iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 3 **Issue:** IV **Month of publication:** April 2015

DOI:

www.ijraset.com

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International Journal for Research in Applied Science & Engineering Technology (IJRASET)

Challenges and Opportunities in Micro, Small and Medium Enterprises in India

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Abstract*—Micro, Small and Medium Enterprises play a pivotal role in the economic and social development of the country. It also plays a key role in the development of the economy with its effective, efficient, flexible and innovative entrepreneurial spirit. MSMEs contribute 45% in the industrial output, 40% of exports, employing 60 million people; create 1.3 million jobs every year. It produces more than 8,000 quality products for the Indian and international markets. Its contribution towards GDP in 2011 was 17% which increased to 22% in 2012. This paper analyses the various challenges and opportunities associated with MSMEs in India.

***Keywords*— Economic Growth, GDP, MSMEs, Enterprises, Performance**

I. INTRODUCTION

Micro, small and medium enterprises (MSMEs), including khadi and village as well as rural enterprises, play a pivotal role in the overall industrial development of the country. They have been the significant contributor to the national income, with their huge involvement in country's industrial production, exports, etc. They not only help in providing employment opportunities to millions of people across the country, especially to the village artisans and rural people, but also check the problem of economic concentration in the hands of a few. They create a sound entrepreneurial base in the economy by developing and nurturing the talents, skills, etc. of small and medium scale entrepreneurs. The labor intensity in the MSME sector is estimated to be considerable higher than the large enterprises. Thus, this sector has been regarded a priority status by both the Central and the State Governments.

A. Problems Relating to MSMEs

In spite of this, the MSMEs continue to face several problems in their day-to-day operations, that is, in production and marketing of their products. They find it difficult to sell their output at remunerative prices and cannot spend much on advertising, marketing research, etc. They also face stiff competition from large firms. Inadequate infrastructural facilities and access to credit are other major problems. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. They are mainly reluctant to adopt modern methods of organization and management.

Although, the primary responsibility for promotion and development of MSMEs lies with the concerned State/ Union Territory (UT) Governments. But, the Central Government has always taken active interest in supplementing the efforts of State/UT Governments through its various regulations, as MSMEs have huge potential both in terms of creation of wealth and employment as well as for the proper growth of related sectors of the economy. In India, the Enterprises is the main central authority which assists the States/UTs in their efforts to promote growth and development of MSMEs. It has been implementing several schemes/programmes and policies so as to enhance the global competitiveness of the MSMEs. These relate mainly to simplified systems and procedures, easy access to capital, positioning the MSMEs in the global value chain by enhancing their productivity, technology up gradation, quality improvement, skill development, access to both domestic and international markets, etc.

B. Governmental Measures

Recognizing the importance of small and medium enterprises in the growth of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base, the Central and State Governments are undertaking several policy measures and incentives as well as implementing schemes and programmes for promotion and development of these enterprises. For this, entrepreneurship development and training is one of the key steps, particularly, for the

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first generation entrepreneurs. Entrepreneurship Development Programmes (EDPs) of various durations are being organized on regular basis by a number of organizations, such as, National and State level Entrepreneurship Development Institutes (EDIs);Micro, Small and Medium Enterprises Development Institutes (MSMEDIs) - formerly called Small Industries Service Institutes (SISIs); National and State level Industrial Development Corporations, Banks and other training institutions/agencies in private and public sector; etc. These EDPs aims to create new entrepreneurs by cultivating their latent qualities of entrepreneurship and enlightening them on various aspects necessary for setting up micro and small enterprises. Besides, skill development programmes (SDPs) and entrepreneurship-cum-skill development programmes (ESDPs) are also being organized by various public as well as private training institutions.

However, there are still wide spread variations in the success rate, in terms of actual setting up and successful running of enterprises, by the EDP/SDP/ESDP trained entrepreneurs. Also, new entrepreneurs generally face difficulties in availing full benefits under available schemes of the Governments / financial institutions, completing and complying with various formalities and legal requirements under various laws/regulations, in selection of appropriate technology, etc. In order to bridge the gap between the aspirations of the potential entrepreneurs and the realities, there is a need to support and nurture the potential first generation entrepreneurs by giving them handholding support during the initial stages of setting up and managing their enterprises. Accordingly, the scheme called '**Rajiv Gandhi Udyami Mitra Yojana (RGUMY)**' has been launched to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed EDP/SDP/ESDP or vocational training from ITIs, through the selected lead agencies, like 'Udyami Mitras'. This helps such entrepreneurs in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles as well as in completion of various formalities required for setting up and running of the enterprise, etc. The work profile of Udyami Mitras include networking, coordinating and follow up with various Government departments/ agencies/ organizations and regulatory agencies for channelizing the benefits available under various schemes to the first generation entrepreneurs and help them in setting up their enterprise.

