



Msmes In India: Problems And Perspectives

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Abstract

In the present scenario of business, the micro, small and medium enterprises (**MSMEs**) have been accepted as the engine of growth for promoting equitable development. The **MSMEs** play a vital role in industries promotion and generation of employment opportunities. The **MSMEs** provide jobs for more than six crore people, and they contribute 8% of country's GDP, 45% of manufacture, and 36% to exports. The **MSMEs** sector has consistently registered higher growth rate when compared to the overall industrial sector. The unavailability of adequate and timely credit facility, high cost of credit, lack of modern technology, lack of adequate research and innovation, insufficient training and skill development are the major problems of **MSMEs**. The employment is possible more through the development of **MSMEs** sector; the technology development, financial and technical assistance, liberal labour laws, training and skills formation will assist in the development of **MSMEs** sector.

Hence, the present study explored the problems and difficulties of **MSMEs** sector in detail, and provides various measures to improve the progress of **MSMEs** sector in India and the study applied annual growth rate (**AGR**) and compound annual growth rate (**CAGR**), for total working enterprises, employment, market value of fixed assets and gross output (**GO**). Total working enterprises (**WE**), total employment (**TE**), market value of fixed assets **MV (FA)** and gross output (**GO**) are positive in values and shows increasing trend, hence there is an positive growth in total working enterprises, total employment and market value of fixed assets. The study used correlation and regression to test the impact of **GO** on **MV (FA)**, and it shows that there is a significant positive relationship between the gross output (**GO**) and the market value of fixed assets **MV (FA)** of **MSMEs** in India; and there is a significant positive impact of **GO** on **MV (FA)** of **MSMEs** in India, hence H_0^1 and H_0^2 are rejected.

Keywords: MSMEs, Potentials in MSMEs, Problems of MSMEs

1. Introduction

In India, since last many years, the **MSMEs** are recognized as means of production and service rendering with utilization of limited resources. The effective utilization of

resources, greater operational flexibility, mobility and higher innovations and low investment are the strengths of **MSMEs** sector. The **MSMEs** sector, world wide is considered as the growth engine of the economy. In Europe and the USA, more than 99% and 80% enterprises respectively are under **MSMEs** sector. In India, much potential is available towards an equal regional development and optimum utilization of scarce resources. More than 95% units belong to **MSMEs** sector, and about 45% of the products are produced by **MSMEs** sector. The **MSMEs** sector contribution towards investment, employment generation, GDP, production etc is highly remarkable.

2. Micro, Small and Medium enterprises (MSMEs)

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the (**MSMEs**) are classified in to two classes viz manufacturing enterprises and service enterprises.

(a) **Manufacturing Enterprises:** The 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 Manufacturing enterprises are defined in terms of investment in Plant & Machinery.

(b) **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises is :

Manufacturing Sector	
Enterprises	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 rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
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 rupees but does not exceed five core rupees
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Source: Ministry of Micro, Small and Medium Enterprises

3. Review of literature

Dixit, A., and A. K. Pandey (2011), in their study titled “SMEs and economic growth in India : Co-integration analysis” used co-integration analysis to examine the causal relationship between **SMEs** output, exports, employment, number of **SMEs** and their fixed investment and GDP, total exports and employment. The study revealed a positive causality between **SMEs** output and India’s GDP.

Kalyan, N. B., and S. Gugloth (2012) carried out a research work titled “Micro, small, medium enterprises in 21st century” and analyzed the collision of globalization on Indian **MSMEs**. The study focused on the implication of globalization and domestic economic liberalization for **MSMEs** and concluded that the **MSMEs** have emerged as the most dynamic sector in Indian industrial economy. **Singh et al. (2012)** carried out a research work titled “Small scale industry: An engine of growth” and analyzed the performance of small scale industry in India and focused on policy changes. The study concluded that the **SSI** sector has made good progress in terms of production and employment levels. **Venkatesh and Muthiah (2012)**, in their study titled “SMEs in India: Importance and contribution” found that the role of **SMEs** in the industrial sector is growing rapidly and they have become a thrust area for future growth.

