

MICRO-SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA: CHALLENGES AND OPPORTUNITIES FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT

In a developing country like India, Micro Small and Medium Enterprises (MSMEs) are vital for contribution to Gross Domestic Product (GDP), employment, exports, balanced development and being nursery of entrepreneurs in India. They have been accepted as the engine of economic growth and for promoting equitable development. During past years the production of MSMEs has grown at a higher rate compared to overall production of industry in India. Hence the relative importance of MSMEs for revival of growth in Indian economy is considerably high. In an increasingly globalized economy, it is therefore, imperative that MSMEs focus on sustainable business practices, leading to their sustainable development. The present paper is an attempt to study sustainability, for example environmental and energy efficiency concerns among MSMEs in India.

KEYWORDS: MSMEs, Industrial Development, GDP, Sustainable Development, Economic Development.

Introduction

Economic development of a nation is closely associated with the growth of its industrial sector. Industrial sector is composed of Large, Medium, Small and Micro enterprises. While large industries help the overall economic development of a nation, the contribution of Micro, Small and Medium Enterprises (MSMEs) is quite significant in employment generation, industrial production and exports. Small scale industries have the advantage of labour intensiveness, low cost technology, low investment and short gestation period. As India is a developing country and the majority of people living in rural areas draw their livelihood from agriculture and allied sectors, people are not in position to start large business as they require huge amount of capital for Investment and much business knowledge, but the people are not in position to offer these. They are ready to do business with available resources and with less investment. However, the growth and balanced development of other sectors such as industry and services is also necessary to sustain the growth of Indian economy in an inclusive manner. The Government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills as well as undertaking interventions aimed at improving supply chain; enhancing skills; upgrading technology; expanding markets and capacity building of the entrepreneurs/artisans and their groups/collectives. As they can do business with the available resources without harming the environment and also can give employment to some people, they will also contribute for the development of the country as they contribute for the GDP of the economy.

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

- The investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of **goods** and
- The investment in equipment for enterprises engaged in providing or rendering of **services**.

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Nature of activity of the Enterprise	Investment in plant and machinery excluding land and building for enterprises engaged in manufacturing or production, processing or preservation of goods.	Investment in equipment excluding land and building for enterprises engaged in providing or rendering of services (loans up to Rs. 1 crore).
Micro	Not exceeding Rs.25.00 Lakhs	Not exceeding Rs.10.00 Lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs.	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs.
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

Note

The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.

The Cabinet, in its meeting held on 25.3.2015 approved the proposal of this Ministry for introduction of a Bill, namely, Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015, in Parliament to amend the Micro, Small and Medium Enterprises Development Act 2006. The objective of proposed amendments are to (i) enhance the existing limit for investment in plant and machinery considering changes in price index and cost of inputs consistent with the emerging role of the MSMEs in various Global Value Chains, (ii) include in such classification, the micro or tiny enterprises or the village enterprises, as part of medium enterprises apart from small enterprises so as to enable the aforesaid category of enterprises to avail the benefits and become competitive, and (iii) empower the Central Government to revise the existing limit for investment, by notification, considering the inflation and dynamic market situation. Steps have been taken to introduce the Bill in Parliament after due recommendation of DRPSC.

Growth and Development of MSMEs

Over last 5 decades MSME sector emerged as extremely effervescent and vigorous segment of Indian economy. MSME plays dual role of providing employment and industrialization of rural/backward areas, thereby reducing regional imbalance and equitable distribution of national income. MSME's are harmonizing to large industries as supplementary units, which adds to socio economic development. It consists of 36 million units, providing employment over 80 million persons with 8% contribution to GDP. Leading industries of MSME sector (as per 2014-15 MSME report):

- Retail trade(except of motor vehicle & motor cycles) and Repairs of personal and household goods-39.85%.
- Manufacturing of wearing apparels-8.75%.
- Manufacturers of foods and beverages-6.94%.
- Other services activities -6.2%, other business activities – 3.77%.
- Hotels and restuarents-3.64%.
- Sales maintenance of motor vehicles and cycles – 3.57%.
- Furniture manufacturing -3.21%, Textile -2.33%.
- Fabricated metals except machinery and equipment-2.33% and others 19.4%. According to India MSME report 2014, three sub sectors demonstrates promising picture: food processing- high potential because of agro linkage, textiles-innovation, and electronics- linkage with ITES.

Objectives of the Study

- To analysis the performance of MSMEs in India.
- To evaluate the employment opportunities created by MSMEs.
- To evaluate the Impact of MSMEs on GDP.
- To study challenges and opportunities for sustainable development.

