

## Role of Micro, Small & Medium enterprises and challenges faced by them in Indian context

Barkha Jamwal

Assistant Professor, College of Vocational Studies, University of Delhi, New Delhi, India

### Abstract

Over the next decade, India is expected to emerge as one of the leading economies of the world. Micro, small and medium enterprises sector will play a huge role in achieving such position. The development of this segment will even give a helping hand to meet the goals of financial inclusion and employment generation thereby reducing the overall poverty level. Though the role and advantages of MSMEs are multi-fold and these cannot be quantified, still this sector faces a lot of challenges in securing easy credit or getting an access to good infrastructure facilities. This paper even focuses on growth of women entrepreneurs in India with special context to this sector and how various government initiatives like TREAD, Mahila Coir Yojana, Self-Help Groups, help these women in attaining their goals.

**Keywords:** MSME, financial inclusion, women entrepreneurs, TREAD, mahila coir yojana, self-help groups

### Introduction

Micro, small and medium enterprises have emerged as the building blocks for the economy. It is now a days the most dynamic sector and plays an important role in contribution to GDP, increasing employment and creating regional balance, at low capital costs vis-a-vis large enterprises, in the economy. Its presence is considered as the crucial factor in determining the growth and development of small sectors and reducing income disparities. Though the MSMEs contribute a lot to the economy still most of the small enterprises are not able to sustain and grow in long run due to various problems they face like: inadequate finance, lack of marketing skills, improper infrastructure and complicated regulatory policies that they have to follow before starting a business. Also, in the present scenario women entrepreneurs play a key role in fulfilling one of the main objectives of the nation that is balanced economic growth, by overcoming all the socio-economic odds that come in their way. The case of Lijjat Papad success is one such example that shows the will and power of women and how good entrepreneurs they can become with just a little push and

motivation. MSMEs are considered to be a catalyst to bring social and economic change in our country. (KPMG, 2016)

### Objective of the Study

The paper aims to analyze the role of MSMEs along with the challenges faced by them. The paper also talks about the women entrepreneurs in this sector and how women and this sector can contribute and help each other in development.

### Research Methodology

The secondary data from various journals, newspaper articles and government sites is taken for the research purpose.

### Definition of Micro, Small and Medium Enterprises (MSMEs) According To the MSMED ACT, 2006.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is set according to firm's investment in Plant and Machinery (P&M) and Equipment:

Table 1

Manufacturing enterprise	Type of Enterprise	Service enterprise
Investment in P&M up to Rs 25 Lakh	Micro enterprise	Investment in P&M up to Rs 10 Lakh
Rs 25 Lakh – Rs 5 crore	Small enterprise	Rs 10 Lakh – Rs 2 crore
Rs 5 crore – Rs 10 crore	Medium enterprise	Rs 2 crore – Rs 5 crore

Source: (rbi.org.in)

### Role of MSME Sector in India

- The MSMEs help in Poverty eradication or reduction in the area where it operates. Since the people engaged in these enterprises earn the basic income to serve themselves and their families, their economic condition improves as such people can now get a regular source of income. There are around 51.1 million MSME units in India.
- The establishment of such enterprises helps in employment generation. The small industries like khadi and handicrafts firm do not require high tech skilled employees, but just simple people who know how to weave. The MSMEs are

blessings to such people who are in need of employment and want to earn to sustain their lives. The MSMEs in India have been able to provide employment to around 120 million people. (CII.in)

- With the setting up of MSME units in rural areas these areas grow economically and in turn start contributing to GDP. The MSMEs have been consistently growing at a rate of over 10%. MSMEs contribute approx 7% of the manufacturing GDP and 31% of the GDP from service. (CII.in)
- Over the past years, the MSMEs have been increasing in

number in rural areas due to which unemployed people from such regions are now getting employed. These units even act as complementary to large organisations as the ancillary units hence creating regional balance and contributing to socio-economic development of the nation. It also helps in industrialisation of rural and backward areas hence reducing the regional imbalances.

- There is equitable distribution of income among rural and urban areas. With the establishment of MSMEs in rural areas, the rural people who were unemployed are now employed in these units. About 55.3% of the MSMEs are located in rural areas. (CII.in)
- The MSMEs even provide a seed bed for entrepreneurial talent and serves a testing ground for new ventures. If any person wants to test its business idea it must start its operations at a small scale. If such business idea survives and gives good returns then it can be expanded on a large scale.
- The output of small enterprises can be the raw material for large organisations. These small scale enterprises hence support the growth of large scale industries by providing regular supplies at reasonable prices.
- The handicrafts, cotton products made by small industries have a huge foreign demand. MSME sector has in last few years been one of the greatest contributors for increasing Indian exports to international boundaries. The MSMEs contribute around 46% of the total exports from India. (CII.in).
- Huge amount of latent resources are being mobilised by small industries for development of economy as a whole. (msmementor.in).