4. Objectives of the study

1. To study the schemes of **MSMEs** in India in general
2. To analyse the trend and progress of **MSMEs** in India
3. To analyse the relationship between the gross output (**GO**) and market value of fixed assets (**MV of FA**) of **MSMEs** in India
4. To study the impact of gross output (**GO**) on market value of fixed assets (**MV of FA**) of **MSMEs** in India
5. To study the problems and challenges of **MSMEs** in India
6. To suggest suitable measures to overcome the impediments of **MSMEs** in India

5. Hypotheses of the study

H₀1: “There is no significant relationship between gross output (**GO**) and market value of fixed assets (**MV of FA**) of **MSMEs** in India”.

H₀2: “There is no significant impact of gross output (**GO**) on market value of fixed assets (**MV of FA**) of **MSMEs** in India”

6. Research methodology

The present study is analytical in nature. The data used for the study are secondary in nature, which have been collected from the annual reports of Ministry of Micro, Small and Medium Enterprises, and Research Journals.

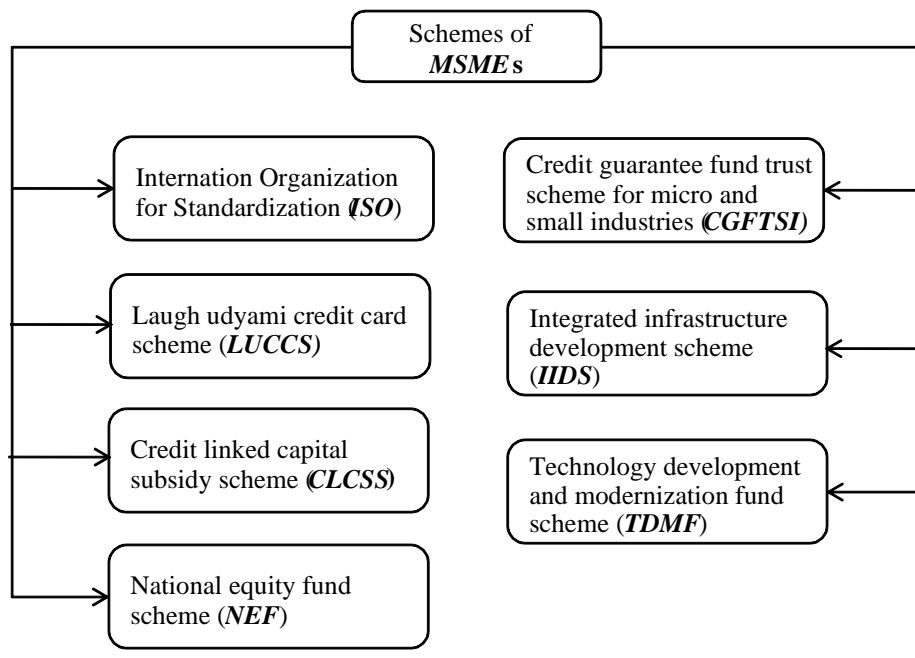
6 (a). Tools used for the study

- Annual growth rate (AGR)
- Compound annual growth rate (CAGR)
- Correlation
- Simple regression

7. Scheme of MSMEs

Figure I shows the schemes of **MSMEs**, which encourages MSMEs to further growth and development, the schemes, are as follows:

Figure - I: Schemes of MSMEs



Source: Ministry of Micro, Small and Medium Enterprises

A. Reimbursement for ISO - 9000 certification scheme

The scheme was started in March 1994 and it reimburses up to ₹75, 000 per small industrial unit which acquired ISO-9000 certification.

B. Laghu udyami credit card scheme (LUCCS)

Laghu Udyami Credit Card Scheme (**LUCCS**), which was introduced in November 2001 has been implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons.

C. Credit guarantee fund trust scheme for micro and small industries (CGFTSI)

The scheme covers collateral free credit facility extended by eligible lending institutions to new and existing units up to ₹ 50 lakh per borrowing unit. The **CGFTSI** helps small entrepreneurs to realize their dreams of making it big and successful.