Methodology

The study involves a critical analysis of functioning of some micro, small and medium scale enterprises in the country both in manufacturing and service sector. Both primary and secondary data are used in the study. The study is empirical in nature as it is based on data collected with the help of schedule and intends to identify the potentialities for growth, opportunities, major issues and challenges experienced by these enterprises. The data are collected mostly from secondary sources by way of access to various Government policies/ programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of entrepreneurs, industry workers and other stake-holders.

Literature Review

Including India the MSMEs continue to dominate the industrial sector in most of the countries, the literature and the studies on their varied functioning are not many especially with reference to changing perspectives. The available research literature rather indicates some missing gaps that need to be addressed appropriately.

Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde, (2006) in their paper have examined the ways in which financial sector development policy might contribute to poverty reduction, particularly by supporting the growth of micro and small enterprises (MSEs). This paper highlights on the changing role of MSEs in the development process and the access of MSEs to informal and formal finance, including the role of microfinance.

De, Sankar (2009) in his article has viewed that SME's in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term. K,Vasanth,Majumdar M., K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems under lying the industrial ecology, enterprise resilience, and global supply chain sustainability.

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

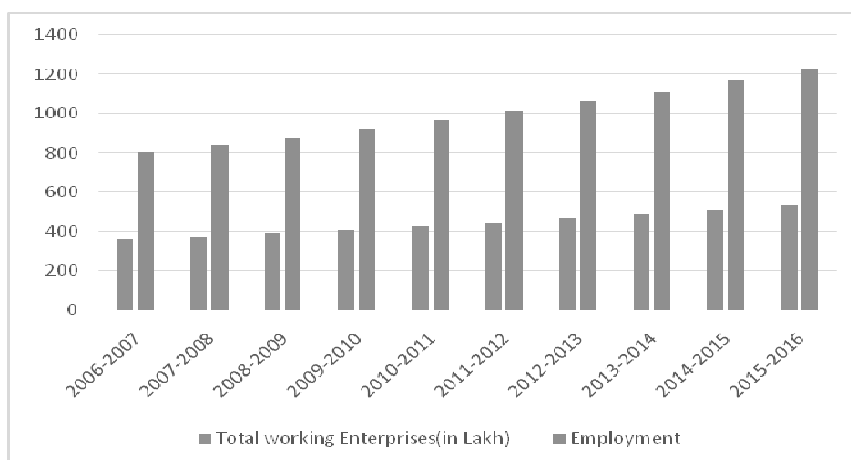
Great Lakes Herald March (2017) has critically analyzed the present situation of MSMEs and support systems available in India as well as in the global context. It has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.

Performance of MSME, Employment and Investments

The growth and development of MSME sector in our country has been consistent and remarkable over the preceding decades. The following tables provide information about total working enterprises, Employment generation and Market value of assets.

S. N.	Year	Total working Enterprises(in Lakh)	Employment	Market Value of Fixed Assets (in crore)
1	2006-07	361.76	805.23	868,543.79
2	2007-08	377.36	842.00	920,459.84
3	2008-09	393.70	880.84	977,114.72
4	2009-10	410.80	921.79	1,038,546.08
5	2010-11	428.73	965.15	1,105,934.09
6	2011-12	447.66	1011.80	1,183,332.00
7	2012-13	467.56	1061.52	1,269,338,.02
8	2013-14	488.46	1114.29	1,363,700.54
9	2014-15	510.57	1171.32	1,471,912.94
10	2015-16	534.36	1229.56	1,525,220.32

