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A REVIEW OF CHALLENGES AND OPPORTUNITIES FOR MSMEs IN INDIA

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ABSTRACT

Micro, Small and Medium-scale enterprises (MSMEs) occupy an important and strategic place in economic growth and equitable development in all countries, constituting as high as 90% of enterprises in most countries worldwide; MSMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Their contribution to poverty reduction and wider distribution of wealth in developing economies cannot be underrated. Although MSMEs make up the vast majority of companies around the world, in each country the total percentage of the workforce they employ varies. But the fact remains that they constitute a sizeable chunk of enterprises.

Keywords: MSMEs, India, Challenges, Opportunities, Finance, Government Initiatives, Growth.

INTRODUCTION

MSMEs in India, which constitute more than 80% of the total number of Industrial enterprises, are skill in technological backwaters. They suffer from problems of sub-optimal scales of operation and technological obsolescence.

“While most of the large companies have financial as well as technical capacity to identify technological sources and evaluate technologies that would suit their requirements, unfortunately, this capacity is missing in the case of most SMEs,” says Anil Bhardwaj, Secretary general, Federation of Indian small and medium enterprises(FISME).

In the given situation, MSMEs primarily need access to new technologies. Apart from poor financial situations, low level of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills and access to technological information are some of the reasons that are blocking the growth of MSMEs.

MSMEs have been established in almost all major sectors in the industry such as:

- Food Processing
- Agricultural Inputs
- Chemicals and Pharmaceuticals
- Electro-medical equipment
- Engineering : Electricals; Electronics
- Leather and Leather goods
- Meat Products
- Bio-engineering
- Sports goods
- Plastic products
- Computer Software etc,

The small and medium sector is widely regarded as engine of the Indian economy. Small and medium enterprises contribute to the industrial, economic, technological and regional development in all developed and developing countries. The contribution of SME's in the industrial development of the country has been remarkable. At the state level, the government has played the major role in ensuring growth by establishing various institutions to support this sectors.

Barriers/Challenges

Small and Medium enterprises (SMEs) have played an important play a role in the growth of the domestic economy for long. As the process of globalization and liberalization gathers momentum across the globe, SMEs are facing tremendous challenges to survive and sustain. The following are some of the challenges faced by the SMEs. They are as under: .



1. Managerial Barriers: lack of education, Lack of professionalism, Lack of control, Poor adaptability to changing trade trends, Lack of management skills.
2. Financial Barriers: Inadequate and non-timely availability of finance, Low R & D investment, lack of effective collection of debts and lack of financial planning.

3. Technological Barriers: Non-Availability of technically trained human resources , Lack of access to technological information and consulting services.

Promotional Schemes

To enable SME's to mitigate these problems and enhance their access to new technologies for increasing their competitiveness in the market , it is imperative to give them a conducive environment and the Government has taken lots of active measures facilitate the process of innovation of Indian SMEs. Some of them are explained as under.

The policy of government for promoting a micro, small & medium enterprises

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality upgradation, common facilities, entrepreneurship development and consultancy services at nominal charges.

Incentive provided for quality upgradation

Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. This facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

Concession on excise duty

MSME units with a turnover of Rs. 1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crores are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas.

Providing credit to MSME

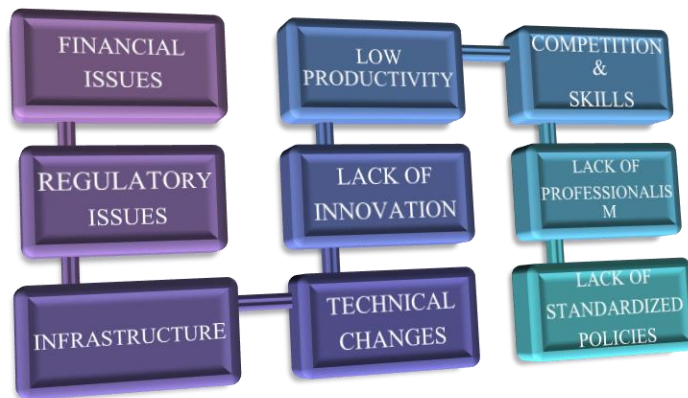
Credit to micro, small and medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc. Loans up to Rs. 5 lakhs are made available by the banks without insisting on collaterals. Further Credit Guarantee Fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSME up to Rs. 25 lakhs extended by Commercial Banks and some Regional Rural Bank.

The policies and schemes for promotion of MSME being implemented by State Governments

All the State Governments provide technical and other support services to small units through their Directorates of Industries, and District Industries Centres. Although the details of the scheme vary from state to state, the following are the common areas of support.

- a. Development and management of industrial estates
- b. Suspension/deferment of Sales Tax
- c. Power subsidies
- d. Capital investment subsidies for new units set up in a particular district
- e. Seed Capital/Margin Money Assistance Scheme
- f. Priority in allotment of power connection, water connection.
- g. Consultancy and technical support.

