ASSESSING ISSUES AND CHALLENGES OF MICRO SMALL MEDIUM ENTERPRISES IN INDIA

Rakesh Kumar
Research Scholar, Department of Business Administration,
University of Lucknow, Lucknow, India
Email: rakesh.jrflko@gmail.com

ABSTRACT

The Micro, Small and Medium enterprises (MSMEs) play a pivotal role in the overall industrial economy of India. MSMEs constitute more than 80% of the total number of industrial enterprises and support industrial development. MSMEs contribute nearly 45% to manufacturing output and about 40% to the Indian export sector. Their contribution to the Indian GDP is nearly 8%. Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewelry, agricultural goods to much more value addition in the manufacturing sector to its entry in the value added services as well. This paper is an attempt to present the scenario of MSMEs and the related problems they phases like lending, marketing, license issues.

Keywords: Micro; Small and Medium Enterprises; Issues and Challenges

INTRODUCTION

The importance of Small scale sector cannot be overlooked while we consider the development of Indian industrial economy. Since Independence the MSMEs industries have been one of the major planks of India's economic development strategy. From the very beginning India accorded high priority to small and medium enterprises (SMEs) and has rigoursly encouraged and has regularly pursued support policies to make these enterprises viable and vibrant. With the laps of time, these have now become major contributors to the GDP. Sadly, despite numerous protection and policy measures for the past so many years, MSMEs have remained mostly confined itself to small, technologically backward and lacking in competitiveness. The liberalization of the Indian economy in 1991 and introduction of new industrial policy added problems to the MSMEs.

During the initial stages after independence, small scale enterprises found it difficult to survive. In the 21st century, the economic environment has changed in favour of MSMEs. Presently, the MSMEs in India are at a crossroad and intense debate is centered on questions like what would be the future of the small enterprises? How these enterprises can survive in the international trade arena? What role can the government play in making these SMEs more competitive?

Today, small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. The small scale industry accounts for 40% of gross industrial value addition and 40% of total manufacturing exports. More than 3.2 million units are spread all over the country producing about 8000 items, from very basic to highly sophisticated products. The SMEs are the biggest employment-providing sectors after agriculture, providing employment to 29.4 million people. However SMEs, which constitute more than 80% of total number of industrial enterprises, are now facing a tough competition from their global counterparts due to liberalization, change in manufacturing strategies, technological changes, and turbulent and uncertain market scenario.
Moreover, Small industry in India has been confronted with an increasingly competitive environment due to: (1) liberalization of the investment regimen the 1990s, favoring foreign direct investment (FDI); (2) the formation of the World Trade Organization (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and (3) domestic economic reforms. The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to 'compete or perish'.

OBJECTIVE

To assess the issues and challenges of MSME

What Is Micro Small Medium Enterprises?

In India, the enterprises have been classified broadly into two categories:

(1) Manufacturing; and
(2) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>INVESTMENT CEILING FOR PLANT, MACHINERY OR EQUIPMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing Enterprises</td>
</tr>
<tr>
<td>MICRO</td>
<td>Up to Rs.25 lakh ($50 thousand)</td>
</tr>
<tr>
<td>SMALL</td>
<td>Above Rs.25 lakh ($50 thousand) &amp; Up to Rs.5 crore ($1 million)</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Above Rs.5 crore ($1 million) &amp; Up to Rs.10 crore ($2 million)</td>
</tr>
</tbody>
</table>

Definitions before 2nd October 2006

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>Investment Ceiling for Plant &amp; Machinery or Fixed Assets*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing Enterprises</td>
</tr>
<tr>
<td>MICRO</td>
<td>Up to Rs.25 lakh ($50 thousand)</td>
</tr>
<tr>
<td>SMALL</td>
<td>Above Rs.25 lakh ($50 thousand) &amp; Up to Rs.1 crore ($0.20 million)</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>NOT DEFINED</td>
</tr>
</tbody>
</table>

Note: * Excluding land and building @ $1 = Rs.50 (April 2009).

