

## PROBLEM AND PROSPECTS OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN INDIA

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### **Abstract**

*Micro, small and Medium Enterprises (MSMEs) constitute an important segment of the Indian economy in terms of their contribution to countries industrial production, exports, employment and creation of entrepreneurship base. The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSME Act, 2006. The Act provides the first ever legal framework for recognition of the concept of the concept of "enterprise". Under the act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/rendering services. Both the categories have been further classified in to micro, small, medium enterprises based on their investment in plant or in equipment (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services). This sector continues to be the vibrant sector of the Indian economy and it is estimated that there are about 12.8 million units in this sector employing nearly 31 million people. This sector contributes nearly 39 percent of the total industrial production and accounts for approximately 33 per cent of the total exports. This sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6500 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. After Agriculture, MSMEs provides the maximum opportunities for both self-employment and jobs in the country. As per the estimates compiled for the year 2010-11, the employment was 750.15 laks persons in the sector. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94 percent, 4.89 per cent and 0.17 per cent respectively. Presently, the MSMEs in India are at cross road and it needs to be examined what would be the future of the MSMEs? In this context, it is important to re-look on these basic issues of MSMEs and its future prospects.*

**Keywords:** *MSMEs, exports, self-employment, entrepreneurship, industrial production, Indian economy*

### Introduction

Micro, small and Medium Enterprises (MSMEs) constitute an important segment of the Indian economy in terms of their contribution to countries industrial production, exports, employment and creation of entrepreneurship base. The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSME Act, 2006. The Act provides the first ever legal framework for recognition of the concept of the concept of “enterprise”. Under the act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/rendering services. Both the categories have been further classified in to micro, small, medium enterprises based on their investment in plant or in equipment for manufacturing enterprises or in equipment in case of enterprises providing or rendering services. This sector continues to be the vibrant sector of the Indian economy and it is estimated that there are about 12.8 million units in this sector employing nearly 31 million people. This sector contributes nearly 39 percent of the total industrial production and accounts for approximately 33 per cent of the total exports. This sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6500 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. After Agriculture, MSMEs provides the maximum opportunities for both self-employment and jobs in the country. As per the estimates compiled for the year 2010-11, the employment was 750.15 laks persons in the sector. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94 percent, 4.89 per cent and 0.17 per cent respectively. Presently, the MSMEs in India are at cross road and it needs to be examined what would be the future of the MSMEs? In this context, it is important to re-look on these basic issues of MSMEs future prospects.

### Definition of MSMEs in India

According to the MSME White book 2011-2012, the MSMEs (Micro, Small, and Medium Enterprises) sector has consistently registered higher growth than the rest of the industrial sector. A significant number of the MSMEs depend on the agriculture, horticultural, forest and non-forest produce. They do generate much required employment and thus prevent mass migration from the rural to urban areas thus reducing the clutters and burden on Tier 1 and Tier 2 cities in India. According to the MSME Times News Bureau (August 2012), “In India, MSME definition is based not on number of employees but on amount of investment. Most Indian MSMEs are labor-intensive and employ more than the prescribed workers as defined by European countries.” Although European Union offers abundant fee concession to MSMEs, but as the definitions of what constitutes an MSME differs in India and Europe; most Indian MSMEs do not fall under the MSME category as defined by European countries.

Micro, small and medium enterprises as per MSME Act, 2006 are defined based on their investment in plant and machinery for manufacturing enterprise and on equipment for enterprises providing or rendering services.

**The major constraint faced by MSMEs in India is "power"**

- Man Power
- Electric Power
- Money Power
- Purchasing Power
- Political Power

It is all a game of power. There is no skilled manpower to work. Manpower shortage is the bigger issue for those SMEs which have matured and willing to grow. Manpower in numbers is not a problem. The biggest problem faced by SMEs is skilled manpower - welder, fitter, and machinist. Despite being skilled, they have problems of attitude and lack motivation and the right mindset. The middle level management is the problem. The single man keeps running here and there. Whether we make a pen or an aero plane, the activities are same, only the magnitude / volume changes. Same we have to start from identifying the product, then developing it (engineering) and sale of the product. There are 14 functions to be done the in the manufacturing organization. The start-up entrepreneurs need venture capital. Since the risk involved in very high, many have put their own private capital. It is not the investment in infrastructure or buying machine, it is the working capital also. The capital is required to run the organization. Now with banking loan services it is becoming easy to get loan, but repayment is another issue since marketing is too weak. To market any commodity we need a brand name which is difficulty to get in the beginning. There are not enough funds to invest in brand building. The biggest problem faced by SMEs is the right team and skilled manpower. We can borrow money from other country or bank and agency but we cannot borrow the skills from outside. Another problem the SMEs face is failure to visualize and effect the change.

**Initiatives which are taken by Indian Government in Order to Promote MSMEs in India**

One of the prominent steps in this regard is indeed setting up of MSME Act 2006. As a result of the globalization and liberalization of the economy, the units in the sector were increasingly called upon to face new and bigger challenges not only from MNCs but also from bigger domestic players. Recognizing the dynamics of the new environment in which these units were operating, MSME now focuses on providing support in the fields of skill development, credit, marketing, technology and infrastructure. The emerging global trends and national developments have transformed the role of the organization into that of catalyst of growth of small enterprises in the country.

Certain measures like Loan subsidies for SMEs, Listing of SMEs on national stock exchange like NSE (titled EMERGE) and BSE were taken by Indian Government and SEBI in order to promote and safeguard the SMEs against staggering growth. According to the latest data quoted by "SME World" (January 2013), listings of SMEs on stock exchange is a step in the right direction for the SMEs who are looking to raise financial resources but have to struggle with apathy of the Indian Financial system as there is huge number of regulatory approvals. SEBI has ensured that the regulations to ensure smooth listing of SMEs on the exchange.

The Ministry of Micro, Small and Medium Enterprises (MSME) is operating a Scheme namely Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Up gradation of Micro and Small Enterprises. The Scheme aims at facilitating Technology Up-gradation of Micro and Small Enterprises earlier known as Small Scale Industries. The revised scheme aims at facilitating Technology Up gradation of Micro and Small Enterprises by providing 15 per cent Capital Subsidy limited to maximum 15.00 lakh for purchase of Plant & Machinery. Presently, 884 technologies under 48 products/ sub-sectors have been approved under the scheme. Credit Guarantee Fund Scheme was setup for Micro and Small Enterprises with the objective of making available credit to SMEs.

The Micro and Small Enterprises -Cluster Development Programme (MSE-CDP) is being implemented for holistic and integrated development of micro and small enterprises in clusters through Soft Interventions such as diagnostic study, capacity building, market development, export promotion, skill development, technology up gradation, organizing workshops, seminars, training, study visits, exposure visits, etc. Hard Interventions setting up of Common Facility Centers and Infrastructure up gradation rate/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSEs).

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country. The sector is estimated to employ about 69 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items which are being manufactured by MSMEs in their ranging from traditional to high-tech items, which are being manufactured by MSMEs in the country. It is well known that MSME sector provides maximum opportunities for both self employment and jobs outside agriculture sector. The inclusiveness of the sector is underlined by the fact that nearly 50 per cent of the MSMEs are owned by disadvantaged groups of the society.

To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides

defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy. A task force was constituted to identify issues that are inhibiting the economy development and growth of the MSME sector. While most of the recommendations have already been implemented there are some specific issues related to policy and government support needs immediate attention.

### **Conclusion**

Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. SMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower. To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy.

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