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Challenges before Micro, Small and Medium Enterprises and Role of Government.

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Abstract: *The Micro, Small and Medium Enterprise (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the five decades. MSME's not only played crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in the industrialization of rural & backward areas, thereby, reducing Regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. Micro Small and Medium Enterprises have played a significant role in the economic development of the various countries. India certainly is no exception. The sector which has such a remarkable contribution to economy need to look into the other side i.e. the challenges. India being a democratic country government rests with larger responsibility. So in the article, we have discussed the challenges and the role of government and its effectiveness.*

Keywords: MSME, Micro, Medium Enterprises.

INTRODUCTION

The world is changing rapidly. One who is managing to inculcate the changes can survive in this competitive world. The environment is changing constantly and beyond imagination. It's a big challenge for the managers. The pace of change in the past decades was beyond prediction. Today there is no question of survival but the survival in the changing scenario is a big challenge.

An example of Japan every one of us knows where The Japanese Minister of Industry and Commerce predicted that in the next five years three-quarters of the Gross National Product (GNP) of Japan would come from products and services that, up to now, had even not been invented. In the context of education, it is more significant when today's students finish school; the job market will have a completely different profile than today.

As I mentioned the world is changing rapidly definitely India will not remain unaffected to the changing scenario. In Indian economy, Industry plays a vital role. When we talk about the industry we can't ignore Small Scale Industry.

Today concept of small scale industry has been replaced by Micro Small Medium Enterprise (MSMEs). This concept was adopted in 2006 when Micro Small Medium Enterprise Development Act. 2006 was passed. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country.

The Micro, Small and Medium Enterprises (MSME) Sector is an important pillar of the Indian economy by way of creating employment of about 70 million through 30 million units, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. (Source SIDBI REPORT 2011)

The sector which has such a remarkable contribution to the Indian economy the challenges faced by this sector cannot be ignored.

Conventional Challenges

The high cost of credit: Access to adequate and timely credit at a reasonable cost is the most critical challenge faced by this sector. The major reason for this is high risk and the high transaction costs for loan appraisal. According to the Prime Task Force on MSME report, although bank credit to the sector has significantly increased from Rs.70, 787 Crore US Dollar in March 2000 to Rs.2,69,153 Crore US Dollar in March 2009. However, the share of credit to the MSME sector in Net Bank Credit (NBC) has declined from 22.3 per cent to 15.9 per cent during the period from the year 2000 to the year 2009.

A survey was conducted by FICCI it was revealed that banks remain a dominant source of finance for MSMEs with over 70% of respondents accessing finance from banks. However, banks also bring their own set of problems. More than 40% of those surveyed complained that chief problems include banks placing too much emphasis on collaterals and a large amount of paper work involved. Further, 18% felt that project appraisal system is un-standardised and 35% felt that procedures for sanctions are cumbersome, and even once approved there is a delay in disbursement of funds (28%). Other hardships faced by MSMEs include a high rate of interest, a lack of personalised service and often a lack of justification for denial of finance.

Collateral requirements: Players in MSME sector are not in a position to provide collateral in order to avail loans from banks and hence denied access to credit. Government has introduced a scheme of financing where the loans to MSMEs are secured by

Credit Guarantee Fund Trust for Micro and Small Enterprises.

In line with the results of an earlier survey conducted by FICCI on MSMEs in Maharashtra where it was found that 41% of respondents found it very 'difficult' to access information on the scheme, and the overall experience for over 32% with respect to this scheme was in fact 'negative'.

Table 1. The effectiveness of Credit Guarantee Scheme and TUF Scheme of GOI.

	2007 (In Crore)	2008 (In Crore)	2009 (In Crore)
Credit of Scheduled Commercial Bank	19,31,189	23,61,914	27,75,549
Amount of Credit Guarantee	356	1,996	1983
Percentage of Credit Guaranteed to total Credit	Very Negligible	Very Negligible	Very Negligible
Amount Disbursed under Technology Up gradation Fund (Source Office of Textile Commissioner)	26,605	6,854	21,826
Percentage of Amount disbursed under Technology Upgradation Fund to total Credit	Very Negligible	Very Negligible	Very Negligible

Above table clearly, indicates the seriousness of Money Landing Institutions towards Credit Guarantee Scheme and Government's seriousness towards promotion of TUF Scheme.

Limited access to equity capital: This is a common challenge faced by this sector in spite of the fact that overall capital inflows have witnessed a significant increase in the recent years. The absence of equity capital may pose a serious challenge to the development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge.

Table 2- OWNERSHIP PATTERN OF MSMES IN INDIA

Ownership	Third All India Census (2001-02)	Fourth All India Census (2006-07)
Proprietary	88.85	91.57
Partnership	7.21	4.08
L i m i t e d Companies	0.34	0.47
Other	1.17	1.65

Source: Office of DC (MSME), Ministry of MSME, Government of India.

A survey conducted reveals that over 65% of respondents admitted that there was actually a lack of understanding on their part on the benefits of private equity! Another 21% were afraid that private equity would lead to a dilution of control, and the remainder felt that they felt no real need to access private equity at this point in time.

