



MSME`S IN INDIA: PROBLEMS, SOLUTIONS AND PROSPECTUS IN PRESENT SCENARIO

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ABSTRACT

In present scenario of business, the micro, small and medium enterprises have been accepted as the engine of growth for promoting equitable development. The MSME`S also have the vital role in dispersal of industries and generation of employment opportunities. The MSME`S are providing job more than 6 crore people. The MSME sector is contributing 8% of country's GDP, 45% of manufacture and 36% its exports. The MSME's sector has consistently registered higher growth rate compare to the overall industrial sector. The distribution of MSME`S in all over India is not equal because of unavailability of raw material, unawareness or lack of entrepreneurial skills development and lack of support of financial and technical assistance from concerning local authorities at district or state and central level. The unavailability of adequate and timely credit facility, high cost of credit, lack of modern technology, no research and innovations, insufficient training and skill development, complex labor laws are the main problems of the MSME`S. Although, there are various opportunities are available in the development of MSME`S. The MSME`S sector can also attract to the foreign investment and technology. The employment is more possible through the development of MSME`S. THE MSME`S will be able to satisfy the needs of the customers up to a great extent after considering their expectations primarily. Migration of rural youths can stopped by providing them chance to work at their place. The mutual change of technology among the different types of MSME`S, financial and technical assistance, liberal labour laws, training and skills formation will assist in the development of MSME`S. There must be a detailed survey and research to know the problems and difficulties of MSME`S so that a rapid growth can be attained.

KEYWORDS: MSME, problems of MSME`S, Potentials in MSME`S, Working enterprise and employment in MSME`S.

INTRODUCTION

In India, since last many years, the MSME`S 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 strength of MSME`S. MSME`S sector worldwide considered as the growth engine of the economy. In European Union and in USA, more than 99% and 80% enterprises are under this sector, respectively. In India; much potential are available towards a equal regional development and optimum utilization of scarce resources. More than 95% units belong to MSME sector and about 45%; products produced by MSME sector. The contribution of MSME`S towards this sector is highly remarkable as compared to any other sector of economy. MSME`S contribution towards, investment, employment generation, GDP, production etc, in every area it is very important. Definition of MSME`s: In accordance with the provision of MSME`s development act 2006, the MSME`S classified into two categories:

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, having investment in plant and machinery of Rupees up to 25 lacs, above 25 lacs and up to 5 crores. Above 5

crores and up to 10 crores called micro, small and medium enterprises, respectively.

Service Enterprises

The enterprises engaged in providing or rendering services having investment in equipment of Rupees up to 10 lacs, above 10 lacs and up to 2 crores, above 2 crores and up to five crores called micro, small and medium enterprises, respectively.

In India, MSME`s account for more than 80% of total number of industrial enterprises and employs over 6 crores people. As per estimates and statistics, out of 26 million MSME`s, only 1.5 million are registered and remaining unregistered. The state wise distribution of MSME`s is not equal because 55% of MSME`s are in 6 states only, namely, 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.

REVIEW OF LITRATURE

Thiripurasundari, K and V. Gurumurthy (2009) The study highlights the challenges of micro, small and medium enterprises of India. One side the globalization is an opportunity as well as another side it is a challenge for the indigenous MSME`S. The Indian MSME`S are facing a great problem due to larger production of foreign

manufacturing concern. The financially strong MSME'S will survive strongly at globalized platform.

Bhavani, T.A. (2011), This study reveals that how the all aspects of the MSME'S (Employment, Leading sector of MSME'S, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSME'S through various subsidy schemes and liberal availability of credit will be a great help.

Nalabala Kalyan, Kumar. Sardar, Gugloth. (2011). This study focuses upon the growth pattern of the MSME'S, employment generation (1992-2009). Further, study reveals the symptoms and steps involved in industrial sickness. The study gives the ample amount of knowledge about the various credit schemes sponsored by the government. Laghu udyami credit card scheme ,Credit guarantee fund trust for small industries, Swarojgar credit card scheme, Credit linked capital subsidy scheme and credit through commercial banks are the sources and schemes available to fulfill the financial needs as well as financially strengthen to the MSME'S.