Some of the other governmental measures for small and medium enterprises include:-

A. The Ministry of Micro, Small and Medium Enterprises has been implementing the 'Scheme of Surveys, Studies and Policy Research' with a view to regularly/periodically collect, from primary, secondary and other sources, relevant and reliable data on various aspects and features of micro, small and medium enterprises (MSMEs) engaged in manufacturing and services (whether in the category of tiny/small scale industries, khadi, village industries or coir) as a composite group or specific segments thereof. It aims to study and analyze, on the basis of empirical data or otherwise, the constraints and challenges faced by the MSMEs as well as the opportunities available to them, in the context of liberalization and globalization of the economy. It further aims to use the results of these surveys and analytical studies for policy research and designing appropriate strategies and measures of intervention by the Government, by itself or in public private partnership mode, to assist and enable these enterprises in facing the challenges and availing of the opportunities with a view to enhancing their efficiency and competitiveness as well as expanding generation of sustainable employment by them.

B. Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development as well as enhance the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto. For this, it included the establishment of specific funds, notification of particular schemes/programmes, progressive credit policies and practices, preference in Government procurements to products and services of these enterprises, following more effective mechanisms for mitigating their problems, etc. It provides the first-ever legal framework for recognition of the concept of 'enterprise' which comprises both manufacturing (those engaged in the manufacture/production of goods pertaining to any industry) and service ((those engaged in providing/rendering of services) entities. Under the Act, three tiers of enterprises, namely 'micro, small, and medium' have been defined for the first time. The Act also provides statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly, these enterprises, and with a wide range of advisory functions.

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C. The progressive de-reservation of products in the MSMEs aimed at providing opportunities for technological up gradation, promotion of exports and economies of scale, with a view to encourage modernization and enhance competitiveness in the sector. As on 13 March 2007, 125 items were dereserved. As on 8th February, 2008, 79 items more were dereserved. At present, the total number of items reserved for exclusive manufacture in the micro and small scale sector is 35.

D. The National Manufacturing Competitiveness Programme (NMCP) has been launched to provide support to the manufacturing sector, particularly small and medium enterprises sector, in their endeavor to become competitive. It consists of 10 components and programmes as the initiatives for development and promotion of MSMEs.

E. Credit is one of the critical inputs for the promotion of small and medium enterprises. It is a part of the priority sector lending policy of the banks. Accordingly, several schemes and policies have been undertaken to provide adequate credit to such enterprises. One of such scheme is the Credit Linked Capital Subsidy Scheme (CLCSS) which was launched to facilitate technology upgradation by upfront capital subsidy to small, micro and medium enterprises, including tiny, khadi, village and coir industrial units, on institutional finance (credit) availed by them for modernisation of their production equipment (plant and machinery) and techniques in specified sub-sectors/ products approved under the Scheme.

Besides, the State and Union Territories (UTs) Governments are executing several promotional and developmental projects/schemes as well as providing a number of supporting incentives for development and promotion of MSME sector in their respective States/UTs. These schemes/ projects are executed through State Directorate of Industries, who have District Industries Centers (DICs) under them to implement Central/State level schemes. Around 30 MSME-DIs and 28 Branch MSME-DIs have been set up in State capitals and other industrial cities all over the country, with a view to provide assistance/consultancy to prospective entrepreneurs as well as to existing units; conduct EDPs, Management Development Programmes, Skill Development Programmes, etc. Also, the State Industrial Development and Financial Institutions and State Financial Corporations look after the needs of the MSME sector.

The government has taken several measures to solve the problems faced by micro, small and medium enterprises and enable them to play an effective role in the country's economy. These measures may be broadly classified into:
Protective Measures, which are designed to protect small scale industries from the competition of large firms.
Promotional Measures, which have been undertaken to promote the growth of the small scale sector in the country.
Institutional Measures, which have been taken by the government in the form of setting up of several institutions or agencies to provide liberal and manifold assistance to small scale industries.

Recently, major initiatives have been taken by the government to revitalize the MSME sector. They include:

1) Implementation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

2) A "Package for Promotion of Micro and Small Enterprises" was announced in February 2007. This includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology, and marketing.

3) To make the Credit Guarantee Scheme more attractive, the following modifications have been made: (a) enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh; (b) raising the extent of guarantee cover from 75 per cent to 80 per cent for (1) micro enterprises for loans up to Rs. 5 lakh, (2) MSEs operated or owned by women and (3) all loans in the North-East Region; and (c) reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North-East Region.

