

India's Msme Sector: A Comprehensive Review of Challenges and Opportunities

Anu Kumari

Department of Economics, Research Scholar, Central University of South Bihar, Gaya

ABSTRACT

MSME'S considered as an 'engine of growth' for all the developing nations. It plays a significant role in employment generation and economic development for developing countries including India. These enterprises are the backbone of the Indian economy and provide major contribution to GDP, output, employment and export. The MSME sector is contributing 30% of India's GDP, 45% of total manufacturing output and 40% of total export. Its growth rate has continuously registered higher compare to overall industrial sector. In India, the distribution of MSME is not equal because of scarcity of raw material, lack of entrepreneurial skill, unavailability of finance or credit, lack of infrastructure, inefficient technology, insufficient training, complex rules and regulation, high tax rate, corruption and lack of government support. However, there are many opportunities available in the development of MSME. The primary goal of this study is to present the status of Indian MSME and analyze its challenges and opportunities, and provide solution regarding it. In order to do this, data were collected from secondary sources and analyze the growth in output, employment, investment, and number of registered units. Data presented in terms of table, pie-chart. Despite this, financial, marketing, technical, infrastructure, human resources and external constraints continue to be the main factors affecting the performance of MSME in India. Given this, we recommend that government and non-governmental organization should regularly organize seminars, awareness campaigns, marketing campaigns and other initiative that are examined in studies, among other things. The study is divided into five sections. Section- 1 deals with introduction, Section-2 devoted to literature review, Section - 3 examine the present status of MSME Section-4 deals with challenges and opportunities of MSME Section-5 concludes with a summary of the findings and policy implications.

Keywords: MSME, employment generation, production, working enterprises, challenges.

Jel Codes: L26, L53

INTRODUCTION

Micro, small and medium-sized enterprises (MSMEs) has been considered as the most important pillar of the economy. It is essential to both emerging and developed economies worldwide. These enterprises work as the backbone and are necessary for a nation's economic development and progress (Stel et al., 2005 and Beck et al., 2005). MSMEs are among the primary drivers of economic development, innovation, and employment in India, a country with stark disparities between the rich and poor and high unemployment rate (RBI, 2019). MSMEs sector is characterized by minimal investment, increased job opportunities, operational flexibility, reduction in regional disparities and import substitution (Grover, 2012). In USA

and European union, more than 90% of enterprises are engaged in this sector. Not only this, most of the regions like OECD economies, Europe, South and central Asia, Africa show a high dependency on MSME for employment and other specific countries such as Canada leads with 85% employment from MSME, China at 75%, Japan at 65% and Ukraine 55% (Gonzales, 2014). It has key role in GDP contribution as well as export also. In India, more than 95% units are engaged in this sector and contribute to approx. 30% of India GDP, 45 % of manufacturing output, 40% of country’s total export and create 11.10 crore jobs (NSS 73rd round, 2015-16). Contribution of MSME indicate that MSMEs is very important for every area. In accordance with the provision of MSME’s development act 2006, the MSME classified into two categories such as manufacturing enterprises based on their investment in plant and machinery and service enterprises based on investment in equipment. Now, as per the revised definition announced on May 13, 2020, MSME classified on the basis of two criteria: investment in plant and machinery and annual turnover. It also classified into two categories:

Investment and Annual turnover

Categories	Types of Enterprises	Investment	Turnover
Manufacturing Ent. & Service Enterprises	Micro Enterprises	Less than Rs.1 crore	Not more than Rs.5 cr.
	Small Enterprises	Less than Rs.10 crore	Not more than Rs.50cr
	Medium Enterprises	Less than Rs.20 crore	Not more than Rs.100cr

*** Revising Definition of MSME**

SMEs are essential to all recognized economies. Numerous studies prevent SMEs has obstacles in long term survival (Kamunege et al., 2014). Obstacles for MSMEs cause a high failure rate or early illness (Smallbone, 1998). There are two types of barriers: exogenous and endogenous. Ineffective planning, inefficient management are examples of internal obstacles. Poor infrastructure, regulations from the government, availability of raw materials, and late payments from creditors are examples of external obstacles (Smith 2007; Nongnit, 2011). Therefore, many of the researchers from different countries become interested in the obstacles, motivating factors, and uncountable difficulties faced by SMEs worldwide (Levy, 1993; Tambunan 2009 and Wang 2016). Therefore, the present study focused on analyzing the current scenario of MSMEs and determining the issues faced by these enterprises.