OBJECTIVE OF THE STUDY

The major objectives of this study were as follows:-

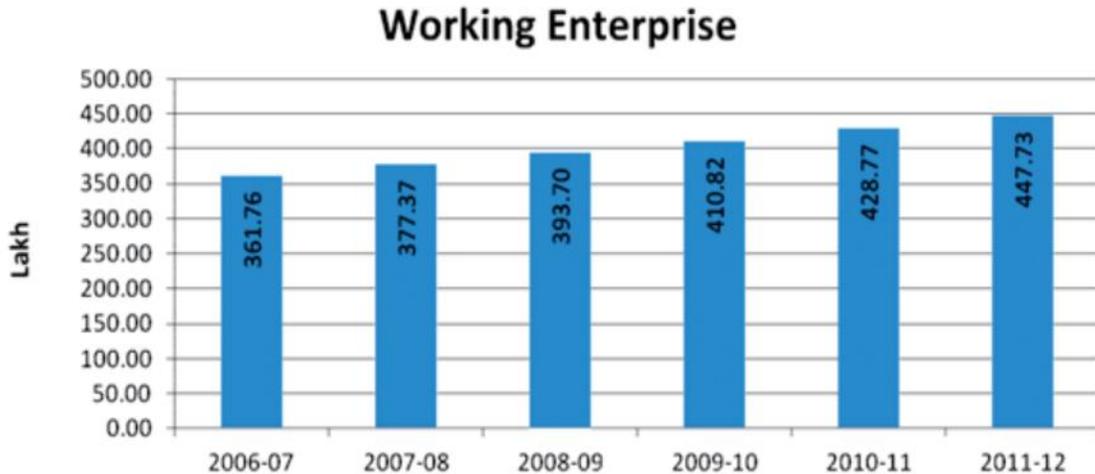
1. To know the present status of MSME'S in India
2. To know the problems and solutions related to MSME'S.
3. To know the prospectus of MSME'S in the development of Indian economy

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 2011-12. Four parameters namely No. of units, gross-output, employment and investment fixed assets 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.

