

PROBLEMS AND PROSPECTS OF MSME'S IN INDIA

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ABSTRACT

The Micro, Small and Medium Enterprises (MSMEs) sector is an important constituent of India's industrial sector. MSME's including khadi and village / rural enterprises. It contribute significantly to India's Gross Domestic Product and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. With the introduction of reform measures in India since 1991, the Govt. has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. The Micro, Small and Medium Enterprises in India are acting as power and spirit of economic growth in the 21st century. This paper analyzes the definition of MSMEs, the silent features, role and performance of MSMEs in Indian economy, Government policies towards MSMEs and problems of MSMEs.

KEY WORDS

Micro small and medium enterprises, definition, features, role and performance, Government policies and problems.

INTRODUCTION

Micro,small and medium enterprises(MSME's) are one of the important and sensitive sector of the Indian economy. The objectives of industrialization are high GROWTH RATES, employment generation and equitable distribution of income and wealth. The third world countries are trying to solve their economic problems of poverty, inequality and unemployment through systematic process of industrialization. thus there is a worldwide acceptance to have industrial development as legitimate objective to solve their economic and social problems. After attaining independence in 1947 India adopted mixed economic planning as a method to achieve economic development. Along with the Large Scale sector the thrust was on Small Scale sector because of its small size, indigenous technology, employment intensity and its suitability for rural area with limited techno-economic structure.

Industrial policies are focused to promote SSIs through various incentives related to financial, fiscal and infrastructure measure; along with a heavy industrial base. The Government of India established the Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policies and Central sector programmes/schemes, their implementation and related coordination and for supplementing the efforts of the State Union Territories for promotion and development of small scale, agro and rural industries in the country. Subsequently, in September, 2001 the Ministry of SSI and ARI as bifurcated into two separate Ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries. In 2006, "Micro, Small and Medium Enterprises Development Act (MSMED) 2006" was enacted by the parliament. Pursuant to this enactment, the Ministry of Agro and Rural Industries and the Ministry of Small Scale Industries were merged into a single Ministry, namely, "Ministry of Micro, Small and Medium Enterprises." Post liberalization economic conditions have created immense growth prospect for the small scale industries. The Micro, Small and Medium Enterprises in India are acting as power and spirit of economic growth in the 21st century.

Objectives of the study

- To understand the definition of MSMEs on the bases of investment limits.
- To study the salient features of MSMED Act 2006.
- To understand the benefits of registered MSMEs.
- To understand the role and performance of MSMEs in Indian economy.
- To know about the government policies towards the MSMEs in India.
- To understand the problems of MSMEs in India.

Research Methodology:

Only secondary data is taken into consideration for the purpose of the study. The relevant secondary data is collected from books, magazines, journals and internet, etc.,

Table: 1
Meaning of MSME's

Manufacturing Sector	
Micro Enterprises	More than twenty five lakh rupees but does not exceed five crore 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 crore rupees

Salient Features Of Micro, Small And Medium Enterprises Development Act, 2006

The Small and Medium Enterprises Development Bill 2005 was enacted in June 2006 and was renamed “Micro, Small & Medium Enterprises Development Act, 2006”. It became operational from October 2, 2006. The salient features of the Act are: The earlier concept of ‘Industries’ has been changed to ‘Enterprises’. Enterprises have been classified broadly into: (1) Enterprises engaged in the manufacture/production of goods pertaining to any industry; and (2) Enterprises engaged in providing/rendering of services. Manufacturing Enterprises have been defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs.25 lakh; (b) Small Enterprises – investment above Rs.25 lakh & up to Rs. 5 crore; (c) Medium Enterprises – investment above Rs.5 crore & up to Rs. 10 crore. The Service enterprises have been defined in terms of their investment in equipment (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs. 10 lakh; (b) Small Enterprises – investment above Rs. 10 lakh & up to Rs. 2 crore; (c) Medium Enterprises – investment above Rs.2 crore & up to Rs. 5 crore. It defines ‘Medium Enterprises’ to facilitate achievement of economies of scale.

It provides statutory basis to Purchase Preference Policy for goods and services provided by micro and small enterprises. It also strengthens the legal provisions to check delayed payments to micro & small enterprises. The Act provides statutory basis to the National Board for Micro, Small & Medium Enterprises.

The Act aims at facilitating the promotion and development of small and medium enterprises in a competitive way. It seeks to empower the Central Government to notify programmes, guidelines or instructions for facilitating the promotion and growth of small and medium enterprises. One of its primary objectives is to make provisions for ensuring timely and smooth flow of credit to small and medium enterprises

Benefits to the registered MSME's

Preference in procuring Government tenders

The Government of India, through its Public Procurement Policy for Micro and Small Enterprises Order, 2012, provides that all Central Government Ministries, Departments, and Public Sector Undertakings shall procure minimum of 20 percent of their total annual value of goods or services from Micro and Small

Enterprises, which has become mandatory from April 1, 2015. As per the Public Procurement Policy, Micro and Small Enterprises having registration with District Industries Centre or Khadi and Village Industries Commission or Khadi Village and Industries Board or Coir Board or National Small Industries Commission or Directorate of Handicrafts and Handlooms or any other body specified by Ministry of MSME are provided certain benefits under the Public Procurement Policy. However, vide Press Release dated 18th February 2016, for ease of registration of MSMEs

Protection against the delay in payment from Buyers:

The MSME Act provides protection to Micro and Small Enterprises from delayed payments. It specifically provides that where a Micro and Small Enterprise supplies any goods or renders any services to a buyer, the buyer is required to make the payment on or before the date agreed upon by them and in no case, the period can exceed 45 days from the date of acceptance.

