



# Problems and prospects of MSMEs

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## Abstract

In present scenario of business, the micro, small and medium enterprises have been accepted as the engine of growth for promoting equitable development of economy. The MSMEs also have the vital role in dispersal of industries and generation of employment opportunities. The MSMEs sector has consistently registered higher growth rate compare to the overall industrial sector in India. The distribution of MSME's in all over India is not equal because of unavailability of raw material, unawareness or lack of entrepreneurial skill development and lack of financial support and technical assistance from concerning local authorities at district or state and central level. The unavailability of adequate and timely credit facility, high cost of credit, lack of modern technology, no research and innovations, insufficient training and skill development, complex labor laws are the main problem of the MSME's. Although, there are various opportunities are available in the development of MSME's. The MSME's sector can also attract to the foreign investment and technology. The employment is more possible through the development of MSME's. The MSME's will be able to satisfy the needs of the customers up to a great extent after considering their expectations primarily. Migration of rural youths can be stopped by providing them chance to work at their place. The mutual change of technology among the different types of MSME's, financial and technical assistance, liberal labor laws, training and skills formation will assist in the development of MSME's. For the success of slogan "Vocal for local" & "Made in India", Indian government opened many doors.

Key words: MSMEs, Problems, Prospects, MSME Schemes, Made in India

## Introduction

Micro, Small and Medium Enterprises (MSMEs) are amongst the powerful sources of employment generation, economic development and doing innovation. Different kinds of products and services are produced by MSMEs with adoption of latest technology so the market size of business units also varies from handmade products to hi-tech products. In India, MSMEs play a vital role in development of an Indian economy. MSMEs can be define as under:

### Classification of MSMEs

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1	Micro Enterprises	Investment <1 crore and Turnover <5 Crore
2	Small Enterprises	Investment <10 crore and Turnover <50 Crore
3	Medium Enterprises	Investment <50 crore and Turnover <250 Crore
Source : <a href="https://msme.gov.in/know-about-msme">https://msme.gov.in/know-about-msme</a>		

## SIGNIFICANCE OF STUDY

In Gujrat, the MSMES sector is a significant contributor to industrial output, providing employment and a key contributor to the GDP. Finance is an important vehicle for growth MSMES business. Lack of adequate finance is the cause of all other problems and necessary for early and late growth. Financial institutions have the limited concentration on this sector due to the higher risk. Overall, finance gap in the MSMES sector is estimated to be 650 Billion (Found by IFC analysis 2012). The Government and other financing institutions should take initiative to grant loans for this sector, only then will the sector develop, and create more employment and wealth. Hence there is a need for a study into the problems and opportunities of MSMES.

Gujrat State being newly born state, the growth of MSMES is key to the development of the state. MSMES require timely and adequate finance to resolve working capital problems, particularly at the start-up and growth stages. Because finance is necessary to boost the development of the MSMES sector in India. So MSMES have a great future if adequate finance is provided and that will lead to the development of the state and nation.

### Importance

The MSME enterprises have emerged into one of the vibrant and dynamic sectors of Gujarat. MSME Gujarat is playing an essential role in providing opportunities and employment in the areas of Engineering, Textile, Chemical products, Plastic, Food Processing, Ceramic, Pharmaceutical, etc. According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes i.e., Manufacturing Enterprises and Service Enterprises.

## REVIEW OF LITERATURE

A report titled “MSMES Growth Driver of Indian Economy” published by CII and Resurgent India (2019) mentioned that over 1,00,000 SMEs have shown 13.9% increase in net jobs created in the MSMES sector in last four years. Gujarat, Maharashtra and Telangana have been the largest job generators.

A report titled “Making Indian MSMES globally competitive” published by KPMG (September 2019) mentioned that MSMES sector is a main driver of economy of India with a network of sixty-three million entities. It generates employment for about one hundred eleven million people and manufactures more than seven thousand five hundred products with a share of around forty-eight per cent in the country's total export.

Yogesh C. Joshi and Kaushal Kishore (2018) found in their research that considerable proportion of MSMES are practising energy conservation but a lot of efforts are required to increase the number of units practising the model of energy conservation.

Nihar Ranjan Jena and Lina R Thatte (2018) analyzed that the difference in performance of the MSMES sector in different states existed due to the differences in the presence or absence of adequate enabling factors like labour force, economic infrastructure, regulatory framework, size of GSDP and density of MSMES clusters etc. and found that Maharashtra was the leader in terms of performance of the MSMES sector which was closely followed by Gujarat, Tamilnadu, Andhra Pradesh, Uttar Pradesh, West Bengal and Kerala.

Papiya Manna and Dr. Tapas Mistri (September 2017) analyzed in their research that MSMES are increasing year by year and its share in national or state GDP has also shown increasing trend with some fluctuations.