D. Credit linked capital subsidy scheme (CLCSS)

The scheme was started in October, 2000 for a period of 5 years to encourage the small industrial units for technology up-gradation by installing new machinery and equipment for increasing productivity, quality up-gradation, and machinery for packaging or for environment protection.

E. National equity fund scheme (NEF)

The objective of **NEF** scheme is to provide equity type support to entrepreneurs for setting up new projects in tiny/small industrial sector for undertaking expansion, modernization, technology up-gradation and diversification of existing tiny, small industries and service enterprises and for rehabilitation of viable sick units.

F. Integrated infrastructure development scheme (IIDS)

The **IIDS** was introduced in 1994 with the objective of providing basic infrastructural facilities like power distribution network, water, roads, telecommunication, drainage and pollution control facility, banks, storage and marketing outlets, common service facilities technological back up services etc.

G. Technology development and modernization fund scheme (TDMF)

The main objective of the scheme is to encourage the existing industrial and small industrial units to take up modernization of their production facilities and the scheme was initiated in 1995 and was extended up to 2003.

8. Trends and Progress of the MSMEs Sector

Table 1 shows the annual growth rate (AGR) and compound annual growth rate (CAGR) of total working enterprises, employment and the market value of fixed assets during the year 2001-02 – 2012-13. The AGR shows positive and increasing trend for working enterprises

from 2001-02 to 2012-13; The CAGR shows positive value for working enterprises with the rate of 14.52%.

Table 1 - The Growth rate of total number of working enterprises, employment and the market value of fixed assets during 2001 - 02 - 2012 -13 (values in ₹ lakh)

Year	Total Working Enterprises	Working Enterprises AGR	Employment	Employment AGR	Market value of Fixed Assets	Market value of Fixed Assets AGR
2001-02	105.21	-	249.33	-	154.35	-
2002-03	109.49	4.07	260.21	4.36	162.32	5.16
2003-04	113.95	4.07	271.42	4.31	170.22	4.87
2004-05	118.59	4.07	282.57	4.11	178.70	4.98
2005-06	123.42	4.07	294.91	4.37	188.11	5.27
2006-07	361.76	193.11	805.23	173.04	868.54	361.71
2007-08	377.36	4.31	842.00	4.57	920.46	5.98
2008-09	393.70	4.33	880.84	4.61	977.14	6.16
2009-10	410.80	4.34	921.79	4.65	1038.55	6.28
2010-11	428.73	4.36	965.15	4.70	1105.93	6.49
2011-12	447.66	4.42	1011.80	4.83	1183.33	7.00
2012-13	467.56	4.45	1061.52	4.91	1269.34	7.27
CAGR	14.52		14.08		21.11	

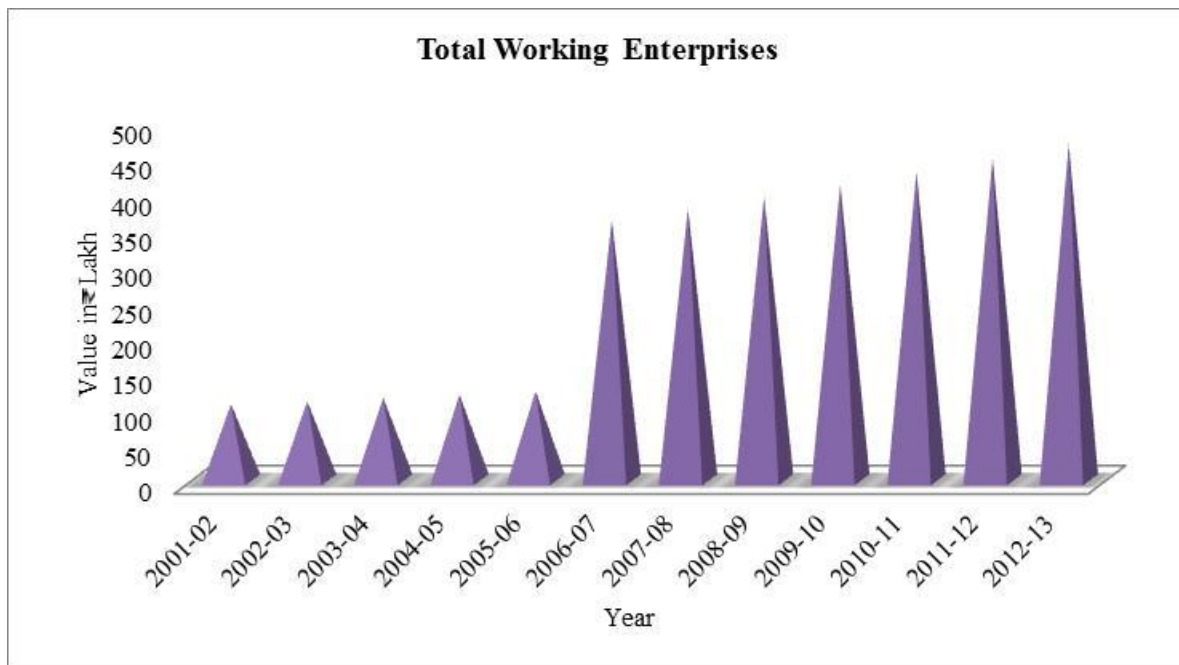
Source: Annual Report of MSME'S (2012-13)