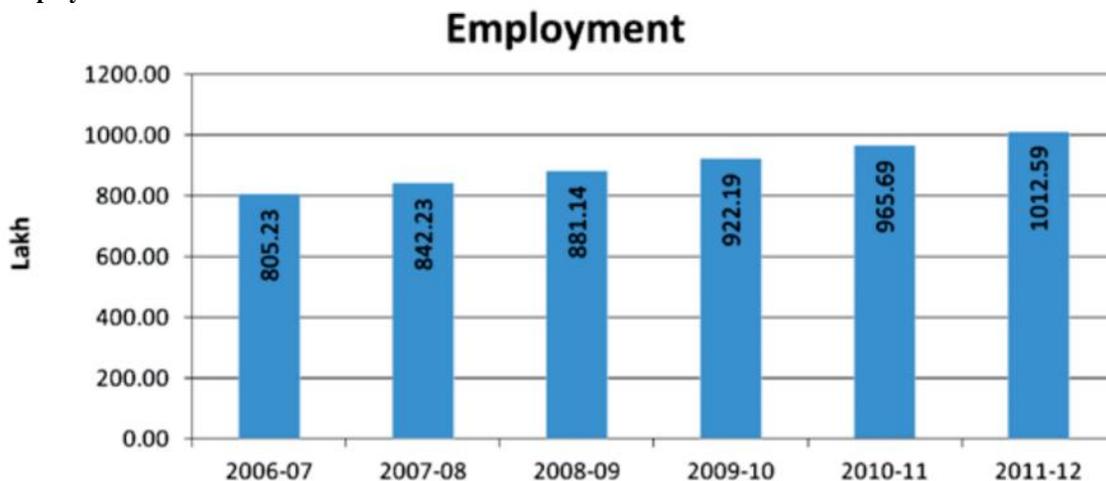
ANALYSIS OF DATA

A. Total working enterprises of the MSME'S



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

B. Employment in MSME'S

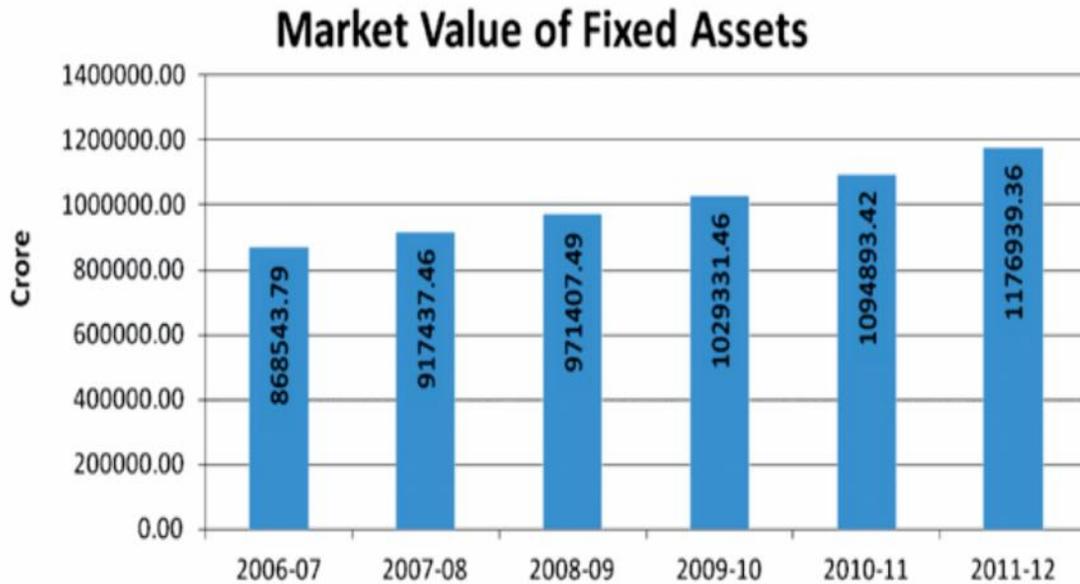


Source: Annual Report of MSME'S (2012-13)

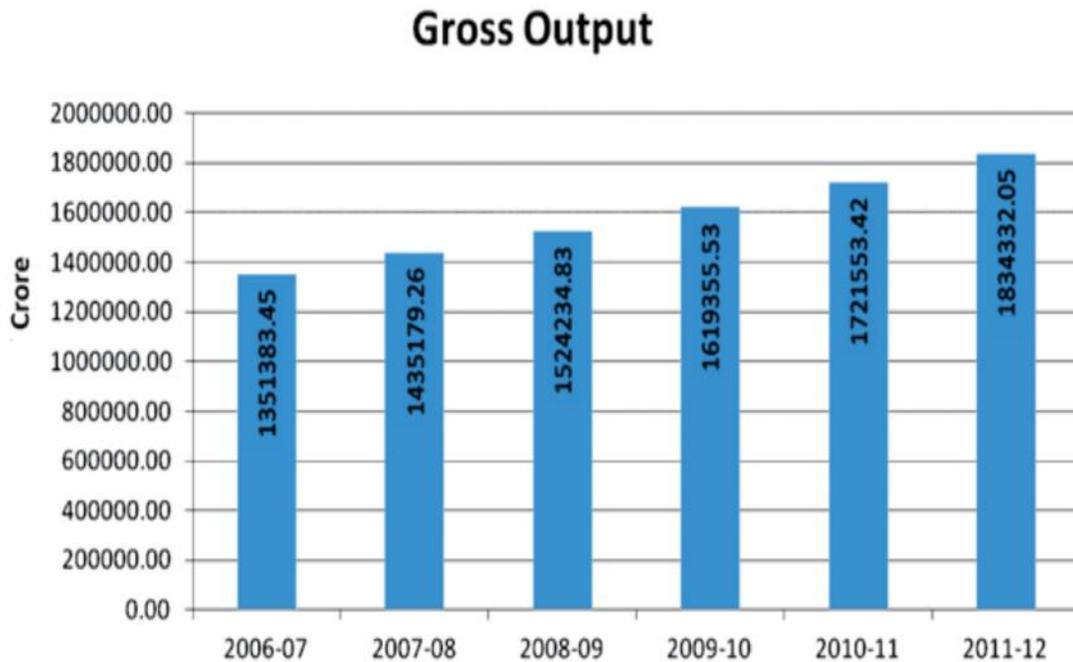
From the above data, said that the total working enterprises have increased by 18.64% from 2007-08 to 2011-12 and there is 20.23% attainment in the employment for the same period. So it is clear that the size