Problems in supply to government departments and agencies: Many of the MSMEs are not aware that if they are registered with National Small Industries Corporation Ltd. They will have an exemption in EMD and Security Deposit. The majority of government tenders prescribe high eligibility criteria such as annual turnover, past experience etc which deters entry to MSME sector. The Ministry has formulated a public procurement policy for MSMEs which provide them support in marketing their products and developing long-term relationships in production/ service value chains with the public sector.

Procurement of raw materials at a competitive cost: This is a growing challenge faced by this sector as procurement for raw materials is carried out within local territory due to their financial constraints and procurements are much smaller in scale as compared to the industry at large.

Problems of storage, designing, packaging and product display: MSMEs face problems of storage, display, and designs for their products. Nonavailability of selling outlets for their products is a serious constraint. In addition, MSMEs also face the problem of inadequate infrastructure for marketing of their products to interior/remote parts of the country.

Lack of access to global markets: With the liberalization and globalization of the Indian economy, the small enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit the technological advantage, etc., the challenges in this process have flowed mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing.

Inadequate infrastructure facilities, including power, water, roads, etc: To ensure the competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology, and skilled manpower are in tune with the global trends. MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganized manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable. Though Electricity Act 2003 was introduced to encourage setting up of the captive power plant to ease the power supply position as well as to make them eligible for resultant incentives it has been working negatively unless amendments are prepared in the larger interest of power supply position.

Low technology levels and lack of access to modern technology: The MSME sector in India, with some exceptions, is characterized by low technology levels, which acts as a handicap in the emerging global market. As a result, the sustainability of a large number of MSMEs will be in jeopardy in the face of competition from imports. A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs.

According to the study, less than 6 per cent of Indian MSMEs with access to personal computers advertise online and a majority of these enterprises use traditional media. Many Indian MSMEs are also unaware of the effectiveness, measurability, and predictability of using online advertising to reach the target audience. The lack of access to new and better technology has prevented Indian MSMEs from growing at a rate that's equivalent to their potential.

Lack of skilled manpower for manufacturing, services, marketing, etc.: Although India has the advantage of a large pool of human resources, the industry continues to face a deficit in manpower with skills set required for manufacturing, marketing, servicing, etc.

Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and

Branding and Marketing: Due to very high cost of business acquisition, Low media budget, non participation in International events, the MSME branding and visibility is extremely poor.

Millenium Challenges

From Restricted Markets to Globalization. Our old local regional vision is giving way to a new global economic order and business vision. The new demand is thought globally and act locally. We are also used to dealing with restricted or concentrated markets. We need to become accustomed to dealing with business from a new global perspective.

From Bureaucracy to Adhocracy. We are used to working in mechanical, bureaucratic, vertical and pyramidal organizations. We need to become accustomed to working in organizations that grow and change as if they were alive.

From Stability to Change. Static, permanent organizations designed for a stable and predictable world are giving way to flexible, adaptive organizations more suited to a new world of change and transformation. Emphasis on permanence, tradition and the past is giving way to creativity and innovation in the search for new solutions, new processes, and new products and services. Maintaining the status quo is less important than a vision of the future and the organization's destiny. We are used to dealing with certainty and predictability. We need to become accustomed to dealing with uncertainty and ambiguity.

From Command to Orientation. We are used to working under authoritarian, autocratic command. We need to get used to working with democratic, inspirational leadership.

From Muscular to Mental Work. Repetitive physical labor that doesn't add value is increasingly being replaced by mental creativity. Routine and monotony are giving way to innovation and a break with tradition. In the past, people were considered to be mere workers, an old concept that associated people with things. We are used to dealing with physical, repetitive manual labor; we need to become accustomed to dealing with mental, creative, and innovative work.

From Solitary to Collective Activity. Teamwork is supplanting individual activity the old emphasis on individual efficiency (on which the total efficiency of the organization depended) is being replaced by group synergy. We are used to individualized, isolated work; we need to change to high-performance teamwork.

From Specialization to Multitasking. The traditional division of labor with its consequent fragmentation of activity is evolving toward more varied and integrated work. In the past, the product or service was the most important element. Now, the customer to whom this product or service is targeted has become fundamental. Before, an internally focused vision based on the product or service prevailed. Now, an externally focused vision for the customer who is going to use that product or service predominates. In the past, the product/service was the goal. We're used to working with the products and services we produce or offer. We need to shift toward looking after the customer's needs.

From Human Resources to Business Partners. In the past, human resources were considered passive agents of the company now, employees are considered active and proactive agents of the business they manage together. In the past, workers were considered an organizational resource. Now, they manage the company's organizational resources. We are used to talking about organizational resources. But a resource is a thing. People are human beings with minds, talent, motivation, and the proactive capacity for decision-making. They can no longer be considered only as objects.

From Financial to Intellectual Capital. Emphasis on money as the most important organizational resource is shifting to knowledge as the unlimited and fundamental input for business success. This happened as researchers began to perceive that investments in people provided such intangibles as company image, organizational climate, respect, job satisfaction, customer service, creativity and innovation, competitiveness, and much more. They also, undoubtedly, because of other intangible changes that traditional accountants don't include in their reports, which are essentially numerical and quantitative, based on the past rather than the future.

