



An overview of MSMEs in Present Scenario

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Abstract

With the introduction of reform measures in India since 1991, the Govt. has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced many promotional policies to increase competitiveness of the sector. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face to competition from large domestic firms and the MNCs. Definition of this sector as undergone through several changes. The small Scale Industries (SSI) has been renamed as Micro Small and Medium Enterprises (MSMEs) with the introduction or MSMED Act, 2006. They provide the largest share of employment after agriculture. They are the basis for entrepreneurship and innovation. They are widely dispersed across the country and produce variety of products and services to meet the needs of the local markets, the global market and the national and international value chains. The current paper is an attempt to critically analyze the definitional aspect of MSMEs and explore the challenges faced by them in the era of globalization. The effort has been to provide different solutions of the problems faced by MSMEs in Indian scenario.

Keywords: Micro Small and Medium Enterprise (MSMEs), Globalization, Liberalization SSI (Small Scale Industries)

Introduction:

Over the years, MSMEs have been better known by their traditional strengths of relatively low investment requirements, effective resource utilization, greater operational flexibility, mobility and higher innovativeness. MSME sector has been considered as the growth engine of any economy. It is also true for developed countries and more applicable for developing and under developed countries where capital is scarce and labours are plenty. More than 99% enterprises in European Union and near about 80% in USA are under this sector. India is not an exception. In India contribution towards balance regional development, proper uses of local resources and talent is more than remarkable. Contributions towards export are near about 40% of total export value. Indirectly it also contributes 15% of export value. More than 95% industrial units belong to MSMEs sector and near about 45% industrial products are produced by this sector. Different categories of products and services are supplied by this sector and their ranges are more than 6000 different types. On the average 8% of GDP has been contributed by this sector and its share is rising upward and in near future if MSMEs are properly nurtured, it may cross agricultural sector's contribution which is currently about 15% major contribution of this sector towards economy is in employment generation at low capital cost. The organized industrial sector requires an investment of Rs. 6.66 Lakh to generate employment of one person, whereas the MSME sector generated employment of 1.27 persons with the same amount of investment.

REVIEW OF LITERATURE

Sandesara (1993) studied the performance of SSI producing reserved items collecting data from the second census conducted by the Ministry of SSIs. The study was conducted on the null hypothesis that the SSI firms producing reserved category items should perform better than the SSIs producing non-reserved items. The study result revealed that capacity utilization in 1987-88 and aggregate change in production in 1987-88 were lower for reserved than for unreserved items. This below par performance of SSI firms producing reserved items was surprising as those firms did not have to face competition from the large firms. The author concluded that this could be due to the entrance of excess SSI firms into the protected areas.

Sonia and Kansai Rajeev (2009), studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. Economic parameters used by them are number of units, production, employment and export and interpreted study result based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization

period (1991-92 to 2007-08). They gave the conclusion that MSMEs failed to give an impressive performance in post reform era.

Bhavani T.A. (2010), highlights the issue of quality employment generation by the SSIs and the short term attitude of increasing the volume of employment generation compromising with quality. The author studied that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological up gradation would encourage small firms to create quality employment improving remuneration, duration and skill. This structural shift may decrease the rate of employment generation in the short run but would ensure high-income employment generation in the long run. Subrahmanya Bala (2011) has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

OBJECTIVE OF THE STUDY

The major objectives of the study are as follows:

- To examine the changing pattern of definition of Micro, Small and Medium enterprises (MSMEs) in India.
- To study the challenges faced by MSMEs in India during the liberalization period.
- To provide solutions to overcome the problems faced by MSMEs in India.

Definitions of MSMEs:

In Indian context, the MSME sector is defined in MSME Act-2006. However, the MSMEs Act 2006. However, the MSMEs are defined from two aspects e.g. (i) number of persons employed and (ii) the amount of investment in plant and machinery.

- **From the view of Number of persons Employed:** Micro enterprise is defined as an enterprise which employs less than 50 persons, and Medium enterprise is defined as an enterprise, which employs less than 250 persons.
- **From the view of Investment in Plant and Machinery:** The Micro, Small and Medium Enterprises Development Act, 2006 classified Micro, Small and Medium Enterprises (MSME) into two classes: (1) Manufacturing Enterprises and (2) Service Enterprises.
- **Manufacturing Enterprises:** The manufacturing enterprises are engaged in the manufacturing production of goods pertaining to any industry specified in the first schedule to the industries [Development and Regulation] Act, 1951. The Manufacturing Enterprise is defined in terms of investment in plant Machinery.
- **Service Enterprises:** The service enterprises are engaged in providing or rendering of services and they are defined in terms of investment in equipment.

