



A Study On MSME And Its Challenges For Sustainability In India

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Abstract: MSME is the backbone of Indian economy as it plays a crucial role in development of Indian economy by its volumetric contribution in Indian GDP, providing employment and in total export of India. Despite having such an important role to play, MSME faces a lot of challenges in their functioning. Vivid literature review has been done to build the conceptual framework and understanding the challenges of MSMEs for this paper. The paper talks about the challenges that MSMEs in India are facing in different stages of its life cycle. Some of the major challenges are lack of adequate and timely finance, regulatory issues, poor technology intervention, poor infrastructure, absence of trust etc. These challenges must be addressed by the relevant authority. It is expected to be useful for the policymakers of MSMEs in India. It also aims to provide a basis for the future empirical research and further academic studies.

Keywords:

MSME, Employment, Challenges of MSME, GDP, Export, Financial need, Role of MSME

I. INTRODUCTION

MSMEs are the inevitable part of Indian economy. It plays a significant role in the development process that is why it is called the seedbed of entrepreneurship. MSME sector is the backbone of Indian Economy with around 63.3 million MSME units throughout the country. The contribution of MSME in GDP is around 6.11% from manufacturing and 24.63% from service activities. Around 124 million people are getting employment from MSME and in export, it's contribution is around 45% of total export in India.

Definition of MSMEs

The definition of MSME differs from country to country. Some countries define MSME in terms of assets while some uses employment as a parameter to define it. In India the criteria of classification of MSMEs for manufacturing and service units is as below: -

Where the investment in plant and machinery is upto Rs 1cr and turnover is upto Rs 5cr- it is Micro enterprises. Where the investment in plant and manufacturing is above Rs 1cr but not more than Rs 10cr and turnover does not exceed Rs 50cr – it's called Small enterprises. Where the investment in plant and machinery goes above Rs 10cr but not more than Rs 50cr and turnover does not exceed Rs 250cr – it is Medium Enterprises.

MSME	Investment	Turnover
Micro enterprise	Upto 1 crore	Upto 5 crore
Small enterprise	1 crore – 10 crore	5 crore – 50 crore
Medium enterprise	10 crore – 50 crore	50 crore – 250 crore

This is the new classification of MSME Act 2006 that came into effect from 1st July, 2020 in which the difference between manufacturing and service sector has been taken away.

II. OBJECTIVES

Present study is going to address the following objectives: -

- To study the Indian MSMEs and its growth
- To analyse various challenges faced by Indian MSMEs
- To provide suggestive measures to handle such challenges.

III. LITERATURE REVIEW

Shiralashetti (2012) It insisted upon empowering MSME sector by educating them in various ways so that they can ensure the rightful and optimum utilization of all resources including human and economic resources. MSME are in great need to get introduced with the latest development and technology taking place globally.

Srinivas KT (2013) the study reveals that there have been major policy changes at national and state level to consolidate and emerge the MSME sector over the last few years. The paper emphasized the need to gaze upon the essential requirements for setting up of MSME and their good functioning.

Dey S.K (2014) emphasized on the importance of MSME in the economy of a country, more specifically the economy of a developed country. It figured out that the contribution of MSME is significant in GDP, producing output, providing employment and in export of a country.

Anis Ali, Firoz Husain (2014) The study insisted upon the essence of mutual change in technology among different types of MSMEs in India in order to take competitive advantage, grow fast and sustain in market for longer period of time

Dr. A.S. Shiralashetti (2016) paper highlighted the worldwide significance of MSME in propelling sustainable economic growth and promoting equitable regional development. It observed a significant hike of upto 3 times approx. in the span of 10 years. However, the growth in 2005-06 was not so significant but in 2006-07 again the growth was tremendous.

Ghatak, Shambhu, this paper highlighted the role of policy environment for promoting MSME that changed the way of doing business for MSME by focusing more on 'export orientation' instead of 'protectionism' during pre-1990s. It found out the truth that the contribution of MSME in overall industrial production has significantly fallen down from 39.74% in 1999-20 to 38.57% in 2006-07. But in GDP, the contribution MSE sector has taken a shoot from 5.86% in 1999-20 to 5.94% in 2006-07. Paper also mentioned few policies of Govt. that promoted the MSME sector in India.