Right of interest on delayed payment:

In the case where the buyer fails to make the payments, he shall be liable to pay compound interest with monthly rests to the supplier on that amount from the date falling after the due date, at three times of the bank rate notified by the Reserve Bank of India.

Time-bound resolution of disputes with Buyers through conciliation & arbitration:

MSME Act provides that in case of any dispute arising out of non-payment of dues, Micro and Small Enterprises may refer the dispute to the Micro and Small Enterprises Facilitation Council, which shall conduct conciliation in the matter and where such conciliation does not give fruitful results and is terminated without any settlement thereof,

Role of MSME- MSMEs play a pivotal role in the Indian economy which can be seen from the following facts-

1. MSME sector contribute nearly 45 percent of the manufacturing output and 40 percent of the exports.
2. This sector contribute 8 percent of country's GDP
3. MSME sector provide the largest share of employment after agriculture and this sector has a better record of employment generation per rupee investment as compared to large industries.
4. Economic independence (i.e. self-reliance) can be achieved only by the growth of small sector. Over the period myopic policies of our leadership has created such a situation that a country of more than 1 billion

population has just become a market for the big players. We spend billions of dollars of foreign currency on importing items (e.g. electronic items, consumer durables etc.)

5. Apart from economic relevance, growth of small sector plays an important role in maintaining the overall social & cultural structure. Development of SSIs in dispersed geographies reduces the rate of migration to cities and thereby reducing the burden on cities to accommodate the large population.

The government policies towards the MSMEs in India:

The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations, namely, Micro, Small and Medium Enterprises Development Organization (MSMEDO) or Development Commissioner (MSME), the National Small Industries Corporation Limited The Prospects the Khadi and Village Industries Commission (KVIC), the Coir Board and three National Level Entrepreneurship Development Institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA (V.P.), National Institute for Micro, Small and Medium Enterprises (NIMSME), Hyderabad and the Indian Institute of Entrepreneurship (IIE), Guwahati.

The Prime Minister's Employment Generation Programme (PMEGP) is being implemented by the Ministry through KVIC. The Ministry of MSME is having two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division. The SME Division is allocated the work, inter-alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development/training organizations.

The Division is also responsible for implementation of the schemes relating to marketing and export promotion. SME Division is also responsible for preparation and monitoring of Results-Framework Document (RFD) as has been introduced from last two years by Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Division looks after the administration of two statutory bodies called the Khadi and Village Industries Commission (KVIC)

Problems of Small-Scale and Cottage Industries:

The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. The following are the main problems that the small-scale units have to face.

1. Finance and Credit:

The scarcity of finance and credit is the main obstacle in the development of MSMEs. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is usually very weak since they generally have partnership or single ownership.

2. Infrastructural constraints:

In their survey of 1,063 firms, Keshav Das and Sebastian Morris found that as many as 716 firms (or more than 67 percent) said that they faced significant infrastructural problems. This is very large and confirms the well recognized and popular conceptualization that many productive activities are being constrained by inadequate physical infrastructure. The most severe constraint is power.

3. Inverted tariff structure and raw material availability:

As noted earlier, small-scale industries contribute significantly to the export earnings of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastian Morris, despite import liberalization during 1990s, the tariffs on materials like steel, copper, and many non-ferrous metals, plastics, many chemicals, paper etc.

Machines and other equipment:

Machinery and other equipment in many small industries have grown obsolescent. On account of this reason while their costs of production are high, the quality is inferior as compared to the large-scale units. Moreover, the small-scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernization and rationalization are urgently required in small-scale industries.

Problems of marketing:

One of the main problems faced by the small-scale units is in the field of marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage vis-à-vis large-scale units. Because of the shortage of capital and financial resources, these units do not have adequate „staying capacity“ and are often forced to sell their products at unremunerative prices.

Adverse effects of economic reforms and globalization:

The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, „opening up“ the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have had an adverse effect on the small-scale sector. Cheaper and better quality imported goods are posing a serious threat to small scale units operating in various industries like chemicals, silk, auto components, toys, sports goods, footwear etc. The most serious threat is being posed by cheap Chinese imports as the so-called „China price“ (which is a rock-bottom price) is forcing many small-scale units to close down.

Conclusion

The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 perhaps is the most crucial of these recent policy changes. The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations. The growth of small scale industries can be evaluated on the growth rates of units, employment, output and exports of Small scale industries in 2013 with that of 1990s. At the same time MSMEs sector faced key challenges like as Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw material at a competitive cost.

Problems of storage, designing, packaging and product display, Lack of access to global markets, inadequate infrastructure facilities, including power, water, roads, Low technology levels, lack of skilled manpower for manufacturing, services, marketing, etc. Despite the various challenges it has been facing the MSME sector has shown admirable innovation, adaptability and to survive the recent economic down turn and recession. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSME's sector constituted an important segment of our economy. MSME's are a very important segment in the Indian industrial sector /and would continue to play an important role in the Indian economy in the future. A rewarding feature of economic development in India is due to impressive growth of modern MSME's.

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