

Challenges of MSMEs in India – Government Initiatives for Enhancing Competitiveness of MSMEs in India

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Abstract

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports.

The objective of the paper is to examine the various opportunities and challenges faced by Indian MSME sector. Further, the study also focuses on evaluating the Government in policies and strategies and other measures initiated for promoting the competitiveness among the Indian MSMEs. Basically the study focused on six key challenges which the MSME sector has been facing, viz, Dearth of easy finance and credit instruments, limiting regulatory policies, unavailability of modern, affordable technology, lack of basic infrastructure facilities, absence of exclusive marketing platforms and distribution networks and inflexible labour laws and availability of affordable skilled labour. Despite the various challenges, the MSME sector has shown admirable innovativeness, adaptability and resilience to survive the recent economic downturn and contribute significantly to India's industrial growth. Finally the paper concluded with appropriate measures initiated by the government for enhancing the competitiveness of the sector.

Keywords: Entrepreneurship, Innovative entrepreneurial spirit, Competitiveness. Regulatory policies.

Introduction

India had been a place for Small and Medium Enterprises, from Prehistoric times. The earliest mention of them, were found at the time of first Indian Emperor 'Chandragupta Maurya'. At that time, small enterprises were built by trading classes who were known as 'Vaishya'. It was also found that 'Roman' and 'Greek Civilization' had continuous trade interaction, with India, through Arabian middlemen's. That was what led to an effort for people in the West, to find India, which they perceived as 'land of fortune'. It seemed that we were coming back to that stage, by the active participation of SME sector, in Indian Economic Growth Story.

Development is an inclusive and distributed growth. Employment to most will create inclusive growth. Competitiveness is essential for sustaining growth. Competencies ensure competitiveness. Migrating people from agriculture to industry and further to services should be the strategy for a sustainable growth and development of our nation. Agro-based and high-tech industries should be given priority. A good industrial base will ensure a good domestic market for services and will be a self-sustaining economy in case of international economic downtrends. Both industry and services should be employment-oriented to keep our large manpower engaged and productive. The solution for this lies in sustained development of Micro and Small Enterprises (MSEs). They form an important component of a nation's industrial development by encouraging entrepreneurship. According to the new MSMEs Act 2006, definition of MSMEs in India is shown in Table 1.

Table 1: Definitions of MSMEs

Category	Manufacturing Sector (Investment In Plant & Machinery)	Service Sector (Turnover)
Micro Enterprises	Less than Rs. 25 Lakhs	Less than Rs. 10 Lakhs
Small Enterprises	More than Rs 25 Lakh but less than Rs 5 crores	More than Rs 10 Lakh but less than Rs 2 crores
Medium Enterprises	More than Rs 5 crore but less than Rs. 10 crores	More than Rs 2 crore but less than Rs. 5 crore

MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

Key Highlights of MSME Sector

- MSMEs account for about 45% of India's manufacturing output
- Currently, there are over 11 million MSME units in India.
- Nearly 90 % of the Industrial Units in India belong to the MSME sector.
- MSMEs accounts for about 40% of India's total exports.
- The sector is projected to employ about 73 million people in more than 31 million units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.

- For FY11, total production coming from MSME sector was projected at 10,957.6 billion, an increase of more than 11% over the previous year
- For FY12, the MSME sector is estimated to have an average credit off-take of 7.16 lacks for 32.2 million units

The India MSMEs Growth Story

Micro, Small and Medium Enterprises (MSMEs) in India have seen exponential growth over the last decade. According to the latest reports by the SMB Chamber of Commerce and the Ministry of Micro, Small and Medium Enterprises, India currently has more than 48 million MSMEs. These MSMEs contribute more than 45% of India's industrial output, 40% of the country's total exports and create 1.3 million jobs every year. Yet, these SMEs continue to struggle on multiple accounts. While some are challenged by credit and finance issues, others are struggling to cope with stringent regulatory environments.

Numbering over 48 million (see graph below), Indian SMEs have grown at a stable pace of 4.5 per cent in the last 5 years. According to the latest Annual Report issued by the Ministry of Micro, Small and Medium Enterprises, there are over 6,000 products, ranging from traditional to high-tech, which are being manufactured by the MSME sector for domestic as well as international markets. According to the latest Economic Survey, Indian MSMEs employ close to 40% of India's workforce. After the agriculture sector, MSMEs rank second in fostering employment opportunities. Over 3.25 lakh jobs were generated in the MSME sector during the period between April 2011 and February 2012.