The AGR shows positive and increasing trend for total employment and the CAGR shows positive rate of 14.08% for total employment, the market value of fixed assets also shows increasing trend; the CAGR shows 21.11% growth in **MV of FA** respectively. Total working enterprises, total employment and market value of fixed assets are positive in growth, hence there is an increasing trend in the total working enterprises, total employment and market value of fixed assets.

From the **figure 2**, it is inferred that the total working enterprises are increased from 2001 - 02 to 2012 - 13. The total number of working enterprises are increased by 344.40% from 2001 - 02 to 2012- 13.

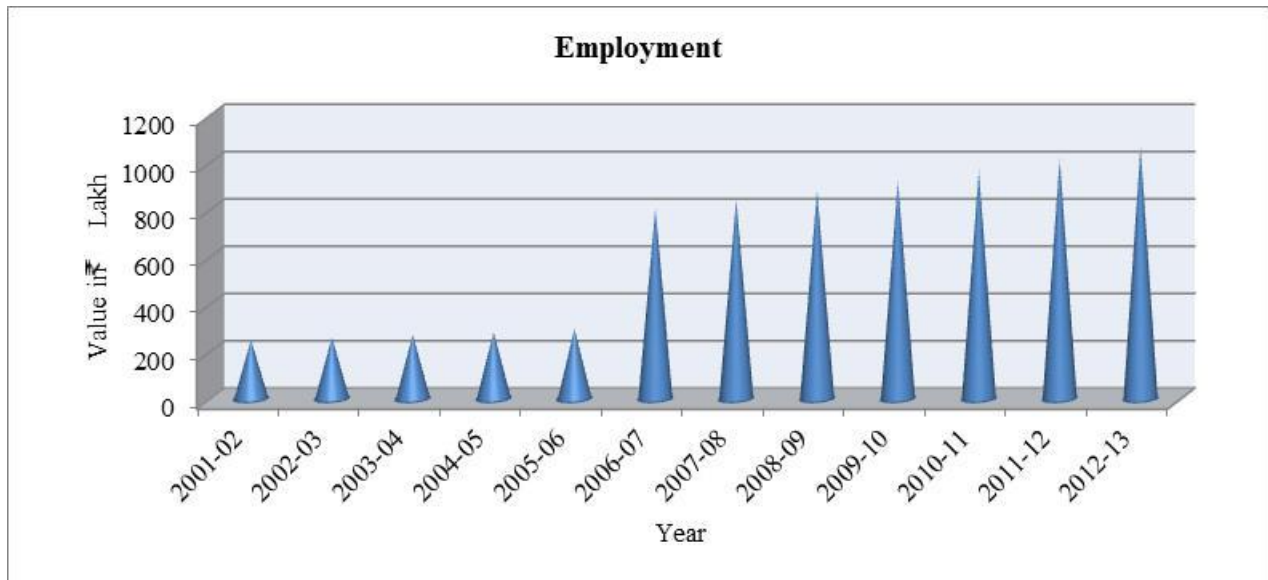
From the **figure 3**, it is seen that that the employment in **MSMEs** sector has increased at 325.75% from 2001 to 2012. **Figure 4** depicts the market value of fixed assets; from the year 2001-02 – 2012-13 it is evident that there is 722.27% growth in market value of fixed assets of MSMEs in India.

