

Periodic Research

Prospects and Problems of MSMEs in Indian Economy

Abstract

The Micro, Small and Medium enterprises (MSMEs) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. Worldwide, the MSMEs play a leading role in providing large employment opportunities at lower capital cost than large industries, in industrialization of rural & backward areas, in promoting equitable regional development and assuring more equitable distribution of national income and wealth. MSMEs contribute nearly 8% of country's GDP, 45% of manufacturing output and 40% of exports. Key factors contributing to the growth of MSMEs are cluster development, adoption of organizational culture and better understanding of financial aspects of business. But the distribution of MSMEs in all over India is not equal because of unavailability of raw material, unawareness of entrepreneurial skills. The main problems of MSMEs are lack of adequate and timely credit facility, high cost of credit, lack of modern technology, no research & innovation and insufficient training. Although, there are various opportunities available for development of MSMEs. They provide largest share of employment after agriculture. They produce a diverse range of products and services to meet the needs of local and global markets.

Keyword: Micro, Small AND Medium Enterprise (MSMEs), Globalisation, GDP

Introduction

MSMEs are complementary to large industries as ancillary units and this sector play a vital role for growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people and producing more than 8000 quality products for Indian & International markets.

Definition of MSMEs

The Micro, Small and Medium Enterprise Development (MSMED) Act was notified in 2006. This Act has categorised MSMEs in following two:

- (1) Manufacturing Enterprises, defined in terms of investment in plant & machinery. (a) Micro enterprises-Investment upto RS.25 lakhs. (b) Small enterprises- Investment between RS.25 lakhs and RS.5 crore. (c) Medium enterprises- Investment between RS.5 crore to RS.10 crore.
- (2) Services enterprises, defined in terms of investment in Equipment (a) Micro enterprises- Investment upto RS. 10 lakhs (b) Small enterprises -Investment between RS.10 lakhs and 2 crore (c) Medium enterprises- Investment between RS. 2 crore and RS. 5 crore.

The Act seeks to facilitate the development of these enterprises and also enhance their competitiveness. This Act integrate the three tiers of these enterprises namely micro. Small and medium.

Objectives of The Study

- (1) To examine the growth & performance of MSMEs
- (2) To analyse the problems of MSMEs
- (3) To present model for improvement

Database and Methodology

Data used in the study are secondary in nature and mostly collected from the Annual reports published by Ministry of Micro, Small and Medium enterprises. The study covers the period from 2006-07 to 2011-2012. Parameters namely No. of units, employment and gross output have been used for performance analysis of MSMEs.

Growth And Performance

As per the results of Fourth All India censuses of Micro, Small & Medium Enterprises, the sector contributes significantly to the no of enterprises, employment and output of the country. The performance of SSI/MSME is summarized as below

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Periodic Research

TABLE
Performance of SSI/MSME Units, Employment and Output

Sr. No.	Year	Total working enterprises (in Lakhs)	Employment (in Lakhs)	Gross output (In Crore)
1.	2006-07	361.76	805.23	1351383.45
2.	2007-08	377.37	842.23	1435179.26
3.	2008-09	393.70	881.14	1524234.83
4.	2009-10	410.82	922.19	1619355.53
5.	2010-11	428.77	965.69	1721553.42
6.	2011-12	447.73	1012.59	1834332.05

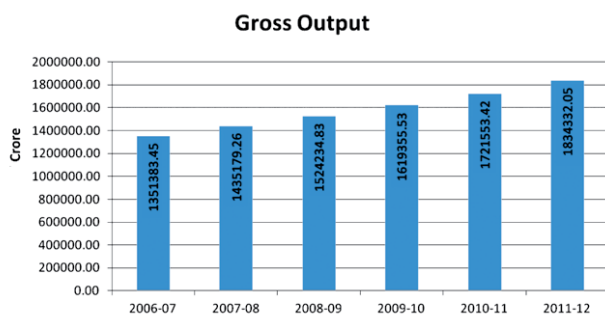
Source: Annual Reports of M/o MSMEs, Govt. of India
Number of Enterprises in Msme Sector



Source: Annual reports of M/o MSMEs, Govt. of India
Employment in MSME Sector



Source: Annual reports of M/o MSMEs, Govt. of India
Gross Output in MSME Sector



The study reveals that total no. of working enterprises has increased from 361.76 lakh in 2006-07 to 441.73 lakh in 2011-12. With the increase in no. of enterprises, it has also generated great employment which has increased from 805.23 lakh in 2006-07 to 1012.59 lakh in 2011-12. This increase in employment with the growth of MSMEs has caused economic and social well being of country.

Problems of MSMEs in India

MSMEs sector has contributed a lot towards Nation's economy yet it does not get required support from concerned govt. dept., banks, financial institutions and corporate. Main problems of MSMEs in India are:

(1) Financial Problems

Financing has always been a critical problem for MSMEs. They mostly depend on internal sources of finance as banks are not providing adequate finance to MSMEs. They have to prove their worthiness through different types of documents and the procedure for availing finance is too long.

(2) Extreme Competition

MSMEs are facing cut throat competition from large enterprises and multinational companies who have improved technology, managerial ability, skilled workers, better range of products.

(3) Lack of Infrastructure

MSMEs have lack of proper infrastructure facilities leading to low production capacity with high production cost.

(4) Poor Technology Base

MSMEs are using old technology due to their small size, they cannot enjoy economies of production. But in competitive era to meet quality needs of consumers use of latest technology is essential.

(5) Lack of Skilled Manpower

Large enterprises employ skilled workers at higher salaries but MSMEs can't compete with large enterprises in terms of salary. Thus MSMEs bear from low managerial capabilities.

(6) Lack of Raw Material And Other Inputs

Due to lack of timely and adequate credit MSMEs face a lot of problems in availing raw materials and other inputs. Due to this it is not possible for MSMEs to produce products at affordable prices.

(7) Lack of Innovative Marketing Channels

MSMEs are not adopting innovative marketing channels. In comparison to multinational companies their advertising and sales promotion is no so sound.

Model For Improvement

Following is the suggestive model for growth of MSMEs:

- (1) Stakeholders need to be involved at the design stage of the scheme to make them demand driven.
- (2) Information awareness campaigns needs to be conducted which identifies the govt. initiatives towards assistance. Proper communication strategy and media should be used to give

Periodic Research

knowledge to MSMEs about schemes and their benefits.

- (3) There should mutual supply of technologies among MSME sector. Appropriate technology should be made available according to requirements.
- (4) A list of experts and consultants should be prepared who can help MSMEs within the region to effectively transfer the available technologies.
- (5) There is urgent need for MSMEs to collaborate and adopt various R & D programmes for development of innovative method of production.
- (6) Proper list of financial and technical needs of MSME should be made after detailed survey of these needs. So that proper finance could be arranged to fulfill their needs.
- (7) Banking system must make available sufficient amount of credit to MSMEs according to requirement at cheaper rates.

Conclusion

MSMEs have emerged as a engine of growth in Indian Economy. They have emerged as vibrant and dynamic component of economy by contributing to GDP. MSMEs has shown constant growth rate of more than 10% every year till 2010-11. In 2011-12 it was 19% which is approximately twice the growth in

previous years. Globalisation has increased competitiveness in Indian MSMEs but there is great need of change in attitude of Government for promotion of MSMEs. Government need to ensure proper coordination and implementation of several schemes. The MSMEs must lead to increased productivity, product diversification, research & development activities to contribute towards social and economic well being of country.

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