

CHALLENGES AND PROSPECTS OF MICRO, SMALL AND MEDIUM ENTERPRISE (MSMEs)

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ABSTRACT:

The foundation of the Indian industry is made up of Micro, Small, and Medium-Sized Enterprises (MSME), which act as a catalyst for economic change by generating employment possibilities and inspiring low-skilled individuals to engage in entrepreneurial activities. It has spread to both urban and rural areas. The economical development of the country is significantly influenced by MSME's. Their inventive, efficient, flexible, and productive entrepreneurial attitude also makes a substantial contribution to the expansion of the economy. The MSME sector, which accounts for a significant amount of the country's manufacturing output, is responsible for most of the country's industrial production and exports, employment growth, and job creation. Understanding MSMEs' performance and growth, as well as their difficulties and opportunities, is the primary goal of this study. It also aims to comprehend how MSMEs contribute to India's economic development. The findings of this investigation largely support the general consensus. The concepts and recommendations from the study can enhance entrepreneurial ability.

Keywords: MSMEs, Entrepreneurial, Economic Development, MSMEs Act

INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. The MSME also play a important role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The nation's total industrial production output, employment, and exports are significantly impacted by the MSME sector. They ensure a more equitable distribution of the nation's income and attempt to focus on and seize smaller markets. They have distinctive advantages due to their size and they required low investment. They have relatively high capital-labour ratio and they require a minimum gestation period. They try to capture and focus smaller markets; they make sure a fairer distribution of national income. The data as per the 73rd round of National Sample Survey Organization as conducted in 2020-21 shows that there are around 633.88 lakh unincorporated non-agriculture MSMEs in India. 99% of the total enterprises are from the micro sector. 31% of them are involved in the manufacturing activities, 36% in trade activities and 33% in other services. The MSMED (Micro, Small and Medium enterprises development) Act 2006 classifies manufacturing enterprises as micro, small and medium based on the level of investments in plant and machinery. Service enterprises are classified based on their investments in equipment. The sector contributed around 29% to GDP in 2015-16 and 45% to India's total manufacturing output. Its contribution to exports is nearly 40% in value terms. It contributes majorly to the exports of products like sports goods, textiles, handicrafts, leather goods, etc. Despite its significant contribution to the creation of jobs, the development of entrepreneurial skills, domestic production, innovation, GDP growth, balanced regional development, export profits, economic diversification, social stability, and the expansion of the private sector, it faces a number of challenges.

Definition of MSME

The new definition of an MSME, which will take effect on July 1, 2020, is contingent upon a mix of investment protections on machinery and equipment and turnover restrictions. The same limitations apply to companies that provide services and manufacture goods.

Table: Classification of MSMEs in Manufacturing & Services

| | Investment Up to | Annual Turnover Up to |
|--------|------------------|-----------------------|
| Micro | 1 Crores | 5 Crores |
| Small | 10 Crores | 50 Crores |
| Medium | 20 Crores | 100 Crores |

OBJECTIVES

- Assessing the MSME sector's contribution to the Indian economy and bringing attention to the problems and obstacles that MSMEs in India confront.
- To propose potential actions that could be taken to give MSMEs a more encouraging and favorable atmosphere.

REVIEW OF LITERATURE

- **Syamala Devi Bhoghanadam, et. al. (2017)** analysed the existing literature on various challenges faced by the Indian MSME sector and divides them into internal and external factors. The study also provides a literature matrix in which all the challenges are bifurcated into external issues, environmental issues, sociocultural issues, marketing issues, financial issues, HR development issues, and infrastructure issues.
- **Sonia Mukherjee (2018)** analysed the Indian coir industry with respect to its export trend for five years. The major reason for its deteriorating export competitiveness found out to be the absence of appropriate technology. She concludes that higher investment in advanced technology and R&D, higher usage of the digital platform, transfer of technology, higher investment in HR, improved access to finance and liberal business regulations can improve its global competitiveness. The study also includes a detailed analysis of the several measures taken by the Indian government for the technological development of Indian MSMEs
- **Athaide, M., Pradhan, H.K. (2020)** analysed the credit issues that MSMEs in India faced in their paper, "A model of credit restriction for MSMEs in India." They calculated their simulations of credit limitations on MSMEs in India. The researchers discovered that the forecasts were skewed because credit was easier to obtain in Western markets than it is in Indian markets. They enhanced a model using the Carpenter & Peterson and Peterson & Fazzari frameworks.

SCOPE AND METHODOLOGY

The study examines the function of the MSMEs sector in the Indian economy as well as the range of issues that MSMEs in India face. It draws attention to the current difficulties with a number of areas, including marketing, design, exports, finance, and exports. There is also discussion of potential recommendations for fostering a favourable atmosphere. Secondary data serves as the main foundation for this investigation.

DATA COLLECTION

This study uses the Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy from the Ministry of MSMEs and the Reserve Bank of India (RBI) as its primary sources of secondary data. Other sources include books, periodicals, newspapers, magazines, and the internet.

