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## Issues of Micro, Small and Medium Enterprises (MSME) in India

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### **Abstract:**

*The present paper is an attempt to understand the various issues related to MSME in India. The various challenges faced by MSME are issues like credit facility, issues of equity capital, issues of infrastructure, issues of Govt. support, issues related to technology and issues related to skill gap. For this purpose the researchers visited various MSME units to get first hand information and to understand the ground reality and also information collected from secondary data.*

**Keywords:** MSME, Socio -economic, Skill development and Technology

### **1. Introduction**

It is a proven fact that MSME players have the advantage to change the socio economic conditions of a country and its people. It is more relevant from a country's point of view when the said sector is able to remove the sectoral imbalance that may destabilize the overall growth prosperity of the country. Considering this case, like most of the developing countries, India is also taking steps to modernize the sector for its future prospects. But before introducing the beneficial programmes of any particular sector, it is very much important to understand the bottlenecks that the sector is facing. From era of planning period till date the focus has been shifted to more knowledge based economy with expertise in specific sectors. Given these circumstances, the bottlenecks need to be removed so as to get a more meaningful result related to MSME sectors. Thus, it of utmost importance to identify the issues that the sector is facing and address them as per the need of sector so as to get an overall upliftment.

#### *1.1. Objectives of the Study*

- To understand the various issues related to MSME sector.
- To understand the various government initiatives taken in this direction

### **2. Methodology and Scope**

The methodology used is secondary source. However, to know the ground reality the researchers visited various units of MSME units in Odisha.

#### *2.1. Issues of Credit*

Adequate flow of credit is surely one of the important factors for the growth of any industry and same is the case for MSME sectors. Although, there are various initiatives have been implemented from government's point of view so that adequate finance can be reached towards the needy sectors of MSME units but the ground reality is that the same is not happening hence, creating growth obstacles. There may be different opinions for lack of finance for MSME sectors, but the main reasons for this kind of bottlenecks is related to lack of experience from MSME players in terms of use of bank finance and marketing the product in a proper manner so that adequate return is possible. Not only that factors like lack of collaterals, poor financial performance of MSME players, lack of visibility in a competitive market environment and small size loan amount often discourages the banks regarding financing the MSME players. Although, there is a mandatory norms to provide credit but the flow is not visible. Rather it is often noticed that banks are more interested to extend credit to existing MSME players rather than acquiring new customers to fulfil the loan outstanding requirements. Sometimes the banking requirements are so stringent that it becomes impossible for MSME players to fulfil the same to

get the desired credit. As a result of this it is being observed that 92% of the MSMEs have no finance, 5% are getting loan from institutional sources and 3% are receiving credit from non – institutional sources.<sup>1</sup>

Year	Credit Flow to MSME Sectors (Amount in Millions)	Total Priority Sector Credit (Amount in Millions)	MSME Credit to Total Priority Sector Credit (%)
2008	2135326	121772396	1.75
2009	2513920	229530666	1.10
2010	3622133	284319142	1.27
2011	4785272	292371538	1.64
2012	5276846	331212943	1.59
2013	6402954	349932902	1.83

*Table 1: Flow of Credit to MSME Players*

*Source:www.rbi.org (Statistical Table on Priority Sector Lending)*

The table above is able to provide an overview regarding MSME credit flow over the time period, starting from the year 2008 to 2013. It is being seen that out of the total priority sector lending the percentage share of credit is abnormally low. This kind of low flow of credit is often hampering the growth industry failed to survive without proper flow of institutional finance. This often led the MSME players to rely more on non institutional sources of finance which restricts the growth prospect due to high rate of interest charges. Thus, this issue should be addressed at the top level so that the sector can get adequate facilities with respect to finance.

### *2.2. Issues of Equity Capital*

Equity capital is a major issue which often hampering the growth prospects of MSME players. Lack of finance from own sources as well as MSME player's exposure towards share market to raise capital for business expansion is a major area of concern. This not only restricts their growth momentum, it sometimes failed to implement a knowledge base organization which can face the global competition in the world market. As the market becomes competitive, consumer specific requirement is also changing simultaneously. This process thus, delaying the market opportunities for MSME players. Thus, there is a need to encourage private players mostly venture capitalist to invest in MSME sectors as a start up business enterprises so that adequate finance can be arrange to remain competitive in the market.

