

## A STUDY ON PROBLEMS, SOLUTIONS AND PROSPECTS IN PRESENT SCENARIO: MSME'S IN INDIA

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### ABSTRACT

*In recent series of development of business, the MSME enterprises have been accepted as the growth engine for promoting equal development. The MSME's also have very major role in dispersal of industries and generation of employment opportunities by providing job to more than 6 crore people. It is observed that this sector has higher growth rate compared to other industrial sectors. Due to lack of entrepreneurial skills, less availability of raw materials, lack of support from financial assistance and technical assistance from concerned local authorities the distribution of MSME's throughout India is not equal. The main problems of MSME's are lack of modern technology, less research and innovations, high cost of credit, unavailability of modern technology, insufficient training and skill development, high cost of credit, unavailability of timely credit facilities, complicated labour laws. However for the development of MSME the various opportunities are available the MSME can attract in the foreign investment and technology with better employment through development in MSME. After understanding the expectations of customers primarily, the need of customers can be satisfied. Relocation of rural youths can be stopped by providing them chance to work at their place. Change of technology in various types of MSME'S, liberal labour laws, training and skill formation, financial and technical assistance may help in the development of MSME. A detail survey and proper research must be conducted to identify the problems and difficulties which will enable rapid growth of MSME.*

**KEYWORDS:** MSME, Problems of MSME, Employment and Working Enterprise in MSME.

### Introduction

From past many years in India, MSME are considered as means of production and service rendering sector with effective utilization of limited resources with higher operational flexibility, low investments and higher innovations being considered as strengths of MSME. The effective utilization of resources, greater operational flexibility, mobility and higher innovations and low investment are the strength of MSME's. MSME's sector worldwide is considered as the growth engine of the economy. In European Union and USA, approximately 80 % to 90% enterprises (respectively) are under MSME. In India major potential can be seen in equal regional development and effective utilisation of scarce resources. More than 95% units belong to MSME sector in India. MSME's contribution towards this sector is very much remarkable than any other sector of economy. It is important that MSME contributes more towards employment generation, GDP, production, investments etc.

### Definition of MSME's

According to the provision of MSME's development Act 2006, MSME's is divided into two categories:

- **Manufacturing Enterprises:** Enterprises engaged in manufacturing or production of goods, with regards to any industry mentioned in the first schedule of the industries (development and regulation) Act 1951, having investment in P & M of rupees upto 25lacs, or more than 25lacs to 5crores, or more than 5crores upto 10 crores is known as Micro, Small and medium enterprises, respectively.

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• **Service Enterprises:** Enterprises involved in providing or rendering services having investment in equipment of rupees upto 10lacs, more than 10lacs to 2 crores, and more than 2crores to 5crores is known as Micro, Small and medium enterprises, respectively. Out of total number of industrial enterprises MSME sector covers more than 80% in India and employs over 6 crore people. According to statistics and estimates, out of 26 million MSME's, only 1.5 million are registered and remaining are unregistered. The state wise distribution of MSME's is not equal due to 55% of MSME's in 6 states only, i.e,Uttar Pradesh, Maharashtra, Tamilnadu, West Bengal, Andhra Pradesh and Karnataka. Further, women own about 7% of MSME's and more than 94% of the MSME's are proprietorship or partnerships.

#### Objectives of the Study

The major objectives of this study were as follows:

- To know the present status of MSME'S in India
- To know the problems and solutions related to MSME'S.
- To know the contribution of MSME to the growth of the nation's economy.

#### Database and Methodology

Data used in the study are secondary in nature and mostly collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises. The study covers a period from 2005-06 to 20011-12. Three parameters namely No. of units, gross-output, employment have been used for performance analysis of MSME .The details of outstanding bank credit is taken from the RBI. The other related information are obtained from the personal interaction with the MSME'S owners where it was required.

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 The first comprehensive legislation "The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 covering the entire gamut of the micro, small and medium enterprises, has come into force 2 October, 2006. The Office of the Development Commissioner (MSME) has been actively pursuing the implementation of MSMED Act with States / UTs. As a result, all States / UTs have issued notifications for authority to accept filing of Memorandum for Micro and Small Enterprises (MSEs), 33 States / UTs have notified the rule for Micro & Small Enterprises Facilitation Council (MSEFC) and all States / UTs have constituted MSEFCs.

