

# Performances And Challenges of MSMEs in India

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## ABSTRACT

MSMEs (Micro, Small and Medium Enterprises) have been playing a crucial role in providing employment opportunities and industrialization in Indian economy, particularly in the rural areas. These firms typically account for more than 90% of all firms outside the agricultural sector. That is why MSMEs is considered as growth engine of the Indian economy. Despite its contribution and significance in the country, majority of the small units are facing sickness. After LPG policy (1991) in India, this sector is facing stiff competition from MNCs. The GOI has also withdrawn many protective policies for the MSMEs and introduced promotional policies to increase competitiveness of the sector. The main problems of the MSMEs are lack of adequate credit facility, lack of modern technology, complex labour laws and etc. India needs to create millions of job opportunities every year to provide gainful employment to its young population. Therefore, the GOI must encourage and try to promote MSMEs to take proper care of Indian economy with concrete plan of action and its honest implementation. In this paper I have tried to focus on the performance of MSMEs, and also various challenges facing by MSMEs in India. The study is based upon secondary data.

Keywords: MSME, Employment, Opportunity, GOI

**Introduction:** The MSMEs have played a stupendous role in overall economic development of a country like India where millions of people are unemployed or underemployed & facing the problems of poverty. The MSMEs have always been considered as growth engine of the Indian economy. After agriculture, this sector holds second position in generating employment opportunities & enhancing industrialisation in rural and backward area in Indian economy. Khadi and Village Industries (KVI) are two national heritages of India and both are key component of MSMEs. One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment and also serves the basic needs of processed goods of the vast rural sector of the country. MSMEs also complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. After the LPG policy in India since 1991, this sector is facing stiff competition from the MNCs because of the innovation the market. MSMEs have not been able to achieve the competitiveness that would allow them to drive the manufacturing sector and overall economic growth, employment and poverty reduction. Many of these barriers are related to public policy, funding constraints, shortage of skilled research and development (R&D) workforce, and weak linkages between institutions and the firms, among others. To overcome these challenges govt. of India also taken some steps like MSME Development Act, 2006 has been enacted to facilitate these units first time and towards fulfilling the Credit needs of MSME, various schemes have been introduced like “Credit Linked Capital Subsidy Scheme” (CLCSS), MSME Market Development Assistance (MDA), Micro Finance Programme (MFP), National Awards (Individual MSME) and so on. Given the importance of the MSME sector, it is critical to ensure that SMEs in India remain competitive both nationally and globally.

**Literature Review:** Gurneet Kaur (2017) concluded that that the MSMEs have played a crucial role in the development of the Indian economy post the trade reforms in 1991. She also stated that due to advancement in technology in the agriculture sector along with a slow growth, there has a slowdown in the creation of jobs. This puts a lot of pressure on the MSME sector to provide employment to the citizens and the government has to play key role.

Ujjal Bhuyan (2016) stated that this sector’s contribution to India’s economy is immense but it is extremely vulnerable to socioeconomic changes.

Srinivas (2013) analysed about the performance of MSMEs, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy. Export-Import Bank of India (2012) has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing

laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.

Sakia (2011) traced out the reasons which are rendered for the slow growth rate of the MSME sector. Also, he addressed the need to build a proper & effective strategy for the development of our economy through the MSME sector by motivating and changing the mindset and attitude of the youth.

**Objectives of the Study:** The main objectives of this study are as follows:

- (i) To analyse performance of MSMEs in Indian economic development
- (ii) To find out the challenges faced by the MSMEs sector in India
- (iii) To give suggestions for the improvement of this sector.

**Methodology:** The study is mainly descriptive and based on secondary data. Relevant information has been collected from various research papers, journals, publications, and also from various websites.

**Performance of the MSMEs:** In spite of the stiff competition from the large, organized sector and MNCs, they have managed to achieve a high growth rate over the years. In 2015/16, the sector comprised more than 51 million enterprises, employed more than 117 million persons and accounted for more than Rs. 8492 billion worth of exports (at current prices); produced about 18100 billion worth of output (at constant prices in 2012/13) (RBI,2017). In 2014/15, MSMEs accounted for 30.74% of the GDP (MSMEs Ministry, 2017). It can be observed from Table 1 that the total number of MSMEs has increased from 410.08 lakh units in 2009-10 to 510.57 lakh units in 2014-2015. There has also been a steady growth in employment during same period. In 2009-10, employment was 921.79 lakh people and it steadily increased to 1171.32 lakh person in 2014-15. There is also steady growth in the market value of fixed assets. We can also see the contribution of MSMEs to the GDP of the country from the Table 2. The contribution of MSME has not been very prolific as total production was 39.63% in 2009-2010 but it declined significantly and became 36.95% in 2014-15. In the same period, number of MSMEs has increased but production and contribution in GDP has decreased.