Source: Annual Report of MSME, Government of India, 2016-17

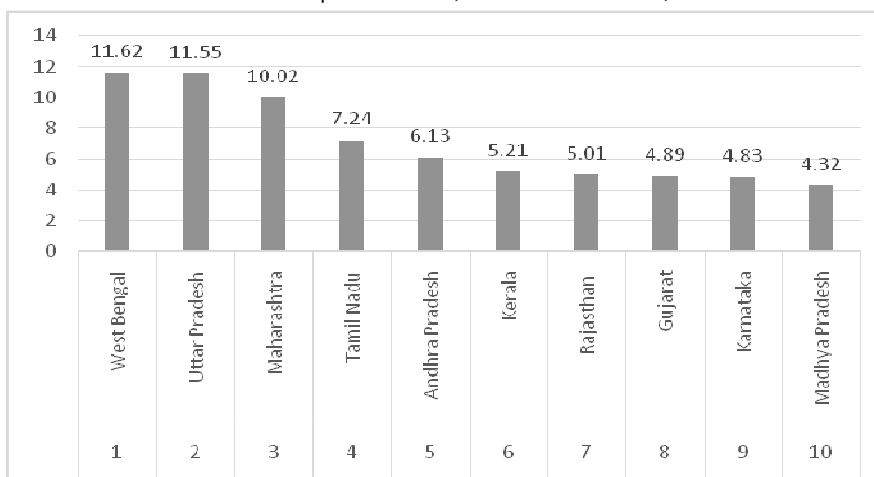


Performance of Micro, Small & Medium Enterprises (MSME) sector is collected from the Annual Report of MSME, Government of India. It is clear from the table that the number of enterprises, employment, and investment in fixed assets in India shows an increasing trend over the years. In the year 2001-02 to 2009-10 total working Enterprises (in Lakh) increased from 105.21 to 410.80, Employment generation was from 249.33, Market Value of Fixed Assets (in crore) 154,349.00 to 1,038,546.08. From 2010 onwards to till today performance of MSMEs is increasing in a faster rate, at the same time the number of MSMEs also increasing in high number.

List of the States Having Most Number of MSMEs in India

Rank	State	Number of Establishments	% Share
1	West Bengal	52,69,814	11.62
2	Uttar Pradesh	52,38,568	11.55
3	Maharashtra	45,45,581	10.02
4	Tamil Nadu	32,82,197	7.24
5	Andhra Pradesh	27,81,219	6.13
6	Kerala	23,64,085	5.21
7	Rajasthan	22,70,936	5.01
8	Gujarat	22,18,464	4.89
9	Karnataka	21,88,860	4.83
10	Madhya Pradesh	19,58,550	4.32
Total		3,21,18,346	70.80159
All India		45,364,786	100

Source: Annual Report of MSME, Government of India, 2016-17



As per the annual reports ranks of the states has been announced for having most of the MSMEs in India. West Bengal ranks prime position for establishing 52,69,814 (11.62%) MSMEs. Uttar Pradesh is in second position followed by Maharashtra, Tamil Nadu, Andhra Pradesh, Kerala, Rajasthan, Gujarat and Karnataka occupies Ninth position in the number of establishments by establishing 21,88,860 MSMEs.

Contribution of Manufacturing Output of MSME in GDP

The contribution of MSME sector towards GDP and total manufacturing output has been depicted in the below table. It is clear that the share of service sector MSMEs to the GDP has been increasing compare to manufacturing sector; it is an indication of the countries growth and changing nature of economy.

Share of MSME Sector in GDP and Total Output

Manufacturing Output at current price			Share of MSME GVA to GVA/GDP at constant price (%)					
Year	MSME Manufacturing output (Rs in crore)	Share of MSME manufacturing output in total manufacturing output (%)	MSME Manufacturing Sector		MSME Service Sector		Total	
			In GVA	In GDP	In GVA	In GDP	In GVA	In GDP
2011-12	21,67,110	33.12	6.64	6.16	25.66	23.81	32.29	29.97
2012-13	23,85,248	33.22	6.77	6.27	26.05	24.13	32.89	30.40
2013-14	26,53,329	33.27	6.79	6.27	26.40	24.37	33.19	30.64
2014-15	27,83,433	33.40	6.63	6.11	26.72	24.63	33.34	30.74
2015-16*	2,913,937	33.57	6.81	6.27	26.84	24.54	33.52	30.84

Source: Annual Report of MSME, Government of India, 2016-17.

The above table discloses the contribution of MSME sector to the total industrial production and GDP over the years. It shows an increasing trend over the period of study. During the financial year ending 2014-15, this sector contributes 33.40% of the total GDP of the country. It is projected that this sector contributes to GDP around 33.57% of the total GDP.