However, in January-February 2013, MSMEs saw a decline of 51 per cent in investments through the Private Equity (PE) route in just one year. The sector fell from USD 306.27 million to USD 151 million. Funds focusing on SMEs are having difficulties in raising money because of the prevailing conditions. The total gap in MSME funding is estimated at USD 126 million. Although banks have been slowly trying to bridge this gap, stringent reforms from the government are required.

The reality hereby is that although this sector plays a vital role in giving a boost to the overall Gross Domestic Product (GDP), it is still overlooked by the government, corporate sector and the financial sector. Thus, the commendable efforts and support of this sector do not receive the required attention.

Objectives of the Study

The basic objective of the present paper is to evaluate the various challenges the MSME sector in India has been facing and identifying the government initiatives for strengthening the sector. The specific objectives of the study include;

- To explain the growth story of MSMEs growth story in India,
- To evaluate the opportunities of MSME sector in India,
- To study the problems faced by Indian MSME Sector,
- To identify the policy initiatives of the government to revitalize the sector

Methodology of the study

The study is basically conceptual in nature and for the purpose of the study; an extensive review of literature has been studied and identified the critical challenges facing the MSME sector in India. The study undertaken with the help of secondary sources of data and already published data like manuals of MSME, websites and CME reports were also used.

Performance of MSMEs in India:

MSMEs have been the growth engine and significant contributors to India's industrialization. After being widely protected and having enjoyed priority for a long time, MSMEs were thrown into an environment with new challenges with the opening up of India's economy in 1991, which created tough times for them to survive and grow as in the past. Challenges ranged from technological changes to political changes in the form of de-reservation of large number of items from the small scale sector. Rough estimates of 2007-08 (Vijay, 2008) reveal the existence of about 133.68 lakh MSMEs (both registered and unregistered) in the country with more than 6,000 products, accounting for more than 45 per cent of the gross value of output in the manufacturing sector and about 40 per cent of the total export of the country. It provides employment to about 322.28 lakh persons, next only to agriculture. The growth rate of the MSME sector is continuously higher than the growth rate of the overall industrial sector from 2002-03 to 2011-12.

The Sentiment – MSME Growth is handicapped:

Indian MSMEs today operate in a very challenging atmosphere. According to World Bank, India has slipped 3 ranks in its Ease of Doing Business Index – this raises deep concerns about the state of affairs in India. MSMEs are said to be the backbone of India's economy, however not much is being done to promote their healthy growth and development. In order for us to help understand the obstacles that exist, we reached out to 540 MSMEs across India. Following emerged as the biggest challenges for MSMEs in India.

1. Dearth of easy finance and credit instruments
2. Limiting regulatory policies
3. Unavailability of modern, affordable technology
4. Lack of basic infrastructure facilities
5. Absence of exclusive marketing platforms and distribution networks
6. Inflexible labour laws and availability of affordable skilled labour

These challenges have explained in detail in Table 2. Dispersal of MSMEs across the length and breadth of the country generates large employment with small investments. This is equally true for manufacturing, services and agriculture sectors. MSMEs in India are well known for their contribution to industrial production, exports, and employment.

Opportunities of MSME Sector

Government of India has developed key strategies to promote and support the MSME sector to promote competitiveness, quality upgrading, finance, technology, etc. This has resulted in a dramatic positive change in the sector. Over the years, this sector in India has progressed from

the production of simple consumer goods to the manufacturing of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipment etc. MSMEs in India are considered to be important members within the supply chain and are established in almost all major sectors in Indian industry.

Key characteristics of Indian MSMEs such as high contribution to domestic production, significant export earnings, low investment requirements, operational flexibility, location wise mobility, capacities to develop appropriate indigenous technology, import substitution, contribution towards defense production and competitiveness in domestic and export markets help them tap opportunities in various sectors.

The process of economic liberalization and market reforms has exposed these enterprises to increasing levels of domestic and global competition. To combat competition, private and public sector institutions, both at the central and state levels are increasingly undertaking cluster development initiatives.

The increase in spending on defence procurements as well as the requirements of offsets will open up significant business opportunities for Indian MSMEs. Indian MSMEs have some inherent advantages such as innovative capabilities in niche manufacturing, ability to absorb new technologies and lower overhead costs providing a platform for the defense sector to emerge as a lucrative market for the MSMEs.

The Indian railways also have been a bulk buyer from the MSME sector. Specifically the potential for MSME involvement is in the areas of agro and food processing, polymers, plastic products, construction industries etc. Many other core industry sectors present numerous opportunities for MSMEs.