LITERATURE REVIEW

MSME and its contribution

(Tambunan, 1991) examines in their study in small-scale industries (SSI) in Indonesia’s manufacturing sector. The study measures the importance of small industry in income distributions and find that SSI provided income and employment opportunities. Similarly, (Thurik and (Wennekers, 1999), found that SMEs formation is positively related to the growth of an economy and employment generation. Kumar (2010) and Tambunan (2009), highlight the role of SME in fostering equitable economic growth, reducing poverty and unemployment, particularly in Asian developing countries like India, China, Pakistan, Indonesia, Malaysia, Thailand, Vietnam and Bangladesh. SSI have played important role in employment creation and serve as an engine of growth in the Indian economy. The government of India acknowledge pivotal role of MSMEs in promoting employment and socioeconomic development. So, central and state government have implemented various programs to support this sector. (Abor & Quartey, 2010) in their

study analyses SMEs in Ghana provide 85% of total employment, contribute 70% of the GDP and account for 95% of the formal business. (Tambunan, 2009) highlights the role of SMEs in reducing poverty and unemployment in Asian developing countries like India, China, Pakistan, Indonesia, Malaysia, Thailand, Vietnam and Bangladesh. According to (Singh, 2009), Small-scale industries serve as driver of socio-economic growth. According to the (World Bank, 2013), SME create large number of employment opportunities and reduces the regional disparities between rural and urban areas. (Srinivas, 2013) studied how MSME perform in India, and finds that it plays significant role in inclusive growth of a country. (Katua, 2014), also found significant and direct relationship between SME and employment in their study. They also conclude that SME are the only source of employment in rural areas as well as poor regions. Not only this, MSME are major contributor of public as well as private sector employment. Additionally, (Vashishtha, 2021), found that MSME is essential sector for growth of an economy and provide employment to large number of individuals.

MSME & Its challenges and opportunities

(Levy's, 1993) in his study highlights the three key challenges in SMEs are limited access to finance, lack of non-financial resources and high operational costs. The study also reveals that financial constraints and tax rates for small firms are major obstacles for their growth. (World Bank, 2003), underline the critical challenges faced by small enterprises is access to finance in Mozambique. (Siringoringo et al. 2009) highlighted the key faced by MSME in Andhra Pradesh is technological and infrastructural inefficiency, competition, unavailability of raw materials, transportation cost and financial access. (Mehta, 2013), these include a lack of funding, low capacity for production, a shortage of competent labor, lack of infrastructure, lack of amenities for industrial sector. He concludes that government should consider these factors influencing SME's in formulating of many schemes or programs. (Getahun, 2016), found that MSE in Ethiopia faces problem related to shortage of raw materials, inadequate credit assistance, inadequate finance, problems of skilled manpower, lack of machinery and equipment and absence of adequate infrastructure. Other factors include corruption, poor infrastructure, poor location, low level of education, improper market strategy, firm and owner related issue (Meeravali & Ramesh, et al. 2017) found that total working enterprises of MSME, market value of fixed assets and employment contribution grown at CAGR of 4.39%, 4.75% and 6.64% respectively, MSME contribution to GDP from manufacturing and service sector is -1.53% and 1.82% respectively. (Sonia, 2018), in their study emphasized the major problem faced by MSME in India and observe that there is need to investing in advanced technology, weak infrastructure gap, improving financial resources, investing in human resource development and reduce business or tax related regulations. (Vanitha & Radha, 2019) examine the challenges faced by MSME in terms of tax regime in India. They identify problem in this study are concern about new tax regime, lack of awareness, rising operating expenses and complicated procedure. Moreover, (Shettima, 2020), conducted study on disparities in employment growth rate among Indian states, attributing them to challenges such as financial constraints, inefficient technology, lack of awareness, weak infrastructure and lack of entrepreneurial skills. (Ahmed, 2021), the most common issues faced by SMEs in punch district is unskilled labor, lack of electric power supply, inefficient transport and weak infrastructure.