#### Challenges Faced By MSMEs

- **Lack of timely and sufficient banking finance:** Any business, be it small or large cannot function in the absence of adequate funds. The ease with which funds can be procured at manageable conditions drives the growth of MSMEs. It has been observed that Indian MSMEs start the business with the minimum available capital which hinders the growth of such enterprises at later stage. Since easy credit facilities are not available to small and micro enterprises, it affects their output, GDP, export and employment at large. The main reason for non-availability of sufficient funds to MSMEs is their low credit worthiness and weak economic base. They are hence forced to borrow at high interest rates from private lenders which further deteriorate the condition of small enterprises.
- **No access to desired raw material at low prices:** A regular supply of raw material at affordable prices is considered as one of the most important factor while carrying a manufacturing business. To sustain in the market for longer period, organisations need to maintain close contacts and good relationship with their suppliers. Since Micro, small and medium enterprises are not able to maintain close relation or contact with the vendors; they end up procuring materials at high cost. Also, they face problems related to supply of poor quality or inadequate quantity of raw material at irregular intervals.
- **Inadequate infrastructure:** Adequate and smooth infrastructure can ensure steady growth of the economy. In India, the urban cities are equipped with latest and proper infrastructure whereas in some rural areas even the basic

infrastructure facilities are not available. Due to this, the small enterprises are not able to give in their best and this in turn hinders their growth. Hence in order to make sure that the MSMEs in rural areas do not suffer and to attract large enterprises in rural areas, government is taking steps to tackle the infrastructure related issues like electricity, communication channel, roads, water supply etc.

- **Low availability of power due to which there is low production capacity:** Continuous power supply is considered as one of the indispensable factor for smooth production process. Since most of the small and micro enterprises are located in rural areas where the supply of electricity is irregular, the production is severely affected. Also, the installed capacity of the plant and machinery is always underutilised due to frequent power cuts.
- **No suitable latest technology:** Advanced methods and techniques in production can help the organisations to cut down the cost, time and resources and also to offer better products in global market. To compete at a global level, MSMEs need to have latest technology in place. But due to lack of awareness, funds, the MSMEs in India are not able to adopt latest technology for production. Due to obsolete methods of production, these enterprises face problems of high cost of production and under production at a quality that is considered inferior as per international standards. Hence, MSMEs are forced to face losses while competing with the well-equipped international and national rivals.
- **Marketing issues:** To succeed in this competitive environment enterprises have to strategize their marketing techniques to pull the customers and increase the sales. The big organisations have all the time and money to tackle the marketing and distribution issues by arranging frequent buyer-seller meets, offering introductory discounts and engaging trained salespersons to induce customers to buy their product. MSMEs on the other hand due to lack of sufficient funds, limited knowledge about the marketing techniques including digital marketing, lack of advanced technology are not in a position to get first-hand information (neither do they have funds to conduct in-depth research) about the market i.e. taste, preferences, competition, prevalent fashion etc. Hence they are not able to upgrade their products and tend to lose the customers to the rivals.
- **Lack of project planning:** Proper project planning is necessary to foresee what a business can achieve in near future and in long run. MSMEs do not have that ability or funds to engage themselves in financial and technical analysis and feasibility of project they want to undertake. Due to lack of financial resources they are not able to avail the services of project consultants. This results in poor project planning and execution, which hampers their long run survival in the industry.
- **No skilled labour at affordable cost in rural areas:** MSMEs in India are a big source of employment in rural areas. However, due to lack of finance and low scale of operations, small enterprises are not able to attract skilled labour at affordable rates. There is no formal system of employees in such sector which leads to high absenteeism issues. Even though some of the enterprises that were initially operating at a very small scale did not require any technical skill, but as their operations expanded the need for technically skilled labour arose. For example: Shri

Mahila Griha Udyog Lijjat Papad, was started by a group of women who had just one skill: Cooking.

- **Managerial inadequacies:** An entrepreneur must be competent and possess other managerial abilities for the success of its venture. Micro, small and medium scale entrepreneurs have to encounter numerous problems relating to low marketing skills, no formal education and training, lack of credit worthiness due to which they are not able to act as a manager and leader for its workers. The government of India has taken steps to improve the operations of such units.
- **Competition from cheaper imports:** Indian markets face huge competition from international borders like China who supply the products at rock bottom prices. This reduces the sale of domestically produced outputs by small enterprises in India. The Chinese for example sell its toys in India at very cheap rates which discourage MSMEs from producing any such type of toys. The government has taken several steps to ensure that foreign players like China are not engaged in dumping their products in India at below the production cost.
- **Delayed payment from big companies:** The final output of MSMEs many a times forms a part of Raw material required by big companies. For example, for a reputed leather shoe making company, fine leather can be regarded as a raw material which can be provided by small enterprises. If such big organisations make delayed payments for the inputs procured from small firms, then such firms can suffer from lack of funds which can ultimately stall its production process.
- **Complicated Regulatory Policies for Starting a Business:** According to World Bank's ranking of ease of doing business in India, India ranked 130 out of 190 countries in 2016. This shows how difficult it is to start a business and carry on its operations in India. This includes complex procedures which are required to be complied with while setting up a business, dealing with construction permits, getting electricity connection, paying taxes, getting credit, trading across borders etc. Hence, due to these complicated regulatory policies the setting up of business is discouraged. (Tripathi, Tripathi, & Dedhia, 2016)<sup>[6]</sup>.