Problems Faced by Indian MSME Sector:

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 are explained as below:

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.

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.

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. The owners are using older method in the field of fabricated metal and textile.

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 MSMEs. The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient

The Expectation of Indian MSMEs:

The newly appointed NDA government in India has worked like a shot in the arm for the country's economy. A recent study by ASSOCHAM¹ confirmed that this new wave of leadership for India is expected to double foreign investments to USD 60 billion. This is surely a major boost from the distressed condition of the Indian economy under the previous UPA government. While it's hard to miss the air of optimism in the country, longevity of this sentiment is contingent on the announcements in the Union Budget. MSMEs continue to be plagued with challenges that are inhibiting them from growth in revenue and scale. The Union Budget 2014-15 did little to uplift the sentiments of the MSME sector and offered no additional support and guidance. MSMEs expect the Narendra Modi led NDA government to focus on their key challenges and provide definitive schemes and programs to help solve long pending matters.

More specifically, factors like the introduction of the Goods and Service Tax (GST), Foreign Direct Investment (FDI) in retail along with the need for transparency in action, accountability of programs and funds and dependable governance have been pending topics over the past Budgets. Lack of commitment from the previous government over the past Budgets continues to reduce confidence of MSMEs to explore and invest aggressively to expand and grow revenue. In addition, the new government must also action a program to promote and support entrepreneurship – this will add to the domestic economy on multiple levels, including adding muscle to the country's Intellectual Property (IP).

¹ Banking on Narendra Modi, foreign investors to pour \$60 billion into India: "ASSOCHAM Study", Economic Times, May 25, 2014,

Table 2 : Challenges of MSMEs in India

Dearth of easy finance and credit instruments (1)	Limiting regulatory polices (2)	Unavailability of modern, affordable technology (3)	Lack of basic infrastructure facilities (4)	Absence of exclusive marketing and distribution networks (5)	Inflexible labour laws and availability of affordable skilled labour (6)
Complex collaterals required to obtain term loans (80%)	Absence of a common regulatory body (85%)	Limited interaction between tech providers and seekers (71%)	Lack of reliable electricity resources (90%)	Lack of monetary support/Schemes (74%)	Retaining talent due lack of ability to pay (74%)
Cumbersome procedures and delay in fund disbursement (79%)	Lack of mandatory book keeping regulations (84%)	Lack of funds to support Innovation and R&D (67%)	Inadequate cluster infra reducing competitiveness (89%)	Losing to large competitors due to lack of networks (68%)	Low productivity of labourers (80%)
Un-standardized project appraisal system for term loans (78%)	No special schemes for start-ups (84%)	Lack of effective information systems (65%)	Insufficient methods of industrial waste management (87%)	Not enough trade fairs and buyer-seller meets (66%)	Common minimum wage policies for pan India (78%)
Private equity (PE) dilutes control in the company (72%)	Complicated procedures of setting up business (83%)	Unavailability of e-Governance systems (63%)	Lack of facilities like Tool Rooms (86%)	Unaware of technology for marketing (66%)	Lack of skilled workers at affordable costs (77%)

Banks offer high rates for term loans (67%)	-	Minimal knowledge about upcoming technologies (62%)	Inadequate supply of water (86%)	Limited expertise in new-age marketing (66%)	-
PE Funding is difficult to obtain (65%)	-	Access to modern technology is expensive (62%)	Increase in price of coal and gas (82%)	Limited knowledge about digital marketing (60%)	-
High transaction costs in imports/exports (63%)	-	Absence of ecosystem for technology transfer (59%)	-	-	-

Source: Firstbiz - Greyhound Knowledge Group SME Survey 2014 (n=540)

The following are the key expectations and reforms that MSMEs would like as part of the policy initiatives of the government.

1. Improvement of basic infrastructure facilities
2. Introducing regulatory reforms for ease of doing business
3. Introducing labour law reforms
4. Introduction of easy financing and credit tools
5. Access to marketing platforms and networks
6. Access to modern affordable technology.

Creating Competitive MSMEs:

Competency is the combination of knowledge, skills, behaviors, and attitudes that contributes to one's effectiveness (Hellriegel, Jackson and Slocum, 2005). A business entity in order to achieve its goal, requires the competencies as physical qualification in the form of resources and intellectual qualification in terms of innovation and knowledge.