The above literature review clearly indicates that, MSME growth is a primary driver of economic growth in terms of output, employment, investment and exports. However, MSME have numerous issues. The current study deals with challenges and opportunities of MSME.

OBJECTIVE

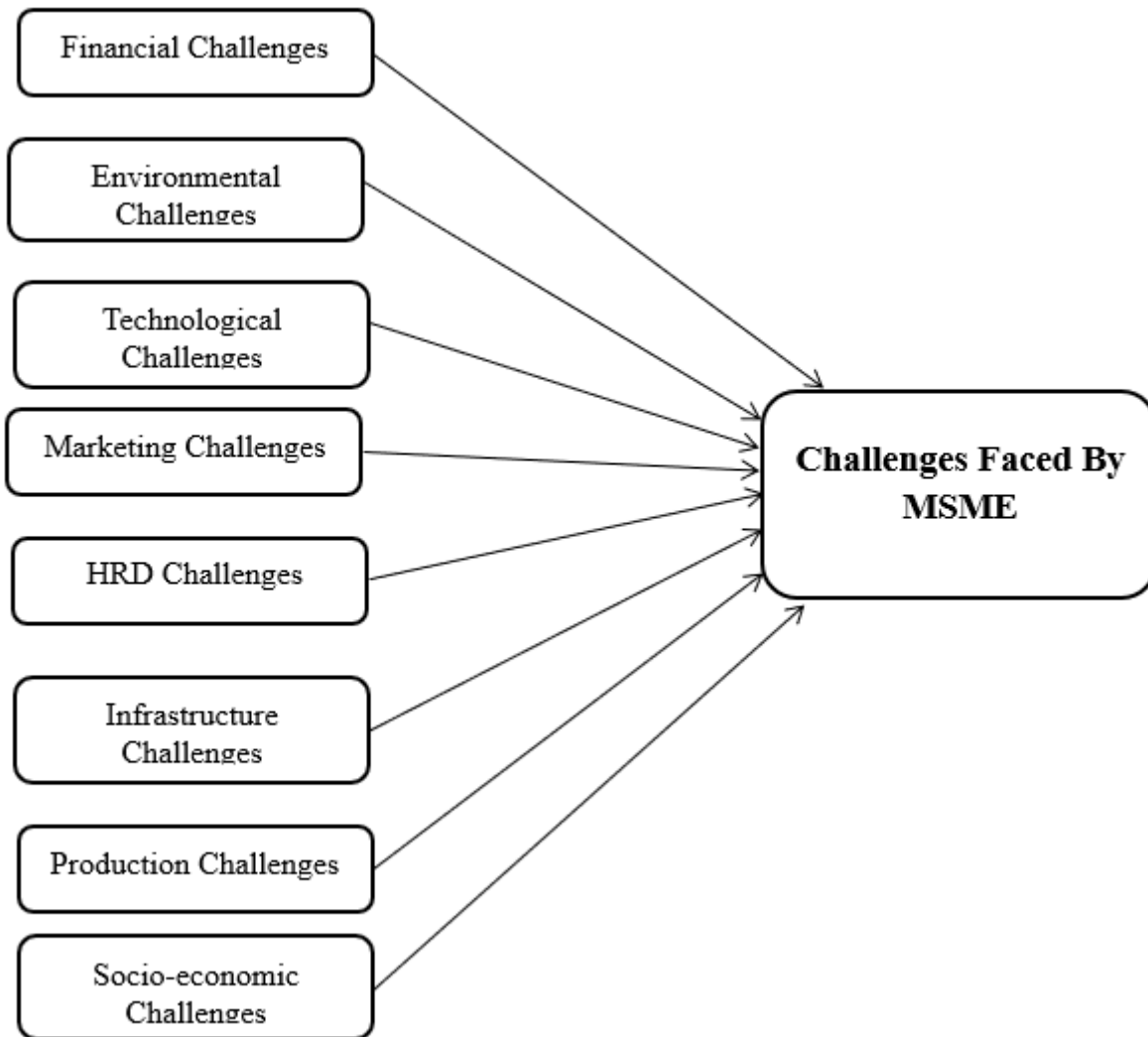
The main objective of this study as follows:

- To know the current scenario of MSME in India.
- To identify the challenges faced by MSME in India.