TABLE 3 - REASON FOR SICKNESS OF MSMES IN INDIA.

Sr.No	Reason for sickness / incipient Sickness	Proportion of sick / incipient sick units*
1.	Lack of demand	71.60%
2	Shortage of working capital	48.00%
3	Non-availability of raw material	15.10%
4	Power shortage	21.40%
5	Labour problems	07.40%
6	Marketing problems	44.50%
7	Equipment problems	10.60%
8	Management problems	05.50%

Source SIDBI Report 2010

It's sure that this sector cannot be ignored at all. The sector is facing challenges. It does not mean that Govt. is unaware of the fact. There is a separate ministry for MSME. The policy of the ministry is administered through various agencies.

Table4: Brief about the agencies and the schemes run by the Central Government for development and promotion of MSME. (Both the Columns are exclusive)

Sr.no.	Name of the Agency	Name of the Schemes
1	The National Small Industry Corp.Ltd.)	Credit Linked Capital Subsidy Scheme (CLCSS)
2	Small Industries Development Bank of India and its Subsidiaries,	Technology Upgradation Fund Scheme (TUFS)
3	State Industrial Development Corporations (SIDCs)/ State Industrial Investment Corporations (SIICs)	Scheme of Technology Upgradation/Setting up / Modernisation/Expansion of Food Processing Industries
4	Regional Rural banks (RRBs)	MSE Cluster Development Programme of Ministry of MSME
5	Micro Finance Institution	Government of India Performance & Credit Rating Scheme for Micro and Small Enterprises
6	National Manufacturing Competitiveness Council	Prime Minister's Employment Generation Programme (PMEGP)
7	MSME Development Institutes	Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
8	MSME Testing Centres (TCs) and MSME Testing Stations	ICT(Information Communication Technology)
9	MSME Tool Rooms (MSMETRs)	Micro and Small Enterprises Cluster Development Programme (MSE-CDP)
10	MSME – Training Institutes	ISO-9000/ ISO-14001/HACCP Certification Reimbursement Scheme Vendor Development Programme (VDP) for Ancillarisation etc

The government of India has developed key strategies to promote and support the MSME sector to promote competitiveness, quality upgrading, finance, technology, etc. This has resulted in a dramatic positive change in the sector. Over the years, this sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipment, etc. MSMEs in India are considered to be important members of the supply chain and are established in almost all major sectors of Indian industry.

The Government is taking proactive steps to ensure better access to credit. Bank lending to the sector will grow at a rate of 20 per cent on a year-on-year (y-o-y) basis, along with 10 per cent annual growth in a number of micro enterprise accounts, with 60 per cent of the share of MSME credit directed towards micro enterprises. These and other such measures will ensure that credit flow to the sector, especially micro and small enterprises, is adequate.

The Ministry of MSME may provide the following assistance to MSMEs for technology up-gradation:

• Access to foreign technologies:

– promote low-cost ICT solutions: the Ministry of MSMEs in India should facilitate MSMEs in procuring complete and low-cost ICT solutions to improve their capacity and productivity. Awareness of these tools should also be increased among MSMEs

• Support for R&D:

– provide opportunities for international partnership for industries and clusters where Indian MSMEs have an inherent competitive edge, the Ministry of MSME should create platforms through institutions like the NSIC and also form private partnerships to allow Indian MSMEs network with MSMEs abroad

– create and promote an innovation and R&D culture: government sector institutions that are at the cutting edge of research and innovation should be opened up for use by MSME innovators who are struggling to get funds and technology.

• Assistance from large firms:

– involve large enterprises in the development of MSME clusters: a long-term strategic plan should be implemented by the Ministry of MSME to facilitate and build long-term relationships with large enterprises and research supply institutes

• E-governance & e-procurement:

– E-governance and e-procurement, a must for easier compliance: online mechanisms should be provided to MSMEs to carry out all the necessary transactions for conducting business in the domestic and international markets. The government should also provide online access to rules and regulations, electronic methods for registration and electronic applications for government schemes, certificates, licenses and realisation of incentives.

But there are constraints. Above Table No.3 clearly, indicates the reason of sickness. A major reason is of marketing and finances. There are many agencies and schemes mentioned in Table 4 like NSIC which is engaged in Marketing Promotion, Internal marketing, Participation into Tender marketing arranging of Exhibition and Trade Fares. There are organisations for Technical support, Training and Product Development. Banks and other financial institutions are there with separate MSME Department but for name sake which is evident from table 1.

MSMEs need to be completely aware of the various initiatives by the Government and correctly utilise these to their benefits. One of the key constraining factors becomes awareness and therefore lack of knowledge to utilise these effectively. Further, the Government schemes must be monitored and effectively modified to suits the needs of the MSME industry. It's a big challenge to Government that with such large no. of the channel of organizations and no. of schemes they are not able to make awareness of it. Awareness is a big issue. The government must with the help of various Trade Associations conduct the awareness campaign. The benefit of the scheme must reach to the really needed MSMEs. Then only we will be able to consider the sector as the key engine of Economic growth of India.