Priyadarshani Zanjurne (2018) the paper analyzed few things- the state of MSME in India, per year growth of MSME, problem being faced by MSME and the future prospects of MSME.

MSMEs are said to reduce regional imbalance, focuses on customer satisfaction, generate good amount of employment in a country, attract foreign investment and develop good export outside.

Vinay kumar (2019) the study depicts that the government is making various integration and tie up agreements with NGOs, universities, and various agencies to ensure the proper understanding and implementation of government policies for setting up and smooth functioning of MSMEs.

M.H. Bala Subrahmanyam (2019) studied the performance of SSI in the globalisation era and before globalisation era. The comparison is made on the factor like GDP, Employment generation, number of newly setup SSI, export of SSI. The result concluded that the sector faced several challenges for its survival and growth in the period of globalisation. Various SSI closed or curtailed the level of operation significantly due to globalisation. Most of them shut up due to infrastructure bottlenecks and lack of clarity in orders from Public Sector Undertakings.

Sanjeeb Kumar Dey (2019) highlighted various issues and challenges that MSME generally go through with. The paper suggested to set up a number of factoring companies to leverage higher credit from institutional channels. RBI may announce a revised OTS scheme for SMEs under which MSME are classified in NPA category. MSME should have access to Venture Capital fund that should be treated as primary sector lending. Intensive support is to be provided for the emerging and innovative sector of bio-tech, nano-tech, defense, civil aviation, aero-space, homeland and internal security etc.

The study further suggested to form a panel of consultants that can guide the MSME for effective transfer of available technologies, conducting training and development programs by MSME ministry and relaxation in labour laws and red tapism to avoid inconvenience in compliance.

Elayaraj, Vijai (2020) stated the present status of MSME in India and the credit facilities provided by banks to MSMEs. In India, Uttar Pradesh is the state where maximum number of MSMEs are working. The paper also proved to show the growing trend of banks providing credit facilities to MSMEs since 2005.

Shiralashetti Concluded that the Micro, Small and Medium enterprises (MSMEs) play a pivotal role in the growth of economy, sustaining livelihood and in reducing regional imbalance. The MSMEs constitute a major share in industrial production and exports. Around 90% of total enterprises in most of the developing economies belongs to MSME.

IV. ROLE OF MSME

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indian economy, contributing significantly to its growth and development. MSMEs account for over 90% of all enterprises in India, providing employment to a large portion of the country's workforce and generating a significant share of India's GDP.

Employment generation: MSMEs are a major source of employment in India. This sector provides jobs around 80 million individuals in both rural and urban area. These enterprises are often owned and operated by entrepreneurs who are able to create jobs for themselves and others.

Economic growth: MSMEs contribute to economic growth by providing goods and services to consumers, generating income, and promoting entrepreneurship. MSME sector has almost 36 million units in India that contributes 8% to Indian GDP with 6000 types of products. Their activities help to spur economic activity and increase the overall level of economic activity in the country.

Entrepreneurship: MSMEs provide a supportive environment for entrepreneurs to start and grow their businesses. By creating opportunities for entrepreneurs to start and grow their own businesses, MSMEs promote entrepreneurship and help to spur innovation and creativity in the economy. The recent report of Ministry of Micro, Small and Medium Enterprises indicates 12,201,448 MSME registered on Udyam Registration Portal that replaces the former process of filing for a Udyog Aadhaar Memorandum (UAM). Those registration includes 11,735,117 (96.17%) micro-enterprises, 426,864 (3.49%) small-enterprises and 39,467 (0.32%) medium enterprises.

Rural development: MSMEs play a critical role in promoting rural development in India by creating employment opportunities and promoting entrepreneurship in rural areas. This helps to reduce poverty and improve living standards for people in rural areas.

Balance of trade: MSMEs contribute to India's balance of trade by exporting goods and services to other countries. On an average 45% export from India takes place by MSME sector. Their exports help to increase foreign exchange earnings and reduce the country's trade deficit.