The key challenges and problems faced by MSME sector:

MSMEs have been accepted as the engine of economic growth and development. The MSMEs play a pivotal role in over all industrial strategy and employment generation, the MSME sector confront several challenges. Technological obsolescence and financing problems have been associated with the sector since long. Also, such as high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facility, including power, water, roads, etc ., and regulatory issues related to taxation [state-central], labour laws, environmental issues etc. are also linked with its growth process. Thus, in spite of the immense contribution of this sector towards economic development, it is infested with a of challenges and problems. The challenges and problems are not only many in number but they are multidimensional also. A few acute challenges and problems are mentioned below:

- . Collateral requirements;
- . Limited access to equity as well as risk capital;
- . Non availability of raw materials at competitive cost;
- . Lack of access to global market;
- . Inadequate infrastructure facilities, like road, communication system, power etc;

- Complex labour laws and complicated procedures to compliance of such laws;
- Issue relating to taxation and their procedure;
- Lack of modern technology;
- High competition in the global market;
- Lack of skilled manpower relating to production, marketing, service etc;
- Problems of storage, packaging, product display etc;
- Lack of suitable mechanism to revival of viable sick units and allows unviable units to close down speedily;
- Lack of marketing promotion both domestic and export; poor local initiative;
- Bureaucratic red-tap and regulation;
- Lack of industrial training and skill formation;
- Difficulty in identifying appropriate technology and assistance;
- Lack of linkage between large industries and MSMEs and the creation of sub-contracting facilities at the national, regional and international level;
- Lack of quality control and testing facility;
- Poor scientific and industrial research;
- Lack of information collection and dissemination about various aspects among MEMEs;

Suggestions for Improvement:

There is a need to develop potential strategies in order to improve linkage and coordination between the government, Industry and Academia. There is also a need to develop an alternate delivery channels through capacity of MSME Association and the public-private partnerships in the institutional structure. Given the nature of the enterprises, there is a need to facilitate start-ups and evolve a time-bound exit mechanism for current institutional role. There are many conceptual grey areas with regards to improve the MSME sector to the extent of maximum sustainability and profitability of enterprises which are as follows:

- **Supply of Technologies:** A number of appropriate technology for the MSME sector have been developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if the already developed technologies could be made other available to each other. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring them.

- **Constitution of a Panel of consultants:** A list of experts and consultant should be prepared, who can help the MSMEs within the region to effectively transfer the available technologies. These consultants could assist in market surveys, etc. in addition to assisting with the transfer, development and application of the technologies at a commercial level.
- **Conduction of Survey for Assessment of Technological Needs:** Varied surveys should be conducted to analyze the available technologies. These should also assess the availability of low-cost housing technologies, and alternative technologies and alternative technology and alternative technology etc.
- **Awareness creation/Information dissemination:** One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools like FM radio. Decision making layers should not be more than two levels and should allow flexibility on operational issues.
- **Involvement of Stakeholders:** There is a special need for the involvement of stakeholders at the design stage of the scheme to make the schemes demand driven especially the schemes that are based on SPV/consortium approach. Process of structured need assessment will help generated 'content' having clarity on objectives, beneficiaries; scope and coverage of schemes; role and function of implementing agency; budget advertising and technical assistance to BMOs; administrative and technical services for DPR preparations; clarity on asset ownership etc.
- **Implementation Vehicles:** Many of the schemes, especially the ones designed on public Private Partnership (PPP) framework, envisage creation of Special Purpose Vehicles (SPVs) to act as implementing agencies. Creation of consortium and networks is relatively a long-term process, which may involve minimum level of trust among the stakeholders.
- **Campaign to increase MSME awareness of Government Initiatives:** There should be an information awareness campaign which identified the Government's initiatives directed towards the assistance, schemes, contribution, etc., through exhibitions, workshops, seminars, publication, etc.

- **Competitiveness Assessment of MSME Sector:** there is a need to make a competitiveness assessment of the MSME sector in each region of the state, with a view to assessing the gap that exists with the rest of the country. This will vary from industrial sector to sector.
- **MSME interaction with S&T/R&D Sectors:** there is an urgent need for the MSMEs to collaborate and adopt various R&D programmers. Hence, it would be useful if there could be an exchange of views and information between the regions so as to help overcome this problem.
- **Venture Capital:** there should be a sincere effort with a mutual exchange of views to overcome the venture capital problem. Study of venture finance availability and performance in relation to the country's technology development needs is obligatory. It involves the determination of the industrial investment on a sectoral basis and analysis of the role of venture capital in the investments made.
- **Business incubation Mechanisms:** Each country should adopt certain appropriate mechanisms for technology business nurture in order to incubate new enterprises and provide technical advisory services to the MSMEs. Some external assistance from agencies such as UNDP, UNIDO, ESCAP should also be extended.
- **Capacity Building of association:** the study reiterates that majority of MSME dominated BMOs suffer from several weaknesses inherent or acquired, while discharging their members; capability to positively influence the external environment affecting MSMEs and capability to plan and execute MSME development initiatives. This makes the issue of association's capacity building an important area to focus upon.

Conclusion

There is an unprecedented importance of micro and small Enterprises in the country. This is amount in the development and employment. This sector does the work of providing employment to minorities, backward class people and also to women. This sector is rife with problems like shortage of electricity and development of basic infrastructure along with the problems related to market. In order to solve these problems and develop the MSME sector, major efforts have been taken by Govt. However these efforts are not enough. The concept of PPP should be implemented.



Development of KVIC along with broad spectrum growth should be achieved. For the development of rural and farm group, different departments should be formed.

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