#### Summary Results: Fourth All India Census of MSME

S. No	Characteristics	Registered Sector	Unregistered Sector	Economic Census 2005	Total
1	Size of Sector (In Lakh)	15.64	198.74	147.38	361.76
2	No of Rural Units (In Lakh)	7.67	119.68	73.43	200.18
3	No of Women Entrepreneurs (In Lakh)	2.15	18.06	6.40	26.61
4	Total Employment (In Lakh)	93.09	408.84	303.31	805.24
5	Total Gross Output (In Lakh)	70751027	36970259	-	107721286

Source: MSME Annual Report 2015-16

#### Role of MSME in Indian Economy

Through various business innovations, MSME have been significantly contributing in expansion of entrepreneurial endeavours. According to data available with Central Statistics Office, Ministry of statistics & Programme Implementation, the MSME, s contribution in country's Gross Value Added (GVA)<sup>1</sup> and Gross Domestic Product (GDP)<sup>2</sup>, at current prices is as follows:

#### MSME's contribution in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM3 at current prices)

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Manufacturing MSMEs contribution in country's total Manufacturing Gross Value output at current price is consistent at about 33% i.e., one third in the last five years.

**Performance of the MSME Sector**

- **Estimated Number of MSMEs in the Country**

According to the 73<sup>rd</sup> round conducted by National Sample Survey office, Ministry of Statistics & Programme Implementation during 2015-16, there was 633.88 lacs unincorporated non – agricultural MSMEs in the country was engaged in different economic activities i.e. (196.64lacs in Manufacturing, 230.35lacs in Trade and 2016.84 lacs in other services and 0.03 lacs in Non- captive Electricity Generation and Transmission) except the MSME s which are registered under:

- Sections 2m (i) and 2m(ii) of Factories Act,1948,
- Companies Act, 2013 and
- Construction activities under Section F of National Industrial Classification 2008.

**Estimated Number of MSMEs (Activity Wise)**

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
<b>All</b>	<b>324.88</b>	<b>309.00</b>	<b>633.88</b>	<b>100</b>

From the above data it is observed that 31% MSME were engaged in manufacturing activities, and 36% were engaged in Trade and 33% in other Services.

**Category wise Distribution of Enterprise (Numbers in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

In the above table the Micro sector with 630.52 lakh , Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for more than 99% , 0.52% and 0.01% of total estimated MSMEs respectively.

**Employment**

According to 73<sup>rd</sup> round of National Sample Survey conducted in the year 2015-16, MSME sector had been creating 11.10 crore jobs(360.41 lacs in Manufacturing, 387.18 lacs in Trade and 362.82 lacs in other services and 0.07 lacs in Non- captive Electricity Generation and Transmission) in rural and urban areas across the country.

**Employment in MSME Sector**

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

The estimated employment in Rural and Urban sector was 497.78 and 612.10 which includes the broad activities of manufacturing , Trade and other services.

**Employment Distribution in Rural and Urban Areas (Number in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Out of 1109.89 lakh employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakh (24%) are females.

**Sectoral distribution of workers in Male and Female Category (in Lakh)**

Sector	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	<b>264.92</b>	<b>844.68</b>	<b>1109.89</b>	<b>100</b>

**Comparative Analysis between Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16)**

Comprehensive information on the MSME Sector can be obtained from both Fourth all India MSME Census was held in 2006-07 and the NSS 73rd Round (2015-16). Being held almost 10 years time gap, a comparison of the two sets of results can capture the growth of the basic parameters of the MSME Sector over a decade.

**Growth of MSMEs**

Parameter	NSS 73rd Round#, 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

**Performance of the Credit Linked Capital Subsidy Scheme (CLCSS) since FY 2012-13**

S. No.	Financial Year	Financial Year	Subsidy disbursed (Rs. in crores)
1	2012-13	5713	343.79
2	2013-14	6279	421.49
3	2014-15	7246	448.85
4	2015-16	5047	322.43
5	2016-17	4011	256.53
6	2017-18 (upto 31.01.2018)	4081	260.54

Since inception, 48672 MSEs have benefitted by availing capital subsidy of Rs. 2907.40 Crore upto 31-01-2018. There is a liability/pendency of Rs.985.00 cr. (approx.) as on 31.01.2018 under ONER-General category.