Industrial diversification: MSMEs promote industrial diversification by producing a wide range of goods and services. MSME in India produce 6000 varieties of product. This helps to reduce the dependence of the Indian economy on a few key sectors and increases its resilience to economic shocks.

Access to finance: MSMEs often face challenges in accessing finance, as they are considered high-risk by traditional financial institutions. However, the Indian government has taken steps to support MSMEs by providing them with access to finance through various schemes and initiatives. KVIC, Coir Board, NSIC, NI-MSME and MGIRI are the five main statutory bodies of MSME Ministry that is responsible to provide support to MSME regarding government schemes and policies.

Promoting innovation: MSMEs promote innovation by providing a supportive environment for entrepreneurs to test and develop new ideas. This helps to spur technological advancements and create new products and services that benefit consumers and the economy as a whole.

Easing the burden of regulations: The Indian government has taken steps to ease the burden of regulations on MSMEs, making it easier for them to start and grow their businesses. This includes simplifying the process of registering and complying with regulations and providing tax benefits to MSMEs.

Encouraging competition: MSMEs play a critical role in promoting competition in the Indian economy by providing consumers with a wide range of choices and encouraging established firms to improve their offerings. This helps to promote economic efficiency and improve the overall competitiveness of the Indian economy.

Adopting digitalization: MSMEs in India are getting digitized by adopting digital mode of payment over cash. Trend shows that around 72% payment of MSME are taking place in digital mode whereas only around 28% payment are being done through traditional cash mode. Rise in digital adoption indicates the future growth prospects in MSME sector.

In short, MSMEs play a vital role in the Indian economy by providing employment, promoting entrepreneurship, contributing to economic growth, promoting rural development, and promoting innovation and competition. The Indian government has taken steps to support MSMEs, but there is still much work to be done to ensure that these enterprises have the support and resources they need to thrive and contribute to the country's economic growth.

MSME can be seen as a source of generating huge employment in a country. It contributes tremendously in the development of all regions including rural region. Indian is seen as a growing country making remarkable progress in all spheres of the economy that is presenting huge exposure to new opportunities for growth and expansion in almost all industries including Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector for MSMEs.

Despite playing such a crucial role in country's economy, MSME sector faces several challenges at different level. Major challenges faced by MSMEs are limited transportation and communication network, Inadequate level of technology, Inadequate infrastructure, Lack of financial resources, Lack of managerial skills, Lack of quality awareness and many more. Financial Challenge is one of those challenge MSMEs are majorly facing these days. According to International Finance Corporation, the overall demand for both debt and equity finance by MSME is estimated to be INR 87.7 trillion. Despite increase in financing to MSMEs in recent years, the addressable credit gap is estimated to be INR 25.8 trillion. On the top of that MSMEs do not have adequate financial awareness.

V. PROBLEMS FACE BY MSME

The list of challenges is a long list out of which major challenges are discussed one by one: -

Lack of adequate and timely finance- it is the major challenge MSME are facing. Only 16% of MSME gets timely finance from external sources rest depends on internal source of financing. Entrepreneur are forced to use their own funds. Not only small enterprises but large one too faces difficulties in accessing timely finance and the main reason behind it is failure of MSME in proving their worthiness to the lender, failure in providing enough details, insufficient exchange of knowledge between lender and borrower, insufficient disclosure of financial information.

Regulatory challenges: - MSMEs are facing various regulatory challenges that ended up costing MSME badly. These challenges are changes in labour laws, tax compliance etc. Labour laws have been changed several times to make the market competitive still it failed to bring any improvement even made things more complicated to MSME due to which many MSMEs even had to shut their business.

Poor technology: - in India, MSME have not yet updated their technology of production and doing business. most of the MSMEs are still sticking to outdated technology for example owner of fabricated and textile mills are still using the old methods that makes their presence less strong in highly competitive market and their survival comes in danger.

Infrastructure problems:- MSME are generally located either in industrial areas or urban area or in rural area as an unorganized business where the infrastructure quality is not up to the mark which affect the competitiveness of MSME sector.