### *2.3. Issues of Infrastructure*

Infrastructure is another issue which requires desired action as it leads to make business environment more competitive. Traditionally, most of the MSME players are either situated in an industrial belt or in rural areas in an unorganized manner. The location of MSME players in urban set up may be adequate in terms of infrastructure requirement. But the same may not be the case at least in other parts of the country. A high number of MSME players operating in an informal manner, failed to get adequate support in terms of infrastructure. The basic necessity of infrastructural requirement can be mentioned as communication, roads, market linkage, export orientation etc. Providing these facilities should be the primary criteria for the betterment of the industry. Sometimes it can be seen that the said MSME sector is a supplier of a big industrial houses but due to locational disadvantages they eventually backed out from the market.

### *2.4. Issues Related to Government Support*

Today, an organization which is relatively in disadvantageous position in terms of finance, capital and market should try to get adequate support from government sources. As the market becomes global this sorts of support becomes more necessary as it will help them to stay focus in the market and can face the competition in an equal manner. This may help to invent some untapped regions where the big players are not willing to enter. Government support also needed in lieu of open market operations. Under present globalized marketing environment, the market is largely open for foreign players where even the MSME players are in superior positions vis a vis their Indian counterpart. If the sector is not get enough exposure and support in terms of exporting the home made product then surely it will become a niche market, where the players will confine into a small part of the country. Even that market may not be enough for sustainability as the competition is growing day by day. Today, even the MNCs and big Indian companies are also trying to enter in tier 2 and tier 3 cities as well as rural market. As the market becomes more competitive, this has led to restricted business operations for MSME players in their own locality. So, there is a need for policy development to protect the interest of the producers operating in these sectors.

### *2.5. Issues of Technology*

Technology development and upgradation is another area where Indian MSME sector is facing a bottleneck and as a result of the same it is slowly moving out of the competition. This sometimes become main reasons for MSME players to become sick units. Today it is most important matter as consumers also prefer technologically sophisticated product. As the new age demand is changing the way of production activities need to be modified. Traditionally, Indian MSME players are more dependent on labour intensive technologies

<sup>1</sup> Report of Prime Minister's Task Force on MSME, Government of India, January, 2010, pp 8

where applications of manual labourers are more as compared to machines. This may be sound contradicting as India has a huge labour force which can be absorbed in the sector because of its labour intensive nature. But if we look at the other way round, then the huge untapped regions may become the emerging market, for which the existing MSME units may not be sufficient. With expansion of business activities the demand for skilled manpower will also grow so as the demand for sophisticated products. Not only has that application of technology become more relevant if the product needs to be exports in the international market. The demand for high end product at an affordable price may become the USP of the sector. Thus the policy focus should include the mechanism through which existing units can be modernize so as to make the sector a world class business segment which can face both the national as well as international market competition.

### *2.6. Issues of Skill Gap*

Skill gap is an issue which often hampers the growth of the sector. Any sector's biggest strength is its human resources provide it has adequate skills to perform. Traditionally, MSME players are underestimated and not recognized as one of the primary area of economic well being of a country. Being the producer of traditional products and acting as a supplier of big and medium size industries, it has lost its own identity. This has also led to a situation where the industry runs by the experience not by the expertise. Unlike MSME sectors of other developed as well developing country, the Indian story is different. Although, the industry absorb a huge percentage of manpower resources but most of the time they do not have adequate skills or techniques to perform. They often perform a routine job hence innovation is totally absent from the productivity. Very few MSME players are there who are willing spend some portion of their profit in training and development. Over the time period this recurring problem becomes an issue and affected the sector to a great extent. Today, when the industry has the potential to absorb the labour forces, the labour force are not ready for it. This problem has other dimension as well. Although, there is no dearth of manpower, but poor level of education and absence of practical application of education becomes so strong that even if the resources getting some sorts of education but that is not sufficient to sustain in the competitive environment. This demand supply mismatch ultimately affecting the future of the industry and a sincere effort has already been implemented along with the active participation of private players to educate the youth labour forces so that they can be absorb in their own areas. This will not only solve the unemployment problem. It will also help to reduce the problem of urbanization.