MSMEs and Sustainable Development

According to the definition given by the United Nation Commission on Environment and Development in 1987, development is sustainable if it "meets the needs of the present without compromising the ability of future generation to meet their own needs". Three basic objectives of the sustainable development (SD) are highlighted. The first is economic objectives including economic growth, efficiency and stability of the economic activities. The next objective is social. The third is future environmental objectives. Over the years SMEs have gained wide recognition as a major source for employment, income generation, poverty alleviation and regional development. The SMEs cover broad areas of economic activities such as agriculture, manufacturing, mining, constructions and service sector industries. In the present competitive and challenging global environment, a viable and dynamic SME sector is essential for economic development of developing countries. For the survival of the SME sector in developing countries, support from other sections of society is needed. The role of MSMEs in protecting and improving the environment, through their production and marketing of environmental technologies (for energy efficiency, waste minimization, renewable energy etc.), is likely to be significant. The future contribution of SMEs to improving society's "eco-efficiency", through innovation is also likely to be substantial, given the leading role of SMEs in general innovation and their flexibility. Most MSMEs perceive environment improvement as a costly burden. As they are primarily concerned with short-term economic survival, they are not motivated to ask for, or use, environmental information or support. However, it is clear from the environmental technologies supplied by some MSMEs, and substantial gains (both financial and environment) made by the few MSMEs who have adopted "clean production", that action on their environmental performance can be an opportunity for many SMEs to improve their market share and profitability. As mentioned by Starkey, business activity has a substantial impact on the environment. They are as follows:

- The manufacture of products involves extracting raw materials from the environment and processing them to produce salable items. As a result of the production process, various forms of waste (solid, liquid and gaseous) enter the environment.
- The activities surrounding the manufacturing process such as maintenance of plants and infrastructure and the packing and transport of goods all have environmental impacts.

- In addition the products that are produced will eventually be disposed of and enter the environment as waste.
- The provision of services also results in a significant environmental impact. Service companies use various products and also energy to deliver their services, both of which result in waste entering the environment.

As mentioned by the above situation of SMEs, Starkey (1998) claims that there are a number of advantages to undertaking environmental management. These include:

- Cost Saving
- Ensuring legislative compliance
- Anticipating future legislations
- Reduce environmental risk
- Meeting supply chain requirements
- Improved relations with regulators
- Improved public image
- Increased market opportunities
- Employee enthusiasm

Though there are a number of advantages to MSMEs with environmental management, they have no proper attention towards it. SMEs do not undertake environmental management as they feel that they have neither the time nor the money to do so. SMEs often have to concentrate their efforts on matters of day-to-day survival such as paying bills, providing weekly pay packets and keeping orders coming in. Environmental management requires time to implement and money to undertake, time and money which SMEs feel they do not have available. In short environmental management is seen as a luxury that MSMEs cannot afford.

Opportunities for Indian MSMEs

- **Bilateral and Multi-lateral Trade Agreements:** Keeping the weaknesses aside, Indian MSMEs today have access to opportunities like never before. A number of bilateral and multilateral trade agreements have taken place which opens the door to a great source of revenue for Indian entrepreneurs.
- **Enhanced Credit Support:** With more and more government initiatives for MSME promotion, entrepreneurs can expect some relief in terms of access to credit facilities. Besides, the emergence of online marketplaces and alternative funding has also made it easier for entrepreneurs to secure business funding.
- **Support for Technological Up-gradation:** A few technology up-gradation programs for the SMEs have been introduced in the last couple of years. These programs have been initiated by the Ministry of MSME. The core aim of these initiatives is to help the small and medium enterprises upgrade their technology and enhance their production facilities.
- **Marketing Assistance:** Government bodies like NSIC (National Small Industries Corporation) have launched several marketing programmes to promote small businesses. Hence, small business owners can now avail adequate marketing support from Government agencies for growing their business. With the advent of internet, digital era the access to newer opportunities have increased significantly. Some of the entrepreneurs have also used made a stand against monopolies & made a mark in the industry.

Problems of MSMEs in India

Problems of MSMEs in India There are some evidences that the MSMEs contributions prominently to the Indian economy through creating employment opportunities, generating production volumes and exports, introducing innovations and development of entrepreneur skills. However, the MSMEs face many problems in India. Some of the main problems of MSMEs are:

- Unduly delayed payments by large industry players
- Absence of adequate and timely affordable bank credit
- Lack of infrastructure inputs and banking support
- Limited capital and knowledge

- Low managerial capability,
- Low return on investment,
- Lack of suitable technology,
- Low production and productivity
- Ineffective marketing strategies,
- Non-Identification of new markets,
- Hurdles in expansions, modernization and innovations,
- Inadequate power supply, water supply, transportation facilities
- Lack of adequate warehousing facilities,
- Lack of information timely,
- Lack of skilled labour and training
- Ruthless competition,
- Declining exports of total exports

Conclusion

MSMEs over the years have assumed greater significance in our burgeoning national economy by contributing to employment generation and rural industrialization. This sector possesses enough potential and possibilities to pushbutton accelerated industrial growth in our developing economy and well poised to support national programme like 'Make in India'. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for them under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

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