Incompetent manpower: - In the pandemic times, the migration of labour from one place to another has manifested the problem at a bigger level. Moreover, labours also need to get refresher training, skill development programme and others to cope with modern day challenges.

Less productivity: - micro enterprises are the business units with upto 1 cr of investment. Less capital does not open up as much opportunities as large enterprises are entertaining. Due to being cost ineffective, the productivity of MSMEs get negatively influenced and hence they lose their competitive edge.

Ease of doing business: - despite showing a hike in "Ease of doing business index" of world bank, several problems are still intact in Indian market that discourage start-ups to set up their business and prevents their future growth.

Absence of trust: - Banks does not show enough trust in MSMEs competency. They doubt their repayment capacity and in turn enforce strict guidelines and regulations to follow specially for new ones to grant credit.

Absence of standardized policies: - there is not sufficient MSME policies on national level in India that is why there is lack of consistency and development program that sometimes hinders their path of becoming globally competitive.

VI. GOVERNMENT SCHEME

Government of India keeps on launching various schemes and subsidies to assist MSMEs financially.

During Covid-19, govt came up with “Atmanirbhar Bharat” to provide relief to millions of MSMEs in which a relief package of 20 lakh crore was set up to hand over to various sections including MSMEs.

Similarly there is “Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)” launched by GOI on 30th August 2000 where loans upto Rs 1cr can be availed by MSME.

Another one is MUDRA (Micro-Units Development & Refinance Agency Ltd.) scheme launched under Pradhan Mantri Mudra Yojna in April 2015, as a subsidiary of SIDBI. MUDRA offers loans under 3 tiers “Shishu”, “Kishor” and “Tarun”, categories signifies the stages of development of business entity. MUDRA offers loans upto RS 1 Lakh through Micro Finance Institution (MFIs).

Another scheme is Stand Up India Scheme, launched in April 2016 as a sibling scheme to Prime Minister Narendra Modi’s flagship Startup India scheme. It offers loans of between Rs 10 lakh to 1 crore for scheduled castes and scheduled tribes and women setting up new businesses outside the farm sector.

Govt has also launched 59-minute loan scheme where loans would be approved under 59 minutes for Rs 10 lakh to Rs 1 crore.

Few other similar schemes are:- National Small Industries Corporation (NSIC) Subsidies. Credit Linked Capital Subsidy Scheme For Technology Upgradation An alternative option for working capital finance and some more.

These above all schemes are the proof that Indian Government is well aware of the problem faced by MSMEs. It keeps on taking necessary steps time to time to provide easy access to funds to MSMEs. However, the country’s financial institutions are so embroiled in bureaucracy and the red tapism is so high that it affects the practicality of all such schemes.

VII. CONCLUSION

India is a developing nation in which small industries play big role than large industries in the growth and development of the economy. MSME covers all micro, small and medium enterprises that contribute the most in the Indian economy that is why it is referred as the backbone of Indian economy. Since the existence of MSME is so valuable in India, it is important to make this sector nurture well and grow further. Out of various hurdle that MSME faces, lack of finance is the existential well. Where it is easy to arrange finance for big companies the same become a major task in the MSME. The main reason behind this is the absence of high value collateral in small industries to access funds, lots of rules and regulation of financial sector and unawareness regarding government initiatives and schemes for MSMEs also lack of financial integrity between MSME results in increasing NPA of banks that takes away bank’s trust on such industries and hence they become reluctant to provide further loan to small industries According to International Finance Corporation, the overall demand for both debt and equity finance by MSME is estimated to be INR 87.7 trillion. Despite increase in financing to MSMEs in recent years, the addressable credit gap is estimated to be INR 25.8 trillion. On the top of that MSMEs do not have adequate financial awareness. The study stresses upon the need to raise the share of small and medium entities in lending finance by Indian banking sector directly or indirectly, in order to ensure their growth and development so that they can have better contribution in Indian economy.

We also have seen why bank are unable to provide timely financial help to MSMEs. Banks do not get proper financial information and adequate collateral to provide loan to MSME. The paper suggests that MSME needs to maintain proper financial records of their business and have all the awareness needed regarding several government schemes and subsidies provided to such businesses.

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