

## Msme Sector: Challenges and Opportunities

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**Abstract:** The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of India. It plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. It is expected that Indian economy will grow by over 8% per annum until 2020. MSMEs contributes about 45% of India's manufacturing output. ) The importance of MSMEs and its various socio-economic contribution like employment generation, fostering new entrepreneurship, providing volume to the industry base and contribution to national output and exports of our country was identified. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. MSME Sector are increasing enormously in India. MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned Government Departments, banks, financial institutions and corporate. Presently, the Indian MSMEs are facing different types of problems. . If the Government, Bank and Financial Institutions will take proper initiatives in the sector of MSME and they will take pride while servicing the MSMEs, these challenges can be solved and the economic growth rate of India will be 8-10% for the next decades.

**Keywords:** MSMEs, economic growth rate, employment generation, Government Departments, Bank and Financial Institutions, exports

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### I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of India. The MSME sector contributes in the manufacturing output, employment and exports. It plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. MSME sector has emerged as a dynamic and vibrant sector of the economy. It is expected that Indian economy will grow by over 8% per annum until 2020. MSME are the engines of growth of any country's economy. According to the provision of Micro, Small and Medium Enterprises Development Act 2006 the micro, small and medium enterprises are classified into two classes

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

The most advantage of this sector is its generating employment at low cost. The MSME sector is highly heterogeneous. There are different size of the enterprises, variety of products and services and level of technology. It helps in the industrialization of rural and backward areas. It reduces regional imbalances. It provides equitable distribution of national income and wealth.

Small and large scale enterprises are two legs of industrialization process of a country. Hence, MSMEs are found in existence in every country. MSMEs have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons.

#### **SOME HIGHLIGHTS OF THE MSME SECTOR**

- a) MSMEs contributes about 40% of India's total exports.
- b) MSMEs contributes about 45% of India's manufacturing output.
- c) This sector has given employment to 73 million people.
- d) MSME manufacture more than 6,000 products.

#### **OBJECTIVES OF THE STUDY**

The following are the objectives of the study-

- a) To study the contribution of MSMEs in India.
- b) To review the challenges and opportunities faced by MSMEs in India

### **II. RESEARCH METHODOLOGY**

The descriptive methodology has been used to collect data Secondary data has been collected from various published sources and websites. The explanation of the data is more qualitative than on quantitative terms.

#### **REVIEW OF LITRATURE**

**Raghurama [1991]** tries to analyse the problems faced by small-scale units while availing themselves of bank finance. The problems faced by the bankers and the procedures adopted by the bank in extending finance are also examined.

**Pillai (1994)** in his study analysed the future role of small-scale sector in the evolving economic setting and the challenges it may have to face to sustain its place as an important contributor to the development process.

MSMEs are considered as a driving force of innovation and employment, and thus they are an important factor in fostering general economic performance (**Carree and Thurik, 2008**).

**Thiripurasundari, K and V.Gurumurthy (2009)**The study highlights the challenges of micro, small and medium enterprises of India. One side the globalization is an opportunity as well as another side it is a challenge for the indigenous MSMEs. The Indian MSMEs are facing a great problem due to larger production of foreign manufacturing concern. The financially strong MSMEs will survive strongly at globalized platform.

**Nalabala Kalyan, Kumar. Sardar, Gugloth. (2011)** This study reveals that how the all aspects of the MSMEs (Employment, Leading sector of MSMEs, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSMEs through various subsidy schemes and liberal availability of credit will be a great help.

**Dixit and Pandey (2011)** applied cointegration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

**Venkatesh and Muthiah (2012)** found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation.

**Srinivas K T, (2013)** has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

**Samta Chaudhary and Shweta Ahlawat(2014)** The importance of MSMEs and its various socio-economic contribution like employment generation, fostering new entrepreneurship, providing volume to the industry base and contribution to national output and exports of our country was identified. On this background, the study further highlighted hurdles faced by SME sector and analyzed existing credit flow

### **CONTRIBUTION TO ECONOMY**

MSMEs are the backbone of the Indian economy. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. MSME Sector are increasing enormously in India. India has nearly 12 million MSMEs, which is almost 50% of industrial output and 42% of India's total export. The reasons are as follows:-

- a) Investment of less capital.
- b) High contribution to domestic products.
- c) Extensive promotion and support by Government.
- d) Significant export earnings.
- e) Operational flexibility.
- f) Man power training, machinery procurement.
- g) Capacity to develop appropriate indigenous technology.
- h) Technology- oriented industries.

### **CHALLENGES FACED BY MSMEs**

MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned Government Departments, banks, financial institutions and corporate. Presently, the Indian MSMEs are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. This proves hurdle in the growth path of the MSMEs. MSMEs problems can explain as follows:-

1. **Lack of credit from banks-** The MSME'S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSMEs. The loan providing process of the banks is very long and formalistic. The owners of the MSME'S has to produce different types of documents to prove their worthiness.
2. **Competition from multinational companies-** In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.
3. **Poor infrastructure-** Though, MSME'S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
4. **Unavailability of raw material and other inputs-** For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
5. **Lack of advanced technology-** The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.
6. **Lack of distribution of marketing channels-** The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels leads to a very poor selling.
7. **Lack of training and skill development program-** The training and development programs in respect of MSME'S development concern is very low .So, skilled manpower is not being available to MSMEs. The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.
8. **Complex labor laws and red-tape-** All the laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult .The various decisions of factory' are depend upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSMEs.
9. Problems of storage, designing, packing and product display.

### **OPPORTUNITIES IN MSME**

1. Less capital intensive.
2. Most important employment generating sector. It provides 50% of private sector employment.
3. Effective tool for promotion of balanced regional development.
4. It is extensively promoted and supported by the Government.

5. Finance and subsidies are provided by the government.
6. Produced goods are purchased by the Government.
7. 40% exports in India are through MSME channel.
8. Procurement of machinery and raw material.
9. Globalization has offered new opportunities for the MSMEs.
10. Trade fares and exhibitions played a vital role in the economic growth of the countries

### III. CONCLUSION

The Micro, Small and Medium Enterprise (MSMEs) are an important sector and plays a critical role in the Indian economy. MSMEs will continue to play a very important and vital role in our economy where the twin problems of unemployment and poverty constitute a major development challenge. There are several challenges in the sector of MSMEs. If the Government, Bank and Financial Institutions will take proper initiatives in the sector of MSME and they will take pride while servicing the MSMEs, these challenges can be solved and the economic growth rate of India will be 8-10% for the next decades.

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