Micro, Small and Medium enterprises (MSME) Sector: Profile

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of MSMEs</td>
</tr>
<tr>
<td>Number of Manufacturing Enterprises</td>
</tr>
<tr>
<td>Number of Service Enterprises</td>
</tr>
<tr>
<td>Number of Women Enterprises</td>
</tr>
<tr>
<td>Number of Rural Enterprises</td>
</tr>
<tr>
<td>Employment</td>
</tr>
<tr>
<td>Per unit employment</td>
</tr>
<tr>
<td>Per unit fixed investment</td>
</tr>
<tr>
<td>Per unit original value of Plant &amp; Machinery</td>
</tr>
</tbody>
</table>
Per unit gross output | Rs.46.13 lakh
Employment per one lakh fixed investment | 0.19

Government Policies and Support Measures: Brief History

The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1991: In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises Development Organization [earlier known as Small Industries Development Organization (SIDO)] was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in skills/entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centers were set up all over the country.

1991-1999: The new Policy for Small, Tiny and Village Enterprises of August, 1991 laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.

1999 onwards: The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector.

The new Policy Package announced in August, 2000 sought to address the persisting problems relating to credit, infrastructure, technology, and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1 crore ($0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year.

In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March, 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which compromise the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.
Present Policy Framework and Focus Areas

Micro, Small and Medium Enterprises Development Act, 2006: The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises and also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurement to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

Foreign Direct Investment (FDI) Policy

With the promulgation of the MSMED Act, 2006, the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the MSEs has been done away with and MSEs are defined solely on the basis of investment in plant and machinery (manufacturing enterprises) and equipment (service enterprises). Thus, the present policy on FDI in MSE permit FDI subject only to the sectoral equity caps, entry routes and other relevant sectorial regulations.

Limited Liability Partnership (LLP) Act, 2008

The salient features of the proposed LLP Act, 2008 are as under:

1. LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession. Indian Partnership Act, 1932 shall not be applicable to LLPs, since LLP shall be in the form of a body corporate.

2. An LLP has to be incorporated with a minimum of two persons. The Act does not restrict the benefit of LLP structure to certain classes of professionals only and would be available for use by any enterprise which fulfills the requirements of the Act.

3. The LLP will be an alternative corporate business vehicle that would give the benefits of limited liability but would allow its members the flexibility of organizing their internal structure as a partnership based on an agreement.

4. On registration LLP shall be capable of: (a) suing and being sued; and (b) acquiring, owning, holding and developing or disposing off property.

5. A person may cease to be a partner of a LLP in accordance with an agreement with the other partners or in absence of agreement with the other partners, by giving a notice in writing of not less than 30 days of his intention to resign as partner.

6. In the event of an act carried out by a LLP, or any of its partners, with intend to defraud creditors of the LLP or any other person or for any fraudulent purpose, the liability of the LLP and partners, who acted with intend to defraud creditors or for any fraudulent purpose shall be unlimited for all or any of the debts or other liabilities of the LLP.

7. A contribution of a partner may consist of tangible, movable or immovable or intangible property or other benefits to the LLP including money, promissory notes, and other agreements to contribute cash or property, and contracts for services performed or to be performed.
8. While the LLP will be a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed contribution in the LLP. Further, no partner would be liable on account of the independent or unauthorized actions of other partners, thus allowing individual partners to be shielded from joint liability created by another partner's wrongful business decisions or misconduct.

9. LLP shall be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs.

10. Provisions have been made in the Act for corporate actions like mergers, amalgamations etc.

11. There is a provision of voluntary winding up as well as winding up by the Tribunal.

12. There are provisions for inter conversion of LLP into private company etc. The LLP Act should pave the way for greater corporatization of the Small and Medium Enterprises – thereby enhancing their access to equity and funds from the market.

De-Reservation

The issue of de-reservation has been a subject of animated debate within government for the last twenty years. The Approach to the Eleventh Five Year Plan notes the adverse implications of reservation of products for exclusive manufacture by the MSEs and recommends the policy of progressive de-reservation. To facilitate further investments for technological up-gradation and

Higher productivity in the micro and small enterprises, 654 items have been taken off the list of items reserved for exclusive manufacture by the manufacturing micro and small enterprises in the last few years – reducing it to 21 at present. This has helped the sector in enlarging the scale of operations and also paved the way for entry of larger enterprises in the manufacture of these products in keeping with the global standards.