of MSME'S is being larger than it was previously. Therefore, the MSME'S are providing more employment per unit. In 2006-07, there were 2.23 employees per MSME while in 2011-12 it is 2.26 per MSME.

C. Market value of fixed assets



D. Gross output of MSME

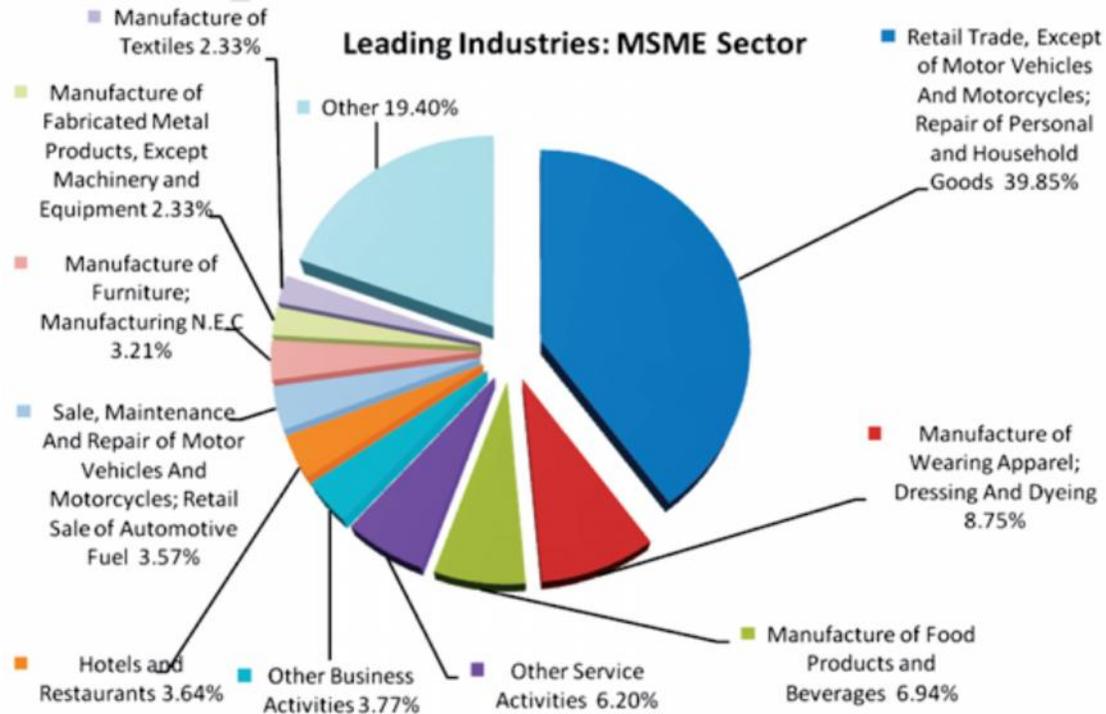


Source: Annual Report of MSME'S (2012-13)

For the of 2007-08 to 2011-12 there is 28.29% growth in the market value of fixed assets while 27.81% growth in gross output produced by MSME'S. So there is a symmetrical change in the market value of market value of fixed assets and gross output of MSME'S. This

symmetrical change reflects that the law of marginal returns is not being apply in the field of MSME'S. It indicates that many possibilities are available in the MSME'S