Challenges faced by the MSME sector in India:



1) Financial & Regulatory issues

Access to finance is a significant hurdle for MSMEs, with only 16% receiving timely finance. This forces them to rely on their own resources, hindering their growth prospects. Even larger firms struggle to access cheaper credit from formal banks. MSMEs face challenges with tax compliance and labour law changes, which have proven costly. Despite attempts to make the sector more competitive, compliance with regulations and tax registration remains difficult, leading to low capital and business closures.

2) Infrastructure

India's infrastructure is crucial for the MSME sector, especially in the outsourcing industry. However, inadequate infrastructure affects their efficiency and ability to compete globally, limiting their growth potential.

3) Low productivity & Lack of innovation

MSMEs may lack high productivity but offer value through cost efficiency and providing goods at lower prices. However, their small-scale production and low margins put them at a disadvantage compared to larger firms. Indian MSMEs often rely on outdated technologies and lack entrepreneurs who embrace new tools and technologies. This hampers their productivity and competitiveness, especially when compared to larger firms in sectors like e-commerce and call centres.

4) Technical changes

MSMEs have faced significant technical changes over time, impacting their growth potential. Changes in land ownership rights have led to mismanagement and reduced productivity, highlighting the need for adaptability.

5) Competition & Skills

MSMEs face fierce competition from larger firms, exacerbated by the rise of e-commerce and globalization. While competition is not new, MSMEs struggle to withstand the pressure in areas such as agriculture, garments, and tourism. MSMEs lag behind in terms of skills compared to their counterparts in other countries. Dependence on informal workers with limited technical skills hampers productivity and forces smaller firms into low-skilled jobs, hindering long-term growth.

6) Lack of professionalism

Many Indian MSMEs lack professionalism, making them vulnerable to corruption and abuse of power. This significantly impacts their business productivity and overall growth.

7) Lack of standardized policies

India lacks consistent MSME policies, resulting in inconsistent development and entrepreneurship promotion programs. While progress has been made in Delhi, nationwide efforts are necessary for Indian firms to compete globally.

Opportunities Available to MSMEs in India

Listed below are the growth opportunities for MSMEs in India -

1. **Telecommunications:** India is the second largest market for telecommunications. It has shown a growth rate of 10% since 2022. The Self Reliant Scheme boosts domestic manufacturing and aims to increase telecom networking appliances. The domestic manufacturing of telecom networking equipment will boost employment in MSMEs. Mobile handsets and other devices will be manufactured at low cost due to their huge demand in the Indian market.
2. **Services Export:** The universal aim of achieving a clean and green corporate regime is done by - Planet, People, and Profit. Entrepreneurs of MSMEs can re-direct in this direction to enhance the export of service by staking on this definition since India has a comparative advantage in the service sector.
3. **Putting the PLI scheme to work:** The government of India has introduced the Productivity Linked Incentive Scheme with a total cost of ₹1.97 lakh crore to facilitate 13 industry sectors to harness Make in India, thereby improving our manufacturing prowess and export chance. The government has also announced three schemes for the automotive industry wherein the manufacturing of electric vehicles will be encouraged to reduce carbon footprint, import fuel, and improve growth.
4. **Subsidy on patents:** The MSME registered enterprises are given up to 50% subsidy on registering their patents.
5. **Discounts:** MSMEs have the benefit to get discounts on interest rates on overdraft facilities from banks as well as under the Credit Guarantee Trust Fund Scheme.
6. **Facilitating start-ups:** According to Nasscom, India has 66 unicorns to date and is still counting. India is home to multiple unicorn startups and funding opportunities. MSMEs with innovative ideas must be nurtured with the right motivations and free from the bureaucratic labyrinth.
7. **Subsidy on technology upgradation:** MSMEs are eligible for a capital subsidy for elevating their technology through Credit Linked Capital Subsidy Scheme (CLCSS).

The micro, small and medium enterprises are the opportunity providers for the key to India's overall development. Despite facing challenges the industry has shown spectacular growth creating huge employment opportunities all across the country. With the government and the people's support, it's likely to escalate its growth in the coming decades.

Conclusion

With globalization, all forms of production of goods and services are getting increasingly fragmented across countries and enterprises. With large players adopting different models of business that include involvement of their traditional partners, suppliers or distributors at a different level, SMEs are now experiencing a new model of functioning in the value chain. The past few years have seen the role of the SME segment evolve from a traditional manufacturer in the domestic market to that of an international partner.

The restructuring of production at the international level through increased outsourcing is having significant effects on small and medium entrepreneurs in a positive, as well as negative manner. Demand in terms of niche products and services is providing more opportunities for SMEs that are in a better position to take advantage of their flexible nature of operations. At the same time, they have realized their drawback in terms of inadequate availability of managerial and financial resources, lack of working capital, personnel training and inability to innovate at a fast pace.

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