

PERFORMANCE OF MSME'S IN INDIA - PROBLEMS & PROSPECTS

G C S SARMA

Abstract: Micro Small and Medium Enterprises (MSMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population. They contribute significantly to the country's Industrial production, highest employment growth and exports. The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of Ministry of Micro, Small and Medium Enterprises, Government of India, (ii) Various Websites connected with the relevant topics of MSMEs (iii) Journal papers (iv) Articles and (v) other relevant sources for MSMEs. Performance compared for all the three sectors for a span of seven years. The average growths of Micro, Small and Medium enterprises are analysed for a period of ten years. Share of different sectors, their contribution to GDP and banking credit aspects are discussed.

Keywords: MSME, CAGR.

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. 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. They have unique advantages like

- comparatively high labor-capital ratio
- shorter gestation period
- focus on relatively smaller markets
- lower investments
- ensure a more equitable distribution of national income
- facilitates an effective mobilization of resources of capital and skills which might otherwise remain unutilized
- stimulates the growth of industrial entrepreneurship.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. It complements large industries as ancillary units and contributes enormously to the socioeconomic development of the country.

The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India's GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. MSMEs of India has to

face many challenges and utilize the opportunities in the fast changing global markets. Now, MSMEs are required to make use of consultancy services to upgrade their competencies in various fields like marketing, finance, business development operations, technology etc. This sector even assumes greater importance as the country is moving towards a faster and inclusive growth agenda. Moreover, it is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. The present paper is an attempt to focus on performance of MSMEs in India, problems & future prospects and initiatives taken to solve the problems by government.

2. LITERATURE REVIEW

Mali (1998) observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

Bala Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Dixit and Pandey (2011) applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. performance, growth & problems of MSMEs in Indian economy and induces for continuous research in this field.

Objectives of the Study:

The broad objective of the paper is to assess the overall growth and developments in the MSMEs sector in India. However, this paper highlights on the following areas also:

1. Performance of MSMEs in India
2. Problems & future prospects of MSMEs

3. DATA AND METHODOLOGY

The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of Ministry of Micro, Small and Medium Enterprises, Government of India, (ii) Various Websites connected with the relevant topics of MSMEs (iii) Journal papers (iv) Articles and (v) other relevant sources for MSMEs. Data collected for a period of seven years from 2005-06 to 2011-12. The relevant data of MSMEs' growth and performance collected and presented, which belongs to the after the introduction of MSMED act, 2006 only.

Small Scale Industrial Unit: An industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed Rs. 100 lakhs as on 31-03-2001 is to be treated as a Small Scale Industrial Unit.

Micro Small Medium Enterprises (MSME): MSME Sector consists of any enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industries Development and Regulation Act, 1951 & other enterprises engaged in production and rendering services. Under the Micro, Small and Medium Enterprises Development Act, 2006, MSMEs are classified as under:

Enterprises	Investment in Plant & Machinery (Manufacturing)	Investment in Equipment (Services)
Micro	Upto Rs.25 lakh	Upto Rs.10 lakh
Small	Above Rs. 25 lakh upto Rs.5 Crore	Above Rs. 10 lakh upto Rs.2 Crore
Medium	Above Rs. 5 Crore upto Rs.10 Crore	Above Rs. 2 Crore upto Rs.5 Crore

Evaluation of Performance of MSME:

As per the provisions of the Act, all MSMEs are required to file Entrepreneurs Memorandum (Part-I) at District Industries Centers (DICs). After commencement of the project, the entrepreneur concerned is required to file Entrepreneurs Memorandum (Part-II) [EM (Part-II)]. Prior to enactment of the MSMED Act, 2006 there was a system of registration to small scale industrial units by the DICs. Table No. 1 shows category wise entrepreneurs under Micro, Small and Medium for the last seven years ending 2013-14 those who filed their memorandum to DICs.

Table.1: Status of filing of Entrepreneurs Memorandum Part-II

Year	Micro	Small	Medium	Total
2007-08	156051	17777	491	174319
2008-09	171031	18757	690	193077
2009-10	186126	23999	1412	213894
2010-11	204064	29101	1260	237263
2011-12	242606	34192	2939	282496
2012-13	275867	41502	5449	322818
2013-14	296526	59127	7338	362991
Average	218896	32064	2797	255266
CAGR	9.60% Micro	18.73% Small	47.16% Medium	11.05% Total

Source: EM Part-II data on MSME sector, Development Commissioner, MSME, GoI, 2013-14

The average growths of Micro, Small and Medium enterprises are 218896, 32064 and 2797 respectively with overall average growth rate of 11.05%. The maximum growth was witnessed by medium scale enterprises i.e. 47.16%. At the

year ending 2013-14, there was 296526 micro enterprises with annual growth rate of 9.60% and small enterprises 59127 with compound annual growth rate of 18.73%.