E. Leading sector of MSME'S



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

From the above, it is clear that a large no. of MME'S are engaged in retail trade, except of motor vehicle and motorcycles; repair of personal and household goods are 39.85% and in other sector are 19.40%. Therefore, there is so much potential available in the field of manufacture of textile and hotels and restaurants because nowadays in India these two field are very booming. Except these two fields, manufacturing of food products and beverages, manufacturing of wearing Apparel Dressing and Dyeing are beneficial for the point of view of return on

investment. The above figure reflects that the MSME owners are not innovative and their entrepreneurial skills are very low. Ultimately, the government is not providing any types of satisfactory training or skill development schemes.

The areas like sale and maintenance and repair of motor vehicles, manufacture of furniture, manufacture of fabricated metal products, except machinery and equipment are very responsive and needed some technical knowledge.

F. OUTSTANDING BANK CREDIT TO MICRO AND SMALL INDUSTRIES

As on last reporting Friday of March	(Rs. Crore)			
	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
1	2	3	4	5
2005	67,800	8,592	6,907	83,498
2006	82,434 (21.6)	10,421 (21.3)	8,430 (22.1)	1,01,285 (21.3)
2007	1,02,550 (24.4)	13,136 (26.1)	11,637 (38.0)	1,27,323 (25.7)
2008	1,51,137 (47.4)	46,912 (257.1)	15,489 (33.1)	2,13,538 (67.7)
2009	1,91,408 (26.6)	46,656 (0.0)	18,063 (16.6)	2,56,127 (19.9)
2010	2,78,398 (45.4)	64,534 (38.3)	21,069 (16.6)	3,64,001 (42.1)
2011	3,76,625 (35.3)	87,857 (36.1)	21,461 (1.9)	4,85,943 (33.5)
2012 (Provisional)	3,95,976 (5.14)	1,05,085 (19.61)	19,839 (-7.56)	5,20,900 (7.19)

Source: Reserve Bank of India

From the above it is clear that the advances of all scheduled banks are increasing every year, but this increment was very high in the year 2008 relatively to the previous year. Although, the total outstanding bank credit is being increase every year but the rate of increasing is fluctuating (taking previous year as base for every year). On an average, the Public sector banks are providing approx 75% amount of total outstanding credit. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. So, there is need to increase the amount of credit to MSME'S because the gross output is increasing every year (TABLE D)

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:-

1. **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. The banks are providing on an average 50% total capital employed in fixed assets (TABLE- F). The cost of credit is also high.
2. **Competition from multinational companies**- In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.
3. **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.
4. **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.
5. **Lack of advanced technology**-The owners of MSME'S are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.
6. **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.
7. **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.

8. **Complex labor 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:

1. **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. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.
2. **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 .At the time of constitution of panel of experts, there should be inclusion of the owners of different sectors of MSME'S.
3. **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 make to fulfill the needs of the MSME'S.
4. **Training and development, awareness programs:** There must be conduction of training and development programs by the 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. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.
5. **Sufficient availability of the credit-** Our banking system does not provide sufficient amount of credit to fulfill 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.
6. **Relaxation in labor laws and red tape**-There should be relaxation in complex labor laws to avoid the inconvenience in compliance. There should not be

uniform labor laws to each MSME. There must be sooth running of the concern not to create a problem for them. Every effort must do to avoid the unnecessary red tape.

7. **Proper research and development:** There should 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 are explained as under-

1. **Employment generation-** There is numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSME IS 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.
1. **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.
2. **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.
3. **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.
4. **Attraction to the foreign investment** –Though, the Indian MSME'S are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. 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 2.23 employees per MSME while in 2011-12 it is 2.26 per MSME. Numerous possibilities exist in this field. For the of 2007-08 to 2011-

12 there is 28.29% growth in the market value of fixed assets while 27.81% growth in gross output produced by MSME'S 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. Ultimately, the government is not providing any types of satisfactory training or skill development schemes. The problem of unawareness towards technological advancement can removed after running effective training and skill development programs. There should be low cost credit to the MSME'S. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding 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 labor 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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