CONCEPTUAL FRAMEWORK

Conceptual model is interconnection between challenges and issues of MSME. According to Mugenda and Muginda (2003) define a conceptual framework is a diagrammatic presentation illustrating the relationship between dependent and independent variables. SMEs encounter several obstacles and problems as a result of internal and external variable influencing their operations. The challenges of MSME are shown in figure 1. An entrepreneur's state of becoming an entrepreneur is determined by variety of environmental, political, legal, social and economic factors. External challenges include legal systems, marketing conditions, and environmental factors. The various sociocultural elements that impact an individual, such as education, caste, religion, family background, networks, present external hurdles for small and medium-sized enterprises (SMEs). All management related factor such as production marketing, development of human resources, finance, infrastructure, etc. are considered internal factors. Both, internal and external aspects SME's have the ability to manage and control internal issues, but government intervention through the implementation of certain schemes and programs tailored to industry and sector can eliminate external factors.

The problem associated with production include variety of factors, such as inefficient power, high raw material costs and low raw material quality and lack of machinery. Marketing challenges include lack of coordination, lack of networking and and market channels, delayed delivery and lack of promotional method. Financial challenges include bank credit, not knowing about programs and services, delayed process in bank and not having enough money. The issues facing human resources development include inadequate training, low motivation, shortage of competent workers, inefficient managerial and technical training, poor hiring practices, etc. Challenges with infrastructure include a shortage water facilities, lack of industrial facilities, lack of drainage facilities, etc. It can be seen that whereas external issues and challenges are generally unavoidable due to environmental changes beyond the organization,s control, internal issues and challenges are manageable and preventable through specific measures and also through management involvement. It can be shown as;



***Figure 1. Challenges faced by MSME.**

Figure 1. it clearly shows that, this study focused on three external challenges and five internal challenges. SMEs that encounter a greater number of problems and obstacles are unable to demonstrate improved organizational performance, as supported by various studies.

DATABASE AND METHODOLOGY

The majority of the secondary data included in the study from the Annual reports published by the Ministry of Micro, Small and Medium Enterprises, Small scale industries, Journal and books. The study cover period from 2000-01 to 2014-15. For MSME performance analysis, four parameters- number of units, gross production, employment and investment have been used. Data analysis from table.

Data Analysis

YEAR	NO. OF WORKING ENTERPRISES	EMPLOYMENT (in Lakhs)	MARKET VALUE FA's (in crore)	GROSS OUTPUT (in crore)
2001-02	105.21	249.33	154349	282270

2002-03	109.49	260.21	162317	314850	
2003-04	113.95	271.42	170219	364547	
2004-05	118.59	282.57	178699	429796	
2005-06	123.42	294.91	188113	497842	
2006-07	361.76	805.23	868543.79	1351383.45	
2007-08	377.37	842.23	917437.46	1435179.26	
2008-09	393.7	881.14	971407.49	1524234.83	
2009-10	410.82	922.19	1029331.46	1619355.53	
2010-11	428.77	965.69	1094893.42	1721553.42	
2011-12	447.73	1012.59	1176939.36	183432.05	
2012-13	467.54	1,061.4	1,268,763.36	**	
2013-14	488.46	1,114.29	1,363,700.54	**	
2014-15	510.57	1,171.32	1,471,912.94	**	
AVERAGE	318.3842857	723.8942857	786901.9379	1034122.14	
CAGR	11.94%	11.68%	17.48%	14.30%	

Source; Annual report of MSME 2015-16, and 2001-02 to 2005-06 data collected from SSI.

Above table represented that, there has been an increase in the number of working enterprises employment, fixed asset investment and gross output of MSME units in India. Additionally, the number of enterprises and employment increased at a rate of about 17% per year. Since the gross output figures for last three years are unavailable and growth rate from 2001 to 2012 is roughly 14%.