Figure 2 - Total number of working enterprises of the MSMEs sector during 2006 - 07 - 2011 - 12.



Source: Annual Report of MSMEs (2012-13)

Figure 3 – Employment in MSME Sector during 2001 - 02 - 2012 - 13



Source: Annual Report of MSME'S (2012-13)

Figure 4 - Investment in MSMEs Sector during 2001 - 02 - 2012 - 13



Source: Annual Report of MSME'S (2012-13)

Figure 5 shows the gross output of **MSMEs**; from 2007 - 08 to 2011 - 12 there is 27.81% growth in gross output produced by **MSMEs** in India.

Table 2 - Gross output in MSMEs Sector during 2006 - 07 - 2011 - 12

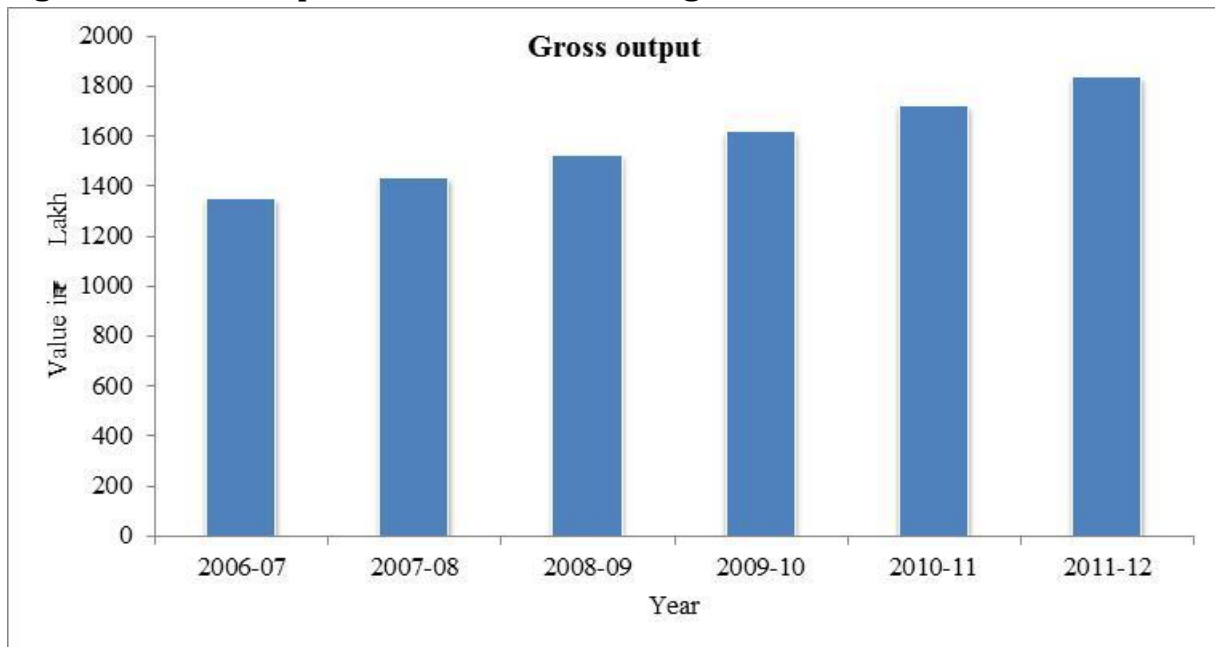
Sl.No.	Year	Gross output (in ₹ lakh)	AGR
1	2006-	1351.38	-

	07		
2	2007-08	1435.18	6.20
3	2008-09	1524.23	6.21
4	2009-10	1619.36	6.24
5	2010-11	1721.55	6.31
6	2011-12	1834.33	6.55
CAGR			6.30

Source: Annual Report of MSME'S (2012-13)

Table 2 shows the growth rate of gross output produced by the **MSMEs**. It shows that the AGR is in increasing trend from 2006-07 to 2011 - 12; the CAGR shows the value of 6.30%, which is positive and increasing trend from 2006 - 07 to 2011 - 12.