Role of MSMEs

MSMEs present more opportunities for variety and growth. MSMEs are essential for every economy's balanced growth. By using creative business strategies, Micro, Small, and Medium-Sized Enterprises (MSMEs) stimulate entrepreneurial growth. MSMEs are growing across multiple economic sectors, producing a wide range of goods and services for markets nationwide as well as globally. In India, MSMEs are essential to the industrialization of rural and underdeveloped areas as well as the provision of employment possibilities at lower capital costs. Ensuring a fair distribution of national income and wealth also lessens regional disparities. With their creative business strategies, Micro, Small, and Medium-Sized Enterprises (MSMEs) have significantly contributed to the expansion of the entrepreneurial spirit. MSMEs are extending their influence across the economy as they generate a diverse array of products and services to meet the demands of the local and global markets. MSMEs in India are playing a critical role in the nation's economy by creating large employment opportunities at a cost that is significantly lower than that of large industries. These MSMEs not only industrialize rural and underdeveloped areas, but also lower regional imbalances, ensure a more equitable distribution of wealth and income throughout the nation.

Challenges of MSMEs

- **Skilled labour shortage:** Although India has a sizable labour force, most of its workers have never received formal training. Big businesses pay more and employ skilled workers. MSMEs must hire unskilled or semi-skilled workers. MSMEs lack sufficient managerial abilities as a result.
- **Inadequate Technology:** The MSMEs in India are significantly different; just a small percentage use cutting-edge technology, and most rely on antiquated equipment, which results in low output and subpar workmanship. The tiny size of MSMEs prevents them from taking advantage of large-scale production economies.
- **Reversed Tariff structure:** Small enterprises are particularly affected by the large inversion of the tariff structure that has emerged from this, as they have greater labour costs and high material-to-output ratios for some metals (such as steel, copper, and many non-ferrous metals). This is as a result of their tariffs being greater than those imposed on manufactured commodities other than consumer goods.
- **Impact of reforms and globalization:** The elimination of licenses and reservations through the LPG policy signalled the liberalization of the industrial economy and permitted both domestic and foreign competition in the industrial sector. MSMEs were greatly impacted by decreasing tariffs and the elimination of quantity restrictions as a result of globalization. MSMEs in a variety of industries, such as toys, chemicals, silk, and automobiles, face serious threats from imported items that are both more reasonably priced and of a higher Caliber.
- **Handiness of raw materials:** MSMEs account for around 40% of national exports. Because so few companies employ imported raw materials and intermediary goods, their tariff rates are high. However, companies that use easily accessible raw resources

locally also face a number of challenges, like having to sell their goods back to the community at a reduced cost and relying on local traders for their raw materials.

- **Insufficient Marketing Channel Distribution:** MSMEs are not employing innovative ideas to bolster product distribution and advertising. Ineffective marketing and advertising lead to extremely bad selling.
- **Lack of Resources:** These result from the market's scarcity of labour, raw resources, and other inputs. Because of this, it is extremely difficult to produce the goods at a fair price.

Prospects of MSMEs

- **Creation of Employment:** MSMEs will contribute 30% of GDP in 2022–2023 and 29.2% in 2021–2022, according to the Ministry of Statistics & Program Implementation. In addition, the Indian government is taking effective initiatives to boost the number of jobs in MSMEs. The Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), the Prime Minister's Employment Generation Programme (PMEGP), the Scheme for Promotion of MSMEs in North Eastern Region and Sikkim, and other initiatives have been put into place by the Indian government to assist and grow MSMEs. In addition, a large number of jobs are created by the manufacturing and service industries that assist MSMEs.
- **Attention towards Customer Contentment:** Customer happiness is becoming increasingly important to MSMEs. Their production method is determined by the needs or requirements of their customers. MSMEs can thus concentrate more on customer satisfaction.
- **Improvement of Exports:** MSMEs are thriving as a result of central and state government backing. In addition, Indian goods like hardwood goods and other handcrafted goods are highly sought for on the international market. Consequently, MSMEs stand a good possibility of growing their exports.
- **Diminishing Barriers by Area:** Because local workers are employed by MSMEs operating in rural areas, all of the country's rural areas will benefit from equal development. This is advantageous in that it helps to lessen or completely remove regional imbalance.
- **Develop using International Investment:** MSMEs have quite decent growth rates and returns on investment, making them one of the fastest-growing industries in India. In India, the growth rate of this sector is accelerating due to its capacity to attract international investment.

CONCLUSION

To conclude, Micro, Small, and Medium-Sized Enterprises (MSMEs) have emerged as a critical force behind India's economic expansion. They have become a more important and dynamic part of the economy due to their well-known effects on GDP, industrial output, and exports. In India, only agriculture makes a greater contribution than this sector in terms of employment creation. According to recent experiences, the job situation in the agriculture sector has been falling, while unemployment in large enterprises has increased. Under such circumstances, the major burden of job creation falls on the unorganized sector, which comprises small and medium-sized enterprises and the service sector. For the MSME sector to be competitive in the long run, it needs to innovate, reduce costs (due to the greater quality), boost quality and productivity, and be financially sustainable. Government policy

should improve MSMEs' efficiency and competitiveness in order to support them in a market-driven economy. These companies need to get over their defensive stance since there is proof that protectionism hurts the industry. But the government has to make deliberate choices and carry out policies honourably if it is to solve the problems that the MSME sector faces. To ensure a sustainable contribution to the country's GDP, job market, and export earnings, it is imperative to promote the development of a small- to medium-sized, internationally competitive, and technologically advanced industry. It is imperative that the Indian economy be taken care of in order for the MSME sector to do so. MSMEs need to be aware of all of the government's programs and know how to best utilize them. In the current economic climate, there are opportunities and problems for the MSME sector.

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