### Women Entrepreneurs in MSME Sector

India has served to be a testing ground for many women entrepreneurs. The Indian women are now educated, possess negotiating skills, are patient and match the skill set of men in the work field. Most of the handicraft, handloom, bakery, embroidery, tailoring related work is performed by women. To facilitate the development of women in rural areas and to turn them into entrepreneurs, Government of India has been launching various schemes to encourage women to start working and form a part of MSMEs. For example TREAD (Trade Related Entrepreneurship Assistance and Development Scheme) empowers women to develop their entrepreneurial skills in non-farm activities by granting loan amount to NGOs which further disburses the amount to Poor women as per the need. Also, Mahila Coir Yojana, provides opportunity to women in regions producing coir fibre, to get self-employed for producing coir. The women spinners are trained in the spinning coir board and are provided with machines at subsidized rates. In 1990s the government even started the

Self-Help Groups (SHGs) which is the informal group of people who come together for credit support and saving facilities with banks. This helped the women to gain self-confidence and promoted the sense of entrepreneurship in them. From the past 2-3 decades Indian women have been actively involved in the field of entrepreneurship and are contributing a lot to this sector and to the economy as a whole. Women need to believe in themselves which can be made possible by providing proper formal education to them. Also the socio-economic barriers need to be broken to explore the talent and skills that the women can contribute to our economy. (Trivedi & Gaur, 2015)

### Case Showing Massive Success of Women Entrepreneurs in India in MSME: *Lijjat PAPAD*

This is the case that dates back to 1959, when 7 semi-literate Gujarati women started a business with just one skill they possessed: COOKING! Shri Mahila Griha Udyog Lijjat Papad, popularly known as LIJJAT PAPAD was started with a seed capital of INR 80 which the women borrowed from a social worker named C.K. Parekh. They started their operations on the roof of their building in Girgaum, Mumbai. The women worked hard and never compromised on the quality due to which they could achieve a turnover of INR 6,196 in the first year and to INR 300 crore in the next few decades. This women's cooperative now employs 43,000 people approx. Today, Lijjat has separate divisions of exports, advertising, sales promotion and marketing. There is great coordination between the 81 branches and 27 divisions due to which the cooperative now has annual sales exceeding INR 301 crore. (Gupta, 2014). The main reasons for success of Lijjat papad were that the women never compromised on quality, they encouraged the sense of cooperation irrespective of caste or religion of its members. The transparency in operations and flat structure of the organisation helped in establishing accountability among the sisters. Lijjat never accepts donation, but readily provides donation which enhances members pride and self-esteem in the organisation. Calling its members as "Sisters" inculcates a sense of closeness and builds informal work environment. Lijjat hence shows a remarkable way of making leaders out of women. (worldbank.org)

### Conclusion

The Indian MSME sector is considered as the backbone of the national economic structure which has undoubtedly acted as a support for the Indian economy. It has even proved to be resilient to global economic shocks and has acted as a shield for our economy. There are around 51.1 million MSME units in the country which provide employment to around 120 million people and contribute approx. 46% of overall exports from India. The growth rate of this sector has been over 10%. Also 55.3% of the MSMEs are located in rural areas which indicate higher employment in those areas, more financial inclusion, and this in turn leads to reduction in poverty. Even though the advantages and role of MSMEs is clear the challenges they face are less talked about. The non-availability of desired raw material, non-availability of easy credit, low marketing and distribution skills, lack of technology and sufficient infrastructure are some of the factors that cause impediments in the growth of this sector. The government has been taking several measures to give a helping hand to this

sector but still a lot needs to be done at grass root levels where people are still deprived of access to basic amenities like water, roads, communication and transportation.

### References

1. CII.in. (n.d.). Retrieved from <http://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECVTuNuXK6QP3tp4gPGuPr/xpT2f>
2. Gupta AD. Lijjat Papad: A Case Study of Inclusive Responsible Leadership, 2014. academia.edu.
3. KPMG C. The new wave Indian MSME, 2016.
4. Msmemotor.in. (n.d.). Retrieved from [http://www.msmemotor.in/MSME\\_Sector\\_India.asp](http://www.msmemotor.in/MSME_Sector_India.asp)
5. rbi.org.in. (n.d.). Retrieved from <https://www.rbi.org.in/commonman/English/Scripts/FAQs.aspx?Id=966>
6. Tripathi M, Tripathi S, Dedhia R. Challenges Faced By Micro, Small and Medium Enterprise (Msme) Sector In India. International Conference on Recent Innovations in Science Engineering and Management, 2016.
7. Trivedi D, Gaur A. The Role of Women Entrepreneurs in Micro, Small and Medium Enterprises (MSMEs). Pacific Business Review International, 2015.
8. worldbank.org. (n.d.). Retrieved from [http://siteresources.worldbank.org/INTEMPowerment/14652\\_Lijjat-web.pdf](http://siteresources.worldbank.org/INTEMPowerment/14652_Lijjat-web.pdf)