### MSME Market Development Assistance

In place of the previous Rebate system, a flexible, growth-promoting, and artisan-oriented Market Development Assistance (MDA) plan has been implemented. The MDA provides financial assistance to institutions at a rate of 20% of the value of Khadi and Polyvastra manufacturing, which is divided between artisans producing and selling in the ratio 25:30:45. MDA gives institutions the option to utilise the aid to improve their outlets, products, and manufacturing processes, in addition to providing incentives to customers, and so on.

## PROBLEM STATEMENT

The Indian Prime Minister issued a notification on 9th May 2007, amending the Indian Government (Allocation of Business) Rules, 1961. The Ministry of Argo Rural industries and ministry of Small Scale Industries were merged into one ministry called ministry of Micro Small and Medium Enterprises (MSMES) with its head office located in New Delhi and each state having one or more MSMES Offices/Institutions across the country.

### Micro Small and Medium Enterprises' (MSMES) Financing Problems

Finance is the key input for running any business, and it is a lifeblood that lubricates every organ and every functional area of the business and maintains the proper health of the business. As the moment the blood circulation in a human body stops, the person collapses, the business also comes to a standstill the moment the finance exhausts, ultimately leading to the fall of an organization. Finance is the lifeline of any business. Business needs finance to continue activities for its expansion and growth, some business plans, efficient production and marketing needs depend on funding.

#### Financing Problems of MSMES

Finance is the necessity for every business at all stages of continuous running the business, getting finance is the most severe difficulties for MSMES. The financing problems are the cause of all other problems many business transactions are depending on finance, so finance is the engine for running the business. The study is primarily focused on MSMES' financing problem show they are affect MSMES financial Sustainability. The financing problems of MSMES are

- Lack of availability of adequate and timely credit.
- Limited access to equity capital.
- Collateral requirement.
- The exorbitant rate of interest.
- Increasing raw materials price.
- Shortage of working capital.
- Hike power charges.
- Hike labor rates.
- The decline in sales volume.
- Increasing bad debts.
- Increasing transportation expenses.
- Increasing rent.
- Value-added tax (VAT).
- Govt tax and Customs duty.
- Volatile petrol/diesel prices.
- Increasing insurance costs and
- Delay in account receivables

### Micro Small and Medium Enterprises'(MSMES) Other Problems



Even MSMEs are very important for employment purpose, contribution in GDP and in total exports of country hence faces lots of issues at large scale likewise finance, managerial marketing, raw material, technology and labours so in general MSMEs have shortage of working capital, tough competition, law and poor quality products for market, high cost of borrowing, low demand, unavailability of credit, unskilled labour force, superior high technology and price fluctuation this all issues converting business in to trouble and Owner become helpless and MSMEs not grow like it need to be grow.

Innovative behaviour of firms is a necessary condition for long-term survival in highly competitive environment But On crucial score, MSMEs often find themselves faced with many barriers to an innovation for, e.g., resource limitations, which hamper their capacity to invent and effectively commercialise new products. Process or services. The negative impact of these barriers varies in intensity and tends to hinder innovative efforts of firms. It is therefore important for policy discourse on issues of innovation in developing countries to understand the nature of barriers firms face and how they overcome them.

### **FUTURE PROSPECTS OF MSMES**

1. **Employment generation:** There are large opportunities in the field of manufacturing and service rendering of MSME 's. In the field of retail and manufacturing sector, MSMEs are generating different and sample amount of employment.
2. **Focus on customer satisfaction:** Primarily, MSMEs manufacturing goods focus on test and preferences, liking and disliking of the consumer. But now a day they produce goods according to the needs or expectations of the customers. So the MSMEs can be more customer satisfaction oriented.
3. **Minimization of regional imbalance:** The MSMEs will utilize the manpower of rural areas so such areas of the nation can equally developed through the running of MSME units in rural areas. So this is helpful to minimize or remove the regional imbalance.
4. **Development of Export:** In the international market, there will be a large demand of Indian product like wooden items, other handmade articles etc. So MSMEs have the potential to improve the export of India.
5. **Attraction of Foreign Investment:** The Indian MSMEs are the growing sectors and their growth rate and return on investment is satisfactory. This sector can attract foreign investment in India, so their growth rate increasing drastically.

### **CONCLUSION**

It is very clear from the analysis that Micro, Small and Medium Enterprise (MSMES) sector has emerged as a very important segment which is contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. The reason is that the MSMES sector has the ability to make cost effective products and government is also providing full support to boost up this sector. Currently MSMES's share in national GDP is about 29% and is projected to touch 50% by 2024. With its inherent strengths, powerful infrastructure and strong positioning at national and international level, Gujarat has very clear vision for developing MSMES sector and there is no doubt in accepting the fact that Gujarat also has a status of favoured global investment destination. Conducive business environment with ample growth opportunities, good infrastructural facilities, better road connectivity, largest coastline, supportive government initiatives and increasing ease of doing business ranking makes Gujarat a promising state in the country to ensure the development of MSMES sector in line with the economic development policies of central government. It can be said that MSMES sector needs more attention like any other large industrial units and it would certainly help India to become economic powerful nation among all countries of the world.

## Reference

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