**Achievements of MSME Tool Rooms during 2015-16 (up to 31st January, 2016)**

1	Revenue Target 2015-16 ( in lakh)	34952
2	Revenue Earned ( in lakh)	19914
3	No. of Units Serviced	29502
4	No. of Trainees (Long Term)	25427
5	No. of Trainees (Short Term)	116065
6	No. of SC/ST Trainees	56410
7	No. of OBC Trainees	17899
8	No. of Minority Trainees	2935
9	No. of Women Trainees	17008
10	No. of Physically Handicapped Trainees	36

**MSME Testing Centres and Stations**

- **MSME:** Testing centres office of DC is operating four MSME and Testing Centres are located at New Delhi, Mumbai, Chennai and Kolkata. These testing centres provide testing and calibration facilities to general industries, Micro, small and medium enterprises in particular for Raw materials, semi-finished products, manufactured by them.
- **MSME:** Testing Stations provide testing facilities in the areas with cluster of industries and some of the strategic areas. GOI has provided testing facilities at Jaipur, Bhopal, Kolhapur, Hyderabad,

Bangalore, Puducherry, and Ettumanur and helps in testing of products like chemicals, lamps, castings and forgings, paints and varnishes etc.

**The Overall performance of MSME-TCs &MSME has been considered till 31.1.2016**

Year	Revenue earned (lakhs)		Recurring Expenditure ( lakhs)		No. of jobs completed		No. of Units benefitted	
	TCs	TSs	TCs	TSs	TCs	TSs	TCs	TSs
2007-08	326.06	106.81	430.40	111.84	12214	14261	2428	4662
2008-09	348.11	122.91	568.32	175.21	14013	21916	2608	5844
2009-10	387.96	137.04	638.37	209.92	14497	22471	6805	8163
2010-11	389.77	175.12	701.76	229.10	13981	26488	6304	8497
2011-12	425.28	213.37	727.38	187.34	19436	24542	7302	8906
2012-13	468.23	249.07	775.41	214.91	15472	17123	5602	8627
2013-14	581.69	275.90	787.70	238.40	14135	17545	6657	8155
2014-15	559.81	288.11	935.15 2	275.93	12709	14185	7295	6741
2015-16 (upto 31.01.16)	418.96	282.46	629.70	240.79	9746	10556	4765	5230

**Bank Credit to Micro and Small Industries**

Compounded annual growth rate (CAGR) was healthy from the year 2012 to 2016 at 12% slided down to 5% in FY 17. All sectors had a decline growth rate in credit disbursement in 2017 starting with credit to agriculture sector which reduced to 5.7% in 2017.

	Outstanding Credit (Rs. bn)			Growth (%)	
	FY 12	FY16	FY 17	CAGR(FY 12-FY16)	FY 17
Overall Bank Credit	46,119	75,067	78,819	12.0	5.0
Agricultural and allied Activities	5,466	8,829	9,330	12.7	5.7
Industry	19,373	27,307	26,014	9.0	-4.7
Micro and small	2,367	3,715	3,562	11.9	-4.1
Medium	1,248	1,148	1,005	-2.1	-12.5
Large	15,759	22,444	21,448	9.2	-4.4
Services	10,230	15,411	16,120	10.8	4.6
Trade	2,250	3,811	3,943	14.1	3.5
Commercial real Estate	1,127	1,776	1,781	12.1	0.3
NBFCs	2,332	3,527	3,195	10.9	-9.4
Personal Loans	7,828	13,922	15,403	15.5	10.6
Housing	3,971	7,468	8,202	17.1	9.8
Credit Card Outstanding	204	377	493	16.5	30.9
Vehicle Loans	891	1,529	1692	14.5	10.7

Personal loans to survive at double-digit growth of 10.6% CAGR in FY17, but were lower compared to 15.5% during FY12 – FY16. This double-digit was led by rise in credit card outstanding which grew by a whopping 30.9% in FY17 from 16.5% between FY12-16. And other categories like housing and vehicle loans saw downward trend of 9.8% and 10.7% in FY17 as against 17.1% and 14.5% between FY12-16. Service credit growth also lowered to 4.6% in FY17 versus 10.8% between FY12-16. NBFC under this category witnessed decline of 9.4% in FY17 from 10.9% between FY12-17. Credit to industry was the lowest performer in FY17 with a negative trend of 4.7% compared to 9% in FY12-16. All three segment namely micro & small, medium and large industry saw negative growth of -4.1%, -12.5% and -4.4% respectively in FY17. Not only, this share of credit towards industry reduced to 38.4% in FY17 compared to 40.7% from FY12-16. While credit to remaining category saw surge in their share during FY17.