**Table (1) Performance of MSMEs (2009-10 to 2014-15)**

Year	Total MSMEs (in lakhs)	Employment lakhs in person	Fixed Assets (in cr.)
2009-10	410.80	921.79	1038546.08
2010-11	428.73	965.15	1105934.09
2011-12	447.64	1011.69	1182757.64
2012-13	467.54	1061.40	1268763.67
2013-14	488.46	1114.29	1363700.54
2014-15	510.57	1171.32	1471992.94

**Source:** <http://msme.gov.in>

**Table (2) Total Industrial Production of MSMEs (2009-10 to 2014-15)**

Year	Total Industrial Production (%)	Contribution in GDP (%)
2009-10	39.63	36.05
2010-11	38.50	36.69
2011-12	37.47	37.97
2012-13	37.33	37.54
2013-14	37.24	29.76
2014-15	36.95	29.39

**Source:** <http://msme.gov.in> & Yojana, November'2017.

**Key Challenges faced by MSMEs:** Flourishing amidst a challenging environment, the MSMEs of India experienced several highs and lows in the past few years. With the Indian economy expected to emerge as one of the leading economies in the world and likely to become a \$5 trillion economy by 2025, major

impetus needs to be given to strengthen the backbone of our economy. Followings are the some important challenges which required taking care by the government:

- Lack of availability of adequate and timely credit from banks.
- Poor infrastructure & Lack of skilled manpower
- Lack of marketing and promotional support
- Cut throat competition
- Lack of advanced technology & innovation
- Withdrawal of reservation policy

Besides these challenges which MSMEs have been facing right from beginning, the recent past decision of demonetisation and GST of the government have also adversely affected the functioning and performance of the MSMEs. And as a consequence of that, employment has declined in this sector badly. The sector also faces extreme competition from neighbouring countries, notably china, whose 'dumping' of products has resulted in loss for many indigenous units. But it is expected that GST bill will help eradicate indirect taxes, have more transparency of tax process, draw projections of production cost and gain easy access to new geographies for business expansion in the long run.

**Suggestions:** MSMEs sector possess enough potential & possibilities to give Indian economy a Big Push. With a little support from the government & financial institutions, these units can be on the way to becoming the pillars of growth. Below are some suggestions for improving the performance o MSMEs:-

- The GOI has to implement many skilled programmes to inculcate entrepreneurship skills among the urban & rural youth of the country.
- There should be easy accessibility of finance & latest technology to MSMEs sector.
- The GOI should try to make this sector more formal gradually.
- Focus should be on labour intensive units to create more employment opportunity in this sector.
- The government must try to provide adequate marketing infrastructure for this sector particularly in the rural area of the economy.
- The entrepreneurial skills programme should be given to the rural and young youth of the country.
- The MSMEs friendly environment should be created and ensured by the government.

### **Conclusion**

MSMEs have a strategic role to play in the economy of every country. They help to generate employment in the unskilled and semi skilled genre, that too at a low capital cost as these units are basically labour intensive. Nearly, 90% of the industrial units belong to this sector, employing 40% of the India's workforce. The sector will inevitably support India to improve nation's financial inclusion and mitigate the urban rural divide. Also, it is expected that by 2020, India will have the largest job ready, youth population in the world and with favourable business ecosystem in the manufacturing sector it will not only generate employment of significant level but also become hot bed of entrepreneurial activities. However, as the growth of this sector slackened in the recent past, the contribution of this sector to the economy has slightly come down. Keeping in view the role of MSMEs & its significance the government has to lay special emphasis on the schemes and programmes specially designed for sustainable development of MSMEs. To face the competition in the long run and to be economically viable, the MSME sector needs to improve its productivity and quality, reduce costs (given the higher qualities) and innovate. 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.

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