4) The phased deletion of products from the list of items reserved for exclusive manufacture by micro and small enterprises is being continued. 125 items were de-reserved on March 13, 2007, reducing the number of items reserved for exclusive manufacture in micro and small enterprise sector to 114. Further, 79 items were de-reserved on February 5, 2008, 14 items in October 2008, followed by a revision in July 2010.

Some other suggestions generally put forward are:

1) Arrangements may be made by the government to ensure the supply of trained and professional managers for the small scale sector.

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2) It would be necessary to consider policy initiatives to incentivize MSMEs to achieve economies of scale by expanding production.
3) To facilitate the MSME sector to garner resources, it is imperative that a separate trading exchange be set up exclusively for the MSMEs.
4) Provide special incentives for encouraging larger flow of Venture Capital & Private Equity funds into the sector.

There is an urgent need to devise measures to tackle the problem of loss of fiscal benefits when the micro and small-scale units graduate into larger units, etc.

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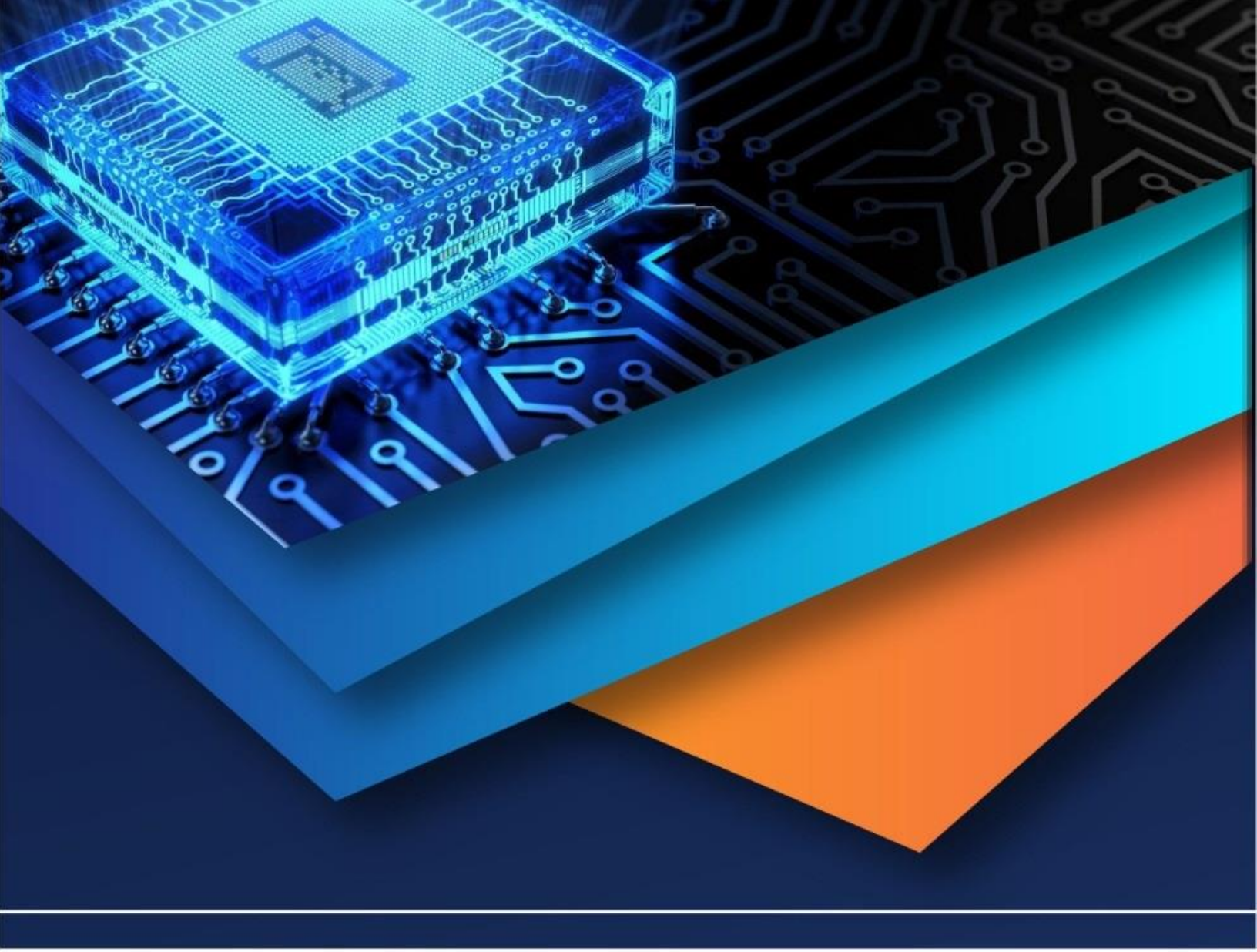
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