Table.2: Status of MSME Units, Employment, Investments and Gross Output in India

Sl. No	Year	No. of Working Enterprise(in Lakh)	Employment (in Lakh)	Market Value of FAs (in Crore)	Gross Output (in Crore)
01	2001-02	105.21	249.33	154349.00	282270.00
02	2002-03	109.49	260.21	162317.00	314850.00
03	2003-04	113.95	271.42	170219.00	364547.00
04	2004-05	118.59	282.57	178699.00	429796.00
05	2005-06	123.42	294.91	188113.00	497842.00
06	2006-07	361.76	805.23	868543.79	1351383.45
07	2007-08	377.37	842.23	917437.46	1435179.26
08	2008-09	393.70	881.14	971407.49	1524234.83
09	2009-10	410.82	922.19	1029331.46	1619355.53
10	2010-11	428.77	965.69	1094893.42	1721553.42
11	2011-12	447.73	1012.59	1176939.36	1834332.05
12	2012-13#	467.56	1,061.52	1,269,338.02	**
Avg.		288.19	654.09	681798.99	1034122.14
CAGR		13.24%	12.83%	19.19%	18.55%

Source: MSME Annual Report-2013-14 Government of India.

Projected

** Not Available

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The Census was conducted with reference year 2006- 07, wherein the data was collected till 2009 and results published in 2011-12. The scope and coverage of the MSME sector was broadened significantly under the MSMED Act, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector. It is clear from the table No. 2 that number of enterprises, employment, investment in fixed assets and gross output of MSME units in India show an increasing trend over the period of twelve years. From FY 2006-07, figures includes activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/o SPI. Number of enterprises and employment registered an annual growth of 13% approx. whereas the value of fixed assets and output witnessed a growth of 19% approx.

Table.3: Growth rate of MSME sector on preceding years

Year	Growth % of MSME
2007-08 to 2008-09	11.77
2008-09 to 2009-10	10.45
2009-10 to 2010-11	11.83
2010-11 to 2011-12	18.45
2011-12 to 2012-13	14.30
2012-13 to 2013-14	12.44

Source: MSME Annual Report-2013-14 Government of India

The growth rate of MSMEs has showed an increasing trend till the year 2010-11 to 2011-12 and declined from there onwards indicating an average growth percentage as 13.21%.

Share of different Sectors of MSMEs:

It can be seen from the chart below that Retail Trade and repairs has got the maximum share in the MSME sector with 39.85%, Manufacture of -Apparels 8.75%, food products 6.94% and remaining areas with 2%-3%.

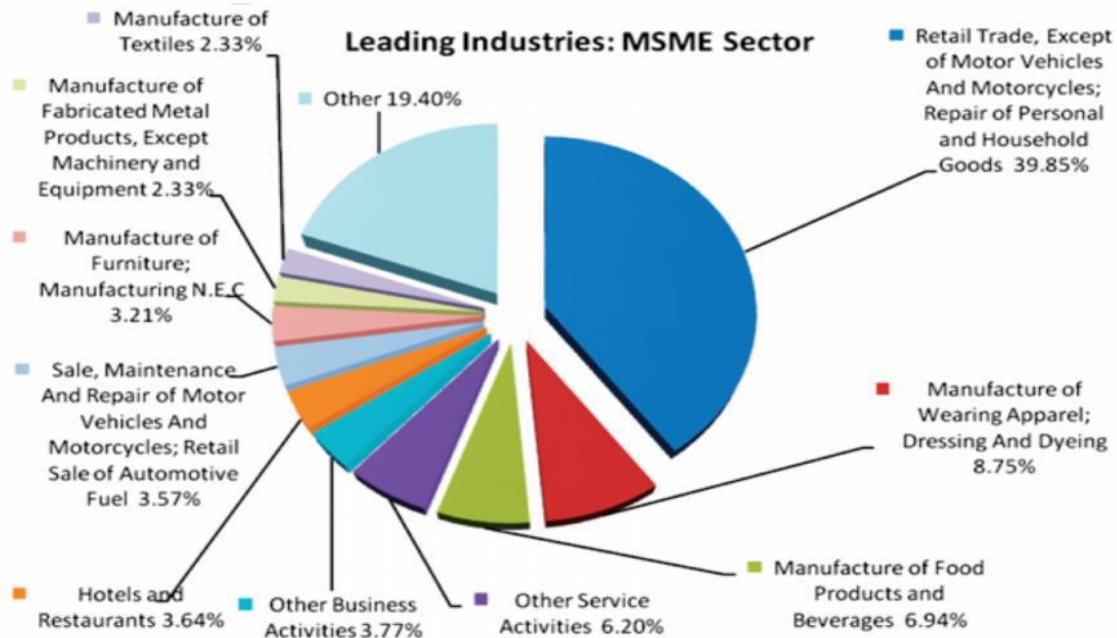


Table.4: Contribution of MSME sector (other than services) to the (GDP)

