

Challenges Facing By Small and Medium-Sized Enterprises in India

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Abstract: *The present article deals with micro, small and medium enterprises in India. MSMEs are credited with generating high rates of employment growth and account for a major share of industrial production and exports but still they are facing many problems i.e. Finance problems, shortage of raw material, lack of demand, shortage of working capital, power shortage, management and equipment related problems etc.*

Keywords: Micro, Small and Medium Enterprises, Micro and Small Enterprises, Small Scale Industry.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play an important role in the development of country. Micro, Small and Medium Enterprises have been accepted as the engine of economic growth and for promoting equitable development. The MSMEs constitute over 90 per cent of total enterprises in most of the economies and are credited with generating the

highest rates of employment growth and account for a major share of industrial production and exports. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and labour intensity in the MSMEs sector is estimated to be almost four times higher than the large enterprise (<http://www.msmedikarnal.gov.in/>). However, these industries face difficulty in accessing adequate finance for their businesses. Scarcity of finance is a major obstacle in the development of Micro, small and medium enterprises. The capital base of small entrepreneur is usually weak and often he has to procure credit at a high rate of interest. Securing bank credits, difficulties in documentations for bank loans and lack of collateral security are bigger problems in India. Large enterprises have access to various sources of finance; small sector depends primarily on finance from banks and other financial institutions (Vijayarani, 2011).

According to the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 – MSMEs are classified into:

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million/ Rs. 25lakh	Rs. 1 million/ Rs. 10lakh
Small	Rs. 50 million/ Rs. 5crore	Rs. 20 million/ Rs. 2crore
Medium	Rs. 100 million/ Rs. 10crore	Rs. 50 million/ Rs. 5crore

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In current scenario MSMEs perform well but they are facing many problems related to finance, marketing of product, demand of product, management and power related problems so that they are facing the problems of closeness in Indian country.

Literature Review:

Tucker and Lean (2003) conducted a questionnaire survey to collect data concerning small business awareness and use of informal finance and to identify issues concerning difficulties encountered in gaining access to finance. They found that debt finance gap may exist for a minority of firms, though an equity finance gap may represent a more significant issue for small firms.

Satija (2007) found that credit ratings are being institutionalized into the regulatory framework of banking supervision. This raises four important issues that need to be looked into. These are – the quality of credit rating in India,

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the level of penetration of credit rating, lack of issuer ratings in India and last but not the least, the effect of the credit rating scheme on Small and Medium Enterprises (SMEs) and Small Scale Industry (SSI) lending.

Zeng et al. (2008) observed that Chinese MSMEs still face serious financial problems related to operational needs and business expansion. In China, at start-up, MSMEs mainly raise funds from the owner’s personal savings and the savings of immediate families and friends. In the growth stage, MSMEs have strong financial needs and gain access to intermediated finance such as bank loans. They found that the proportion of small businesses using bank loans is higher.

Kyaw (2008) found that MSMEs have to deal with a number of constraints that hinder their development potential, such as the shortage in power supply, unavailability of long term credit from external sources, and many others. Among

them, the financing problem of MSMEs is one of the biggest constraints.

Singh et al. (2008) found that MSMEs are facing so many problems due to their limited resources and lack of innovation in capability development like securing finances for establishing and running MSMEs, lack of entrepreneurial and management competences, problems in finding the markets, limited opportunities for promotion, and limited amount of government and institutional support.

Fumo et al. (2011) highlighted on the main barriers faced by Mozambique micro, small and medium enterprises and their implications in respect to the support policies available for these enterprises. They found that financial and competitive barriers are the main barriers faced by analyzed MSMEs. These barriers vary according to the field of activity of enterprises.

Venkateswarlu and Ravindra (2012) found that a major problem faced by MSMEs in South Asian countries is lack of finance to advance business growth. MSMEs lack setup capital, liquid capital, working capital and investment capital to survive and grow in a dynamic business environment.

Jain and Madan (2012) observed that most of the MSMEs are underutilized due to the paucity of funds. Main objective of this article was to study the challenges for future growth and

development in the Textile Industries (MSMEs) of Panipat region of Haryana. They found that MSMEs in the Textile Industries generally face critical problems related to the finance and government policies are not adequate to meet the requirement of the entrepreneurs.