Competitiveness is a comparative concept of ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market. It is the ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on resources employed or consumed in producing them (Business Dictionary, 2009)

Economic liberalization and market reforms initiated in India have brought an intense competition for MSMEs both in domestic and overseas markets. This has made it imperative for the Indian MSMEs to overcome the challenges that they face and maintain, improve and sustain competitiveness through lower costs, improved quality, and innovation and up gradation of technology.

The Government seeks to fulfill its mission by formulating policies and designing/implementing support measures in the field of credit, technological up gradation, marketing entrepreneurship development etc. The Government has also identified three thrust areas for increasing competitiveness of MSMEs, namely technology (including quality), skill development and finance.

The MSMEs that are successfully competing today are the enterprises that have developed a culture of success through appropriate ICT interventions that has enabled them to stay ahead others. The MSMEs with heavy infusion of technology are much better adapted to meet the business needs and compete in the domestic as well as global markets.

Policy Initiatives of the Government to Revitalize the Sector:

The Indian government realizes the crucial role played by MSMEs in the economic and social development of the country. The government over the years, has taken various measures to support and ensure growth and development of Indian MSMEs. Some of these measures have been briefly explained below.

- I) The government has enacted the 'Micro, Small and Medium Enterprises Development Act, 2006', which facilitate the promotion and development and enhance the competitiveness of MSMEs.

- II) BSE and NSE got the approval for MSME platforms from SEBI and have been operational. This will serve as an opportunity for Indian MSMEs to raise funds from capital markets.
- III) To achieve the overall target set by the Prime Minister's National Council on Skill Development, Ministry of MSME and the agencies conducted the skill development programs for 478,000 persons during FY12. During FY13, the Ministry aims to provide training to 572,000 people through its various programs for development of self-employment opportunities as well as wage employment opportunities in the country.
- IV) To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster-based approach. During Apr-Jan 2012, the government has taken 8 new clusters for diagnostic study, 5 for soft interventions, and 4 for setting up of common facility centers. Till Jan 2012, the government has taken total 477 clusters for diagnostic study, soft interventions and hard interventions and 134 infrastructure development projects.
- V) The scheme for 'Building Awareness on Intellectual Property Rights'(IPR) was launched to enable Indian MSMEs to attain global leadership position and to empower them in using effectively the tools of intellectual property rights of innovative projects.
- VI) For enhancing the competitiveness of the Indian manufacturing sector, the Government has also launched the National Manufacturing Competitiveness Program (NMCP). The NMCP is the nodal program of the Government of India to develop global competitiveness among Indian MSMEs.
- VII) The most important program under NMCP was 'Marketing Assistance/Support to MSME sector'. The objective of the scheme is to popularize the Bar code registration and motivate the MSMEs to adopt the Bar Code Certification on large scale and to sell their value added products worldwide and enable higher export price realization.
- VIII) Recognizing the importance easy and adequate availability of credit in sustaining growth of the MSME sector, the Government has been announcing various policy measures. In addition to this, the government has also introduced schemes like the 'credit guarantee scheme', and the Performance & Credit Rating Schemes to ensure better availability of credit to the Indian MSMEs.

Conclusion

A dynamic global economic scenario has thrown up various opportunities and challenges to the MSME sector in India. On the one hand, increased per capita income and consumerism have opened up numerous opportunities for this sector to enhance productivity and look at new national and international markets. On the other hand, the sector continues to face challenges like fund shortages, limited access to equity capital, technological obsolescence and lack of infrastructure facilities, among others. Commercial banks amongst financial institutions remain the largest lenders to the MSMEs. The National Commission on Enterprises in the Unorganized Sector (NCEUS) had estimated 73% credit gap for the micro enterprises as at the end of March 2013.

Despite the various challenges it has been facing, the MSME sector has shown admirable innovativeness, adaptability and resilience to survive the recent economic downturn and

contribute significantly to India's industrial growth. Considering the importance of the MSMEs in supporting the Indian economy's growth, the MSME sector needs to have timely, adequate and affordable funds to upgrade its technological competencies and plug financial gaps, so as to move up the value chain. MSMEs in not only in India but also in other developing countries acts as an engine for providing employment, inclusive growth, exports, and innovation. The contribution of this sector to the economy is dependent upon the competitiveness and sustainability of the firms in the MSE sector. MSMEs have to be developed with distinct competencies, in this regard the state and central Governments have to find ways and means to spread awareness and sustain the MSME's growth in the interest of the nation. MSEs with enhanced functional competencies would re- energize this under-performing sector and thus become a growth engine for India's development.

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