### *2.7. Government Initiatives*

The government of India realized the potential of MSME sector in terms of employment generation and its positive contribution towards nation building; it has started focusing on the sector so as unshackle the growth of the sector. Since, the major problem areas are diversified, he Prime Minister's special task force on MSME sector has divided the sector into six broad areas as follows:

- Credit & Finance
- Technology
- Infrastructure
- Marketing & Procurement
- Skill Development & Training

### *2.8. Credit & Finance*

Credit & Finance is a serious issue as most of the MSME players are suffering from this issue. Adequate and timely flow of capital is a must for the development of the industry and the same is also true for this sector as well. The heterogeneous development of the sector and more inclination towards informal MSME sector, sometimes it also becomes difficult for organized financial sector to provide adequate capital. Because of these issues government of India, with the help of RBI has taken some initiatives because of the tremendous growth opportunity that the sector is witnessing.

Most of the time it is being observed that banks are looking for lots of documents, like projected profit and loss account, fund flow and cash flow statements, balance sheets etc. from the MSME players. This not requires a service of experts in these fields it also becomes difficult for the small players to fulfil these requirements as neither do they have required documents nor they have capital to get the expertise services. Under these circumstances, the IBA has developed a standardized circular developed for all MSME players, irrespective of the loan amount. It has been mentioned that if the loan amount exceeds Rs 25 lakhs, then the bank can ask for some extra documents. This simplification of documentation process surely helps to generate lots of anticipation and certainly provide a big push for the sector. Along with the simplified documentation process, the government has also implemented a Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) so that banks can be relieved from the pressure of NPA. The corpus thus developed will help to ensure proper flow of credit to the sector. Recently the Prime Minister's Task Force on MSME Sector, 2013, has submitted a report where the sub group has recommended to increase this corpus to Rs. 10,000 crore by the end of 12 Five Year Plan and the same if implemented surely open a new avenue for growth.

But proper flow of credit is not the only issue which the MSME sector is facing at present. Some other aspects of the credit mechanism which bothering the industry and among them a common area is credit gap. On the other hand this can be mentioned as lack of adequate flow of credit. The government of India along with RBI has directed the state co – operative banks (SCBs) and other commercial banks to reduce this gap substantially by the end of 12 five year plan. In case of SCBs, the demand supply gap of MSME credit was at 63% at the beginning of 12<sup>th</sup> Five Year Plan and the government has set a target to reduce the gap upto 32% at the end of

the plan period.<sup>2</sup> In case of commercial banks the RBI and government of India has set a target of credit growth by 20% annually so that the adequate flow of credit can be achieved. The emphasis has been given to monitor the credit extension cases so that a target of 10% fresh borrower can be included in the total process.<sup>3</sup> Extension of credits to existing players just to show the higher amount of outstanding credit will not solve the credit problem as it will lead to concentration of funds to a specific sector only.

Last but not the least the RBI has taken a cluster development approach as most of the MSME players are operating in a specific industrial cluster. As the cluster wise loan requirement may be different, this strategy will help the bank to concentrate on their risk diversification strategies. In this approach a lead bank will look after each district which has the potential for development of the MSME players. These are some of the many efforts that the financial organizations of India are taking so that the promising sector of the country should not be neglected only because of lack of funding from organized sources.

### *2.9. Technology*

Technology is an issue which the sector is facing from the day of its inception. Although it has the potential but without proper inception of current technology based production activities the industry may not get good momentum as per the present industry norm. True application of technology not only benefit the sector as a whole it will also help to facilitate to face the global competition by reducing wastages, proper management of labour force, productivity improvement of labour force and so on and so forth. As the industry is lacking in this aspect the same needs immediate attention from the competent authorities so that the said problem can be resolved. For this a multi – layer support system can be developed with the active participation of big industry players, government and private players so that the transition become smooth. The biggest problem in this regard is related to low investment in R & D activities. Depending on the nature of financial strength that the MSME players have it may be difficult for them to invest a certain portion of the profit in these activities so the role of other stake holders becomes important. Often the players do not have sufficient exposure in this regard. This also created problem for them.

The idea to face global competition needs to be aligned with international market and the technology that is available in the international market needs to be subsidized by the government so that the standard and quality of the product that are being produced by the MSME players can be modified using the same other existing resources. This also requires the help of academic institutions as well as big industrial houses who are using MSME players as their major suppliers. If the back end services are good then surely it will improve the performance of the other segment of the economy.

The government of India is taking initiatives in this regard and started providing support to the sector so that it can develop indigenous technologies as well as it can acquire global technologies for their production activities. If the MSME players would like to adopt renewable energy based technologies for their production activities, then the adequate incentives may be provided by the government as the cost of acquisition of the same is significantly higher which the MSME players may not be able to implement single-handedly due high cost factor. As funding is a major issue the government would like to act as a guarantor or co – investors for various government led venture fund so as to reduce the risk and uncertainties that are being faced by the venture capitalists for most of the start-up businesses.