Naidu and Chand (2012) in their study concluded that financial problems faced by the MSMEs could be divided into three broad categories-financial problems, operational and administrative problems, and sales and debtors problems. The 19 financial obstacles tested in this research falls under these broad categories. The study involved conducting a survey of 200 MSMEs in Fiji and Tonga.

Contribution of MSMEs in India:

The contribution of micro, small and medium enterprises (MSME) sector to manufacturing output, employment and exports of the country is quite significant. In tandem with the rising number of MSMEs units, the number of people employed by these units has also shot up by 293 per cent within the space of 10 years. The sharp growth in the numbers was due to the redefinition of MSMEs in the Micro, Small and Medium Enterprises Development Act, 2006.

Production from these MSMEs generated revenue of Rs. 2.82lakh crore in 2001-02. In

2006-07, this stood at Rs. 7.09lakh crore. These units registered consistent growth of over 11 per cent in the years hence, and stood at Rs. 10.95lakh crore in 2010-11.

The growth in the number of MSMEs was muted until 2006-07, expanding by just 4.07 per cent in each of the previous three years. They shot up by whopping 111.57 per cent in 2006-07 to 261.12 lakh units and employment generated by these units also jumped by 101.98 per cent to 595.66 lakh, which was a little under 5 per cent of India's population. Contribution of MSMEs in India related to production, employment and investment are increasing year to year and different measures are also providing by the banks and financial institutions.

Credit flows to Micro, Small and Medium Enterprises and Sickness:

The overall availability of credit to small and micro enterprises as percentage of netBank credit (NBC) of the Scheduled Commercial Banks (SCB) has declined from 15.5Per cent in

1996-97 to 6.6 per cent in 2007-08. Analysis of data reveals that only 12.77 per cent (199706 enterprises) of the total registered enterprises have obtained loan either from financial institutions or non- financial institutions or both with amount of loan Rs 46520.23 crore. As on September 2012, the outstanding loan by the bank to the SME segment stood at Rs 15,784 crore (**The Hindu: Business Line, October 31, 2012**).

Sickness in MSMEs sector is a cause of concern because of the different reasons like inadequate finance, limited marketing, and R&D facility, accessing credit on easy terms, skills about decision making and good management etc. Conditions of MSMEs sickness are given here below in table 1:

Table-1: Position of Sick MSMEs Units

Year	Sick MSMEs Units	Amount Outstanding (crore)
2006	126824	4981
2007	114132	5267
2008	85187	3083
2009	103996	3620

For the enterprises falling under the category sick and not working satisfactorily, reasons were elicited in below table. “Lack of Demand” and “Shortage of Working Capital” was the main reasons for sickness in MSME sector.

Table-2: Major reasons reported by sick units

Reasons for Sickness	Proportion of Sick
Lack of Demand	41.94%
Shortage of Working Capital	20.49%
Non- Availability of raw material	5.11%
Power shortage	5.71%
Labour problems	5.64%
Marketing problems	11.48%
Equipment problems	3.17%
Management problems	6.46%

(Sources: Fourth all India census of MSMEs, 2006-07).

The MSME sector today faces competitive environment owing to: (a) liberalisation of the investment regime during the 1990s, favouring foreign direct investment (FDI); (b) 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 (c) domestic economic reforms. Labour market rigidity is considered as a barrier to the overall growth of the economy. After the liberalization of the economy, government’s attitude towards the MSME sector changed and many of the products exclusively manufactured by these units earlier, got reserved. Presently,

only 20 items are reserved for exclusive manufacturing in the MSE sector. These include bread, pickles & chutneys, wooden furniture, wax candles, exercise books and registers, safety matches, incense sticks, fireworks, and stainless steel and mustard oil, laundry soap, fireworks etc. The phased deletion of products from the list of items reserved for the exclusive manufacture by micro and small enterprises is being continued. In October 2008, the government deleted 14 items from this list.

Suggestions for better functioning of MSMEs-

1. SMEs need IT-based solutions in terms of multi-tasking, expanding customer base, raising productivity, controlling cost, working remotely, fast and accurate decision-making and facilitating collaboration.
2. More support is needed for MSMEs from the government in the form of priority sector lending, government procurement programme, credit and performance ratings and marketing support.

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