Year	Gross Value of Output (Rs. in Crore)	Percentage Share of MSME	
		Total Manufacturing Output	Gross Domestic Product (GDP)
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.60	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.60	38.48	7.42
2011-12#	1790804.67	37.52	7.28

Note: * - Provisional.

Source: 1. Fourth All India Census of MSMEs 2006-07,

2. National Account Statistics 2013, CSO, M/O SPI and

3. Annual Survey of Industries, CSO, M/O SPI

Table No.4 discloses the contribution of MSME sector to total industrial production and GDP over six years. It shows an increasing trend over the period of study. During the financial year ending 2011-12, this sector contributed 37% approx. of the total industrial production and 7% approx. of the overall GDP of the country.

Financing to MSE sector has always been the priority area for the policy makers in the country, which is evident from the recent announcements in the stimulus package during global economic slowdown and also recent Union Budgets, Monetary and Credit policies. The Government of India has shown strong commitment to double the credit flow to this sector in the next five years. Accordingly Prime Minister's Task Force has recommended and RBI has mandated scheduled commercial banks to achieve, among others, 20% year- on- year credit growth to MSE sector.

The MSME sector has been accorded high priority in the industrial policy owing to its vital role in the economy. During FY13, the total outstanding credit by banks to MSMEs in India stood at Rs. 528617crores, growing at a CAGR of 23% during FY04-FY13 (Table No. 5). The average credit to MSME sector stood Rs. 226964 Cr, Rs. 54856 Cr and Rs. 16073

Cr respectively in respect to Public Sector Banks, Private Sector Banks and Foreign Banks representing 76%, 18% and 6% of total credit. Among bank categories, public and private sector banks have registered impressive growth of 22% and 33% in MSE lending in FY13. However, Public Sectors Banks (PSBs) account for a major share compared to private and foreign banks.

Table.5: Status of Outstanding Bank Credit to MSME in India (in crores)

Sl. No	Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
01	2004-05	67800	8592	6907	83498
02	2005-06	82438	10421	8430	101285
03	2006-07	102550	13136	11637	127323
04	2007-08	151137	46912	15489	213538
05	2008-09	191408	46656	18063	256127
06	2009-10	278398	64534	21069	364001
07	2010-11	376625	87857	21461	485943
08	2011-12	395976	105085	19839	520900
09	2012-13#	396343	110514	21760	528617
Avg.		226964	54856	16073	297915
CAGR		21.68%	32.82%	13.60%	22.76%

Source: Annual Report of Ministry of MSME for the year 2012-13

Provisional

Problems faced by MSMEs:

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 lengthy, much documentation required to prove their worthiness, high cost. The banks are providing on an average 50% total capital employed in fixed assets
- 2. Competition from multinational companies-** In present era of globalization, the MSME'S are facing the huge competition from the international manufacturing companies who are providing quality goods at low price.
- 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 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. 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. 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. where the owners are aware of the innovative methods of production there is lack of availability of skilled labour, the skill developmental schemes conducted by the government are not sufficient.

8. **Complex labor laws and red-tape-**All the laws related to all the aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult. The various decisions of factory 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:

1. 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.
2. There should be mutual exchange of technologies among MSMEs. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.
3. For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared by including owners of different sectors, who can help the MSMEs within the region for effectively transfer the available technologies.
4. There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient
5. 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.
6. Availability of credit according to the requirement at cheaper rate.
7. There should be relaxation in complex labor laws to avoid the inconvenience in compliance.
8. There should proper research and development in respect of innovative method of production and service rendering.

Prospects of MSMEs:

The lots of potentials are available in the field of MSME'S. The prospects 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 MSMEs 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.
2. **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 more 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 highly 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.

4. CONCLUSION

Micro Small and Medium Enterprises (MSMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering

innovative solutions and sustainable development to the economy as a whole. Though, MSMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower they 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 established in the underdeveloped areas. 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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