas were identified and presented in the below table.

Table 3 depicts the key Problem areas

S.No	Problem areas	Percentage
1	Access to bank loans	58
2	Competition from developed economies	18
3	Skilled manpower	12
4	Lack of technology	6
5	Marketing problems	6

The graphical presentation of the above table is given below :



The above figure clearly depicts that access to bank finance stands out as the biggest challenge faced by MSMEs in India.

Summary of finding

- ❖ Minimal or no access to banking finance to Micro units
- ❖ Cost of raw material, competition from big companies and other operating costs are other factors affecting the growth potential of MSMEs
- ❖ Two third of participants believe that banks increase the loan limit size for subsequent or future loan applications, but it also results into increment in collaterals
- ❖ Eighty five percent of repondents believe that high interest rates and lengthy process & complex paper work are the major drawbacks in bank loan process.

Recommendations

The following suggestions were recommended to MSME's :

- The lengthy and complex loan process must be made simple
- Transparency in loan application status and non delay in loan disbursal system.
- The government should create policies in such a way to help the startup entrepreneurs by giving loans without seeking either collaterals or bank guarantees
- In order to improve the growth of sick units, Government should encourage Procurement programme, credit and performance rating and extensive marketing support.
- Government of India should take initiatives such as, promoting aggressive bill discounting and lending facility against book debts to improve liquidity in the market.

Conclusion

About 31 million of MSMEs in India has been a dominant force in creating ample opportunities for the inclusive socio-economic growth and also, acting as a nurturing seedbed for entrepreneurial talent of prospective global players. In past six decades, policies have been devised to support this sector. From every union budget to each Five year plans, it is clear there is no scarcity of capital availability but there are severe execution problems from lengthy and complex procedures to pledging of assets. It is too early to expect fruition of recent initiation of plethora of measures.

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