*Apart from that, the contribution of MSME in terms of growth as compared to the growth rate of industrial sector. It can be shown through table;

YEAR	GROWTH RATE OF OVERALL INDUSTRY SECTOR (%)	GROWTH RATE OF MSME SECTOR (%)
2000-01	5	8
2001-02	2.7	6.1
2002-03	5.7	8.68
2003-04	7	9.64
2004-05	8.4	10.8
2005-06	8.2	12.32
2006-07	11.6	12.6
2007-08	8.5	13
2008-09	12.8	10.3
2009-10	10.4	6.7
2010-11	7.4	4.4
2011-12	7.8	4.4
2012-13	6.85	5.6
2013-14	6.76	9.1
2014-15	6.54	8.56
2015-16	6.6	7.62

CAGR	1.81%	0.45%
------	-------	-------

*** Figure 2. compare growth rate of industrial and MSME sector.**

This table shows the yearly growth rate for both the overall industry sector and the Micro, Small and Medium Enterprises sector from 2000-01 to 2015-16. The overall industry sector's growth rate fluctuates over the years, with an average annual growth rate (CAGR) of 1.81%. The MSME sector also experiences varying growth rates, with a lower average annual growth rate (CAGR) of 0.45% compared to the overall industry sector. These low growth rates clearly indicate the challenges faced by MSME including infrastructure, finance, skill development, market and more. Addressing these challenges is crucial for fostering sustained growth and development within the MSME sector.

PROSPECTS

Despite all of the difficulties a country ability to thrive and prosper economically depends greatly on small enterprises. It is important for both developed as well developing nation. It creates jobs, boost independence, offers technological advancements, efficient market strategy, which restrains the action of monopolists, utilize waste product from large enterprises for additional production. MSME has emerged as a powerful tool in providing large number of employment opportunities to both skilled and unskilled people, equitable wealth distribution and removal of economic disparities.

CONCLUSION

MSME offer employment, jobs and eventually self-sufficiency. MSME sector can be a powerful tool for utilizing India's natural resources and for ensuring that society develops uniformly. This sector play crucial role in mitigating regional inequalities, poverty, unemployment and migration also. This sector has also created large number of employment opportunities after agriculture sector. There are lot of option in this field. During the period from 2000-01 to 2014-15, MSME show increasing trend in terms of output and employment. Currently, however, Indian MSME face a number of issues at different levels. These issue include in terms of internal and external factors and it include the MSME owners lack of innovation, insufficient finance, lack of market knowledge, weak infrastructure, high tax rate, political instability and their low level of entrepreneurial skills. Ultimately, government is not offering any satisfactory training or skill development schemes. The issue of unawareness towards technological advancement can be resolved through the implementation of successful training skill development programs. MSME have low-cost credit. To evaluate the needs and state of MSME an expert panel must be assembled. India's MSME sector has a promising future and will expand the country's economy.

REFERENCE

1. Abor, J. and Quartey, P. (2010) Issues in SME Development in Ghana and South Africa. International Research, Journal of Finance and Economics, No. 39, 218-228.
2. Ali, A. & Hussain F., (2014) 'MSME in India: Problems, Solutions and Prospectus in Present Scenario' *International Journal of Engineering and Management Sciences*, Vol. 5, No. 2, pp. 109-115.
3. Annual report of Ministry of Micro, Small and Medium Enterprise- [MSMES] of India, (2020-21), (2021-22) Development Commissioner (MSME), Government of India.