Credit/Finance

Credit is one of the critical inputs for the promotion and development of the micro and small enterprises. Some of the features of existing credit policy for the MSEs are:

Priority Sector Lending—Credit to the MSEs is part of the Priority Sector Lending Policy of the banks. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the Priority Sector. For the foreign banks, however, 32% of the NBC is earmarked for the Priority Sector, of which 10% is earmarked for the MSE sector. Any shortfall in such lending by the foreign banks has to be deposited in the Small Enterprise Development Fund (SEDF) to be set up by the Small Industries Development Bank of India (SIDBI).

Institutional Arrangement— the SIDBI is the principal financial institution for promotion, financing and development of the MSE sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of: (i) refinance assistance (ii) direct lending, and (iii) development and support services. Commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing term loans (in the form of composite loans). At the State level, State Financial Corporation’s (SFCs) and twin-functional State Industrial Development Corporations (SIDCs) are the main sources of long-term finance for the MSE sector.

Recognizing the importance of easy and adequate availability of credit in sustainable growth of the MSE sector the Government has announced a 'Policy Package for Stepping Up Credit to Small and Medium Enterprises (SMEs)', with the objective of doubling the flow of credit to this sector within a period of five years. To ensure better flow of credit to MSEs, the Ministry of MSME is also implementing the following major schemes:
Credit Guarantee Scheme

To ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/financial institutions in lending without collateral security, the Government launched Credit Guarantee Fund Scheme for Micro and Small Enterprises in August 2000. The scheme covers collateral-free credit facility extended by eligible lending institutions to new and existing micro and small enterprises for loans up to Rs.100 lakh ($250,000) per borrowing unit. The guarantee cover is up to 75 per cent of the credit sanctioned [85% in respect of loans up to Rs.5 lakh ($12,500) and 80% for loans provided to MSEs owned/operated by women and all loans in the North-East Region].

Performance & Credit Rating Scheme

The Performance & Credit Rating Scheme for manufacturing MSEs was launched in April, 2005 with the objective of assisting the MSEs in obtaining performance-cum.credit rating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme (implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs.40,000 ($1,000).

Emerging Sources

Faced with increased competition on account of globalization, MSMEs are beginning to move from an obsession with bank credit to a variety of other specialized financial services and options. In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowings, factoring services, etc. More advanced MSMEs have started realizing the importance of these alternative sources of funding to raise resources and the need for adopting better governance norms to take advantage of these funding sources. The enactment of the Limited Liability Partnership Act, 2008 is expected to provide a thrust to the MSMEs in their move towards corporatization.

Competitive Technology

In today's fast paced global business scenario, technology has become more vital than ever before. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the-art Tool Rooms and Training Centers. These Tool Rooms provide invaluable service to the Indian industry by way of precision too long and providing well trained craftsmen in the area of tool and die making. These Tool Room are highly proficient in making technology and promote precision and quality in the development and manufacture of sophisticated molds, dies and tools. The Tool Rooms are not only equipped with the best technology but are also abreast with the latest advancements like CAD/CAM, CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping, etc. The Tool Room & Training Centers also offer various training programmes to meet the wide spectrum of technical manpower required in the manufacturing sector. The training programmes are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. The Tool Rooms have also developed special training programmes to meet the requirements at international level, which are attended by participants from all over the globe.

Discussion: Issues and Challenges

Despite with high growth rates, MSMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent, and uncertain market scenario. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their working.

CONCLUSION

In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small
enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. Thanks to globalization, domestic economic liberalization and dilution of sector-specific protective measures. The international and national policy changes have thrown open new opportunities and markets for the Indian small industry. Technological upgradation and in-house technological innovations and promotion of inter-firm linkages need to be encouraged consciously and consistently. Financial infrastructure needs to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand, including the requirements of technological transformation. Small industry should be allowed to come up only in designed industrial areas for better monitoring and periodic surveys. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is essential to take care of the sector to enable it to take care of the Indian economy. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their working.

REFERENCES

1. Annual Report 2009-10, Govt. of India, Ministry of Micro, Small and Medium Enterprises
2. Annual Report 2012-13, Govt. of India, Ministry of Micro, Small and Medium Enterprises
4. FICCI-MSME-SUMMIT-2012, Feb, 2012 at FICCI, New Delhi
5. Laghu Udyog Samachar April-May, 2011
7. MSME Development Act 2006, Ministry of the District Industry Centers (DIC) MSME, Government of India
10. www.dcmsme.gov.in
11. www.msme.gov.in