Figure 5 – Gross output in MSMEs Sector during 2006 - 07 – 2011 - 12



Source: Annual Report of MSME'S (2012-13)

9. Correlation Analysis

Table 3 shows the correlation matrix of the selected variables viz market value of fixed assets (**MV of FA**) and gross output (**GO**) and the relationship between **MV of FA (0.994)**

and **GO (0.994)**; which are highly significant positively at 1% level. Hence, **H₀¹**: “there is no significant relationship between gross output (**GO**) and market value of fixed assets (**MV of FA**)” is rejected at 1% level.

Table 3 - Results of Correlation Analysis between the Predictor Variables of MSMEs in India from 2008 to 2012 (₹ in lakh)

Variables		MV of FA	GO
MV of FA	Pearson Correlation		0.994**
	Sig. (2-tailed)		0.000
	N		7
GO	Pearson Correlation	0.994*	
	Sig. (2-tailed)	0.000	
	N	7	

Market value of fixed assets (MV of FA); Gross output (GO)

Source: Computed results based on compiled data from the Annual Reports of MSMEs 2012-2013

** Significant at 1% level

10. Regression analysis

Table 4 - Results of Regression Analysis for Selected Variables of MSMEs in India from 2006 - 07 to 2012 -13 (₹ in lakh)

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	β		
MV of FA	0.13	61.22		-2.237	0.056
GO	0.76**	0.039	0.994	19.538	0.000
R	0.90				
R ²	0.91				
F	381.741(0.000)**				

Market value of fixed assets (MV of FA); Gross output (GO)

Source: Computed results based on compiled data from Annual Financial Reports moneycontrol.com

** Significant at 1% level; * Significant at 5% level; Figure in parenthesis shows p value.

Table 4 shows that the **GO** has significant positive co-efficient (0.76) on **MV** of **FA** in **MSMEs** in India. Hence, H_0^2 : “there is no significant impact of **GO** on **MV** of **FA**” is rejected at 1% level. The F- statistics is 381.741** (0.000), which is significant at 1% level with R^2 0.90.

11. Major problems and challenges of MSMEs competitiveness

The ongoing programme of the economic reforms is based upon the principles of liberalization, globalization, and privatization. Changes in the international economic scene, including the emergence of the WTO, have brought certain challenges and several new opportunities to the SSI sector. The most important challenge is increasing competition, both globally and domestically. The problems of **MSMEs** are divided into two viz internal and external. The internal problems affecting the **MSMEs** are related to organization, structure, production channel, distribution channel, technical, training, industrial relations and efficient management, while external problems are those beyond the control of the industries viz availability of power and other infrastructure facilities required for smooth running of the **MSMEs**.

The following are the reasons for the slow growth of MSMEs in India:

1. The **MSMEs** are presently facing the problems of credit from the banks. The banks are not providing adequate quantum of loan to the **MSMEs**. The loan providing process of the banks is very long. The bank provides, on an average, 50% of total capital employed in fixed assets.
2. In the present era of globalization, the **MSMEs** sector is facing problem from the international manufacturing firms, which are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational corporations (MNCs).
3. Though **MSMEs** are developing so rapidly but their infrastructure is still very poor.
4. Due to unavailability of adequate raw materials it is very difficult to produce the products at affordable prices.
5. The owners of **MSMEs** are not abreast of advanced technologies of production process.
6. The **MSMEs** are not adopting the innovative and economic channels of marketing. Their advertisement and sales promotion techniques are comparatively weaker than that of the MNCs.