### *2.10. Infrastructure Development*

Infrastructure development is a critical component for the development of the any sector so as the case of MSME players. The Ministry of Micro and Small Enterprises, Government of India has taken an active participation in this regard since 1998 when it had established ‘Integrated Technology Upgradation and Management Programme (UPTECH). This is a model which focused on cluster based development approach. It is true that one particular area or geographical location may not have the comparative advantage in terms of production of each and every product so by giving emphasis on cluster based approach the sector will get highlight according to their need and requirement. The said programme further modified and named it as Small Industry Cluster Development Programme (SICDP) in the year 2003 and focus has been given on technology, marketing, export and skill development. The scheme further modified in the year 2010 and renamed it as Micro and Small Enterprises – Cluster Development Programme (MSE – CDP). The programme has modified to include the funding support for the sector. As the products produced by the sector has the potential in both national as well as international market, the central government has decided to develop a market linked infrastructure development where it is in the process of developing facility and centralized distribution centers in collaboration with the respective state governments where the sector has the potential. Setting up of exhibition center is another thrust area which the government is looking for. To tap the international market, the government is also establishing 100 testing centers all over India in various clusters which helps to maintain the quality of the product that are being produced and exported in the international market. This system may require the active participation as running the infrastructure may change the diversification of government resources. So a Public Private Partnership Model (PPP) can be developed for the betterment of the entire industry.

### *2.11. Marketing & Procurement*

Marketing is an instrument which helps the producer to showcase the products produced by them to their prospective consumers with the help of a structured manner. For any industry the growth momentum mainly depends on adequate marketing strategies that are being implemented by the concerned organizations. It is important to understand that the consumers are not interested about the

<sup>2</sup> Report of the Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for 12<sup>th</sup> Five Year Plan, pp 166

<sup>3</sup> Report of the Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for 12<sup>th</sup> Five Year Plan, pp 166

products or services unless and until they are being exposed to them. For this a planned strategies need to be implemented. In case of MSME sector, the same is not the case as it is often noticed that although they have the potential in terms of products that they are producing but the same is not getting proper exposure in the national as well as international market. This is mainly due to lack of knowledge as well as expertise in marketing related activities. Sometimes shortages of funds to market the products or services may become a vital bottleneck in this regard. Marketing may include packaging, bar coding, advertising, promotional activities, pricing, distribution of the products or services a lot many things. Along with that understanding of competitive environment and act accordingly is also instrumental in this regard. As the global competition increases due to globalized business policies, survival becomes an issue and this has affected the MSME players to a great extent. These are the some of the issues which becomes instrumental and importance of marketing become more vital.

Till date most of the marketing activities taken by MSME players are at the individual capacities or mostly they have to depend on intermediaries. In both the cases the players suffer a lot as it leads to a situation where adequate may not be possible. The government has started various schemes in this regard so that the MSME players can get adequate exposure in this regard. Participation in national and international trade fairs, exhibitions in one such initiatives that the government is focusing on. Lead market scheme is one such initiative where the MSME players can avail government incentives if they would like to enter in emerging markets like Africa and other developing countries. These are the market where the MSME players can get advantage as the market is untapped and because of low per capita income the consumers will also be interested to go for products whose prices are low. So, by maintaining the quality if the players are able to export most of their products, then surely it will add up to their profit share. The government is planning to spend a substantial amount of money for implementing Modified Market Development Assistance (MDA) and Bar Coding and Packaging during 12<sup>th</sup> Five Year Plan so that the sector can get benefit of the same. India's diplomatic mission abroad is also interested to develop brand equity of MSME sector particularly in some of the niche segment like herbal healthcare, handicrafts etc. where India has the advantage. The most important decision that the government has taken is related to procurement of MSME products. To provide the market the government has directed the PSEs and central government undertakings to purchase at least 30% of their total raw material as well as finished goods requirements directly from the MSME players. This initiative has surely provided a readymade market for the MSME players but proper implementation of the scheme is remained questionable.

### 2.12. Concluding Note

The issues of MSME are many. It is not that easy to overcome in short period. The need of the hour is to upgrade technology and skill development. Of course other issues are also there for MSME. Government policies are also keeping on changing with the change of guard at the centre. Within these limitations the sector has to grow.

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