**Problems of MSME's in India**

Presently, the Indian MSME'S are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. Based on data analysis and study of the related literature the MSME'S problems can explain as follows:-

- **Lack of Credit from Banks:** The MSME'S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSME'S. The loan providing process of the banks is very long and formalistic. The owners of the MSME'S has to produce different types of documents to prove their worthiness.

- **Competition from Multinational Companies:** In present era of globalization, the MSME'S are facing the great competition from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.
- **Poor Infrastructure:** Though, MSME'S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
- **Unavailability of Raw Material and other Inputs:** For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- **Lack of Advanced Technology:** The owners of MSME'S are not aware of advanced technologies of production. Their methodology of production is outdated. They are more labour intensive by method of production rather than capital method of production.
- **Lack of Distribution of Marketing Channels:** The MSME'S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies are. The ineffective advertisement and poor marketing channels leads to a very poor selling.
- **Lack of Training and Skill Development Program:** The training and development programs in respect of MSME'S development concern is very low .So, skilled manpower is not being available to MSME'S. The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.
- **Complex Labour Laws and Red-Tape:** All the laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult. The various decisions of factory' are depend upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSME'S.

#### **Suggestions for Improvement**

According to our study and the annual reports of MSME'S, we strongly recommend the following suggestions for the growth and development of the MSMEs in India:

- **Mutual Supply of Technologies:** A number of appropriate technologies for the MSME sector have developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if already developed technologies made available to each other.
- **Constitution of a Panel of Consultants:** For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared, who can help the MSMEs within the region for effectively transfer the available technologies. The constitution of panel of these consultants could be nature wise of the activities of the MSME.
- **Determination of Technological Needs:** There should be detailed survey to assess the technical and financial needs of the MSME. So that, the proper arrangement could be made to fulfil the needs of the MSME'S.
- **Training and Development, Awareness Programs:.** Proper training and development programme must be conducted by MSME ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits.
- **Sufficient Availability of the Credit-** Our banking system does not provide sufficient amount of credit to fulfil their requirement of establishment of MSME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate(s).
- **Proper Research and Development:** There should be proper research and development in respect of innovative method of production and service rendering. The innovative products will provide the cheaper products and the MSME'S will be able to cope up with the situation.

#### **Potentials in MSME's**

The lots of potentials are available in the field of MSME'S. The prospectus of this sector is explained as under:

- **Employment Generation:** There is numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSME are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSME's. **Customer satisfaction oriented-** The MSME'S produce goods according to the needs or expectations of the customers. Primarily, the MSME'S manufacture goods considering the taste and preferences, liking and disliking of the local consumer .So, the MSME'S can be ore customer satisfaction oriented.
- **Minimization of Regional Imbalance:** The MSME'S can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSME'S will utilize the work force of rural areas and lead to the removal of regional imbalance.
- **Enhancement of Export:** The MSME'S can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like – dari, kaleen, wooden items and other hand- made souvenir articles demanded in the world.
- **Attraction to the Foreign Investment:** Even if the Indian MSME are booming field with satisfactory growth rate and return on investment.. Therefore, this sector might be a source to attract foreign investment in India.

### Conclusion

MSME's provide job and employment and ultimately self dependency. In country like India, only self-dependency is the way, which can be a cure for devaluation of Indian Rupees. Therefore, MSME's can be boon and a hope for Indian economy in near future. The MSME'S are providing the uniform development to the society and can be a strong mean to utilize the natural resources of the India. The MSME's are very helpful to remove the regional imbalances if it is establish in the underdeveloped areas.

The MSME's are providing more employment per unit. In 2006-07, there were 805.23 lakh employees while in 2014-15 it is 1171.32 lakh. Numerous possibilities exist in this field. For the of 2006-07 to 2014-15 there is 603.369 lakh growth in the market value of fixed assets while 37.33% growth in gross output produced by MSME'S in 2012-13. The law of marginal returns is not being apply on this area. So, The foreign investment can easily be attracted. However, presently, Indian MSME'S are facing the various problems at different levels. The MSME owners are not innovative and their entrepreneurial skills are very low. (The figures may be represented in graphs or charts so that complex/dense information is easily concise)

Government is not providing any type of satisfactory training or skill development schemes and the problem of unawareness towards technological advancement can be removed only by having effective training skill development programs. The bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. The rules and regulations related to labour laws must be relaxed. The panel of experts must constitute to assess the status and the needs of the MSME'S. The future of MSME sector in India is bright and it will grow the economy.

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