4. Beck, T., Demigruc-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty: cross country evidence. *Journal of Economic Growth*, 10(3), 199-229.
5. Getahun, M., (2016). The challenge and Prospects of Small-Scale Enterprise in Ethiopia: A Survey of Some Selected Small-Scale Enterprise in Addis Ababa City.
6. Gonzales, E., Hommes, M., & Mirmulstein, M.L. (2014). MSME country indicators 2014. Towards a better understanding of micro, small, and medium enterprises. *International Finance Corporation and the World Bank*.
7. Kamunge, S.M., Nieru, A., & Tirimba, I.o. (2014). Factors affecting the performance of Small and Micro Enterprises in Limuru market of Kiambu country. *Kenya International Journal of Scientific and Research Publications*, 4(12), 1-20
8. Kassa, E. T. (2021). Socioeconomic determinants of micro and small enterprises development in North Wollo and Waghimira Zone selected towns. *Journal of Innovation and Entrepreneurship*, 10(1), 1-14
9. Katua, N.T. (2014) ‘The role of SMEs in employment creation and economic growth in selected countries’, *International Journal of Education and Research*, December, vol. 2, No.12, pp.461-468.
10. Levy, B. (1993). Obstacles to developing indigenous small and medium enterprises: An empirical assessment. *The World Bank Economic Review*, 7(1), 65-83.
11. Meeravali Shaik, K.V Ramesh, & Ajay, K.K (2017). Performance of MSMEs sector in India, *International Journal of Economics and Management Studies*, Vol. 4(3), pp. 11-15.
12. Mehta, C. M., (2013) Challenges and Opportunities in Micro, Small and Medium Enterprises in India, *2nd International Conference on Management, Humanity and Economics*.
13. Ministry of Micro, Small and Medium Enterprises, Annual Report (2015-16), Overview of the MSME Sector in India, pp. 33-38.
14. Mugenda, O.M. and Mugenda, A.GG. (2003) *Research Methods, Quantitative and Qualitative Approaches*, ACT, Nairobi.
15. Nongnit, C. (2011). SMEs failure prediction: literature review. *ABAC journal*, 31(3), 70-81
16. NSS 73rd round 2015-16 report incorporated by MOSPI.
17. Reserve Bank of India (RBI), (2019). Annual Statistical Report Reserve Bank of India (RBI).
18. Shettima, M.B. and Banerji, P. (2020) ‘Employment generation growth rate in enterprises among Indian states’, *Int. J. Business and Globalization*, Vol. 25, No. 4, pp.474–488.
19. Singh, A. (2009). Small scale industries in a global perspective. *Productivity*, 49(4), 290-296.
20. Singla, A., & Grover, P. (2012). Growth and Financing of MSMEs: A case study of Punjab and Haryana. *Asia-Pacific Journal of Management Research and Innovation*, 8(3), 315-321.
21. Siringoringo, H., Prihandoko, Tintri, D., & Kowanda, A. (2009) Problems Faced by Small Medium Business in Exporting Products. *Delhi Business Review*, 10(2), 49-56.
22. Smallbone, D., Piasecki, B., Venesaar, U., Todorov, K. and Labrianidis, L., 1998. Internationalisation and SME development in transition economies: an international comparison. *Journal of Small Business and Enterprise Development*, 5(4), pp.363-375.
23. Smith, M.H., & Smith, D. (2007). Implementing strategically aligned performance measurement in small firms. *International Journal of Production Economics*, 106(2), 393-408.
24. Sonia, M. (2018). “ Challenges to Indian Micro Small Scale and Medium enterprises in the Era of Globalization”, *Journal of Global Entrepreneurship Research*, vol. 8(1), pages 1-19, December.
25. Srinivas, K. T. (2013). A study on composition of NPAs of public sector banks in India. *International Journal of Engineering and Management Research*, 3(4), 57-61.

26. Stel, A V., Carree, M., & Thurik, R. (2005), The effect of entrepreneurial activity on national economic growth. *Small Business Economics*, 24(3), 311-321.
27. Tambunan, T. (1991). The Role of Small Scale Industries In Economic Development: A Case of Indonesia. *Social and Economic Studies*, 40(3), 115– 152
28. Tambunan, T. T. H. (2009). *Small and medium enterprises in Asian developing countries*. London: Macmillan Palgrave.
29. Thurik, A. R. and S. Wennekers, (1999), ‘Linking Entrepreneurship and economic growth’, *Small Business Economics*, 13(1), pp.27-55.
30. Wang, Y. (2016), What are the biggest obstacles to growth of SMEs in developing countries? -An empirical evidence from an enterprise survey. *Borsa Istanbul Review*, 16(3), 167-176.
31. World Bank. 2013. World Development report 2013.