7. The training and development programmes in respect of **MSMEs** are very low. So, the skilled manpower is not available to **MSMEs**. The owners are not aware of the innovative methods of production. The skill development programmes organised by the Government are not sufficient.
8. All the laws related to all the aspects of manufacturing and service concern are very complex and difficult to comply with.
9. Lack of management expertise is one of the principle factors responsible for sickness of small business units. Young entrepreneurs start enterprises with no practical exposure and hence resulting in to high overhead cost, borrowing at high rates of interests and not benefiting economies of scale.
10. Most of the **MSMEs** do not have adequate fund to invest in market research and are unable to carry out design and technical improvements to keep up with the market demands. Unlike big businesses, they are unable to invest in advertising and packing. This limits their ability to tap markets and attract customers. The **MSMEs**, especially those belonging to the traditional sector, find it hardship to fight against aggressive marketing by the giant domestic and multinational players.

12. Potentials in MSMEs

There are lots of potentials available in the field of **MSMEs**.

- In recent years, the MSMEs sector in India has been generating different and ample quantum of employment in the field of retail and manufacturing sector.
- The MSMEs produce goods according to the needs or expectations of the customers.
- The rural areas of the nation have been equally developed through the presence of MSMEs units in such areas.
- The MSMEs can be a mean to enhance the export of India.
- The Indian MSMEs are the booming field and the growth rate and return on investment is satisfactory and hence the MSMEs sector might be a source to attract foreign investments too in India.

13. Measures taken to improve the MSMEs

1. Considering the role played by the **MSMEs** in the economic development, the total amount of loan granted to **MSMEs** forms a very small part of the total loan issued to the Indian industry as a whole. The Reserve Bank of India (**RBI**) evolved a credit guarantee scheme for small scale industry whereby it guarantees the advances which are left unpaid including interest overdue and recoverable charges.
2. There must be conduction of training and development programmes by the **MSMEs** Ministry. The currently running programmes are not so effective and sufficient,

hence there is a need to develop a better communication strategy and use new age media tools.

3. In the Eleventh Plan, the Ministry of **MSMEs** proposed to establish a technology mission to promote new and emerging technologies, assess present levels of technology and their up-gradation, set up technology information centers and an IT portal for information dissemination to carry out detailed technology audits.
4. An industrial estate is an attempt to provide, on a rental basis, good accommodation and other basic common facilities to group small entrepreneurs who would otherwise find it difficult to secure these facilities at a reasonable price.
5. There should be proper research and development in respect of innovative method of production and service rendering.

14. Summary and Concluding Remarks

The **MSMEs** are recognized as engines of economic growth universally. In India, it stands as second largest source of employment after agriculture. The **MSMEs** in India face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on product standardization, total quality management etc. Though globalization has increased competitiveness in the Indian **MSMEs**, to certain extent, still Indian **MSMEs** are not adequately prepared to compete with the global players. There has been a definite change in the attitude of the government from protection to promotion of the **MSMEs**.

The government has taken several policy initiatives but needs to ensure proper co-ordination and implementation of such schemes. The study applied annual growth rate (AGR) and compound growth rate (CAGR) for total working enterprises, employment, market value of fixed assets and gross output. Total working enterprises, total employment and market value of fixed assets are positive in values, which shows increasing trend, hence there is an increasing growth in total working enterprises, total employment and market value of fixed assets. The results of the correlation proves that there is significant positive relationship between the gross output **GO** and market value of fixed assets **MV** of **FA**. The results of the regression analysis reveals that there is a significant positive impact of **GO** on **MV** of **FA** of **MSMEs** in India.

The **MSMEs** are not availing proper basic needs. If proper infrastructure and financial assistance is adequately provided to these industries then there will be opportunities for these industries to flourish. Technical support, consultancy services, infrastructural facilities, research and development support and better training and development aspects will promote the industries at a considerable level. The **MSMEs** must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, research and development activities. If

all these support measures are given to **MSMEs**, no doubt the **MSMEs** will contribute with a major share to a greater extent in the Nation's National Scheme.

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