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MSME SECTOR: A WAY FORWARD TO STARTUP INDIA STAND UP INDIA

***Dr. Bhagabat Behera**

ABSTRACT

Worldwide the micro and small enterprises (MSEs) has been accepted as the engine of economic growth and promoting equitable development. The MSEs constitute over 90% of total enterprises in the most of the economies in view of their significant contribution in the process of industrialization, generation of employment, contribution to the export and bringing the regional balance Indian Small and Medium Enterprises (SME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. SMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural areas. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. SMEs are present in a variety of sectors including chemicals, plastics & polymers and pharma sectors. The importance of MSMEs in manufacturing sector is mainly due to the quantum of units that fall in this category, forming 90% of the total industrial units in this country. The SME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. Government is taking several steps to boost manufacturing sector growth as would lead to job creation and boost the country's

economy. Startup India hub, Patent protection, Credit Guarantee Fund. Funds of funds with a corpus of Rs 10,000 crore, Exemption from Capital Gains Tax, Launch of Atal Innovation Mission, Setting up of 35 new incubators in institutions, setting up of 7 new research parks, Promote entrepreneurship in biotechnology, Tax exemption on investments above Fair Market Value etc. is the boosting package announced recently by the central government. It is an acknowledged fact that the MSME sector can help realize the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022. Notwithstanding a lot of focused policy initiatives in recent times, impediments to the financing of MSMEs remain which constitute the single most important factor that could circumscribe their growth tragedy. Banks have become too choosy to the point of almost ignoring small enterprises, notwithstanding the phenomenal growth of gross bank credit (GBC) seen in the recent years. In this backdrop this paper seeks to study the performance of MSMEs in India and their financial sustainability in the fast changing globalised environment. The studies conclude with a little bit suggestion and conclusion.

Keywords: *MSMEs, Finance in India, Global Environment of MSMEs.*

**Asst. Professor in Commerce, Department of Commerce, Ravenshaw University, Cuttack, Odisha,*

INTRODUCTION

Indian economy is dominated by a vibrant set of enterprise, which is prestigiously known as Micro, Small and Medium Enterprise (MSMEs). It is considered as the backbone of economic development in India. They are the incubators for talent, innovation and entrepreneurial spirit, which is essential for the country's development. The MSME sector contributes in a significant way to the growth of the Indian economy with a vast network of over 32 million units and contributes 45% of the industrial output, 40% of the country's total exports, employs over 60 million people, creates 1.3 million jobs every year and produces more than 8,000 quality products for the domestic and international markets. The MSME sector in India is incredibly heterogeneous in terms of size of the enterprises, variety of products and services produced and levels of technology employed. As per the Micro, Small and Medium Enterprises Development Act of 2006, enterprises with the capital investment (plant, machinery and equipment) levels within 10 crore INR (for services worth 5 crore INR) qualify as MSMEs. It is an acknowledged fact that the MSME sector can help realize the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022. MSMEs in the country manufacturer over 8000 products some of the major sub-

sector in terms of manufacturing output are food product (18.97%) textile and readymade garments (14.05%) basic metal (8.81%) chemical and chemical products (7.55%) metal product (7.52%) machinery and equipments (6.35%) transport equipments (4.5%) rubber and plastics products (3.96%) furniture (2.62%) paper and paper products (2.03%) and leather and leather products. MSMEs are complimentary to large industries as ancillary units and contribute extremely to the socio-economic development of the country. Entrepreneurship involves the creation of employment and wealth, which is a major way for inclusive development.

The credit is the lifeline of any business and more so for businesses in MSME sector. The major hindrance in the expansion of SMEs is the unavailability of sufficient and timely funds to finance their growth plans. Inadequate and non availability of timely credit have been age old problems being cited by micro and small enterprises. Banks have been making steady strides to bridge this gap. But the approach followed by banks to funding is restrictive as they create value by controlling and managing risk. In any loan application for a business, a bank has to necessarily evaluate the risks involved, gauge collateral support, rigid approaches, high interest and other costs, complex documentation, lack of supporting business development services and the methods to mitigate those risks. The problems cited above are stand as a big constraint before an entrepreneur while accessing loans from the financial institutions. Indian SMEs operate in a very challenging atmosphere. According to the World Bank, India has slipped 3 ranks in its Ease of Doing Business Index – this raises deep concerns about the state of affairs in India. In this backdrop this paper seeks to study various issues relating to MSMEs finance from banks taking the published statistics and primary data into the account, to examine the financial sustainability in a fast changing environment and the reason why banks shy away from lending to the sector and what are possible remedies to enhance accessibility of SMEs to bank finance..The study concludes with a little bit suggestion and conclusion.

OBJECTIVES OF THE STUDY

- To evaluate the contribution of MSME to the national income through industrial production ,and
- To study the factors responsible for growth and sustenance of the MSME sector.
- To analyze the issues and concern in financing the MSMEs in India.

METHODOLOGY:

The data structure for the study is based on official publications of the Ministry of MSMEs Government of India in their annual reports. Besides annual reports, different articles and speech published in different journals and periodicals have also been referred to. Some tables and graphs are also depicted to have a clear vision of the theme of the study. Data for the period of 2005 to 2012 has been considered for the study.

REVIEW OF LITERATURE

Bresnahan et al (2001) in his studies point out that factors such as firm-building capabilities, managerial skills, substantial supply of skilled labor and connection to markets are crucial for initial development of the new economy clusters in technology and innovation driven entrepreneurship activities. Subsequently, increasing social returns and external effects arise after the clusters have been completely formed. The success of the Silicon Valley is direct evidence of these conditions. **Srivastav et al** (2007) conclude in his study that development of additional industries in the vicinity alone will lead to economies of scale and technical advantage to foster rapid progress to the regional economy and to that of a nation. **Venkataramanaiah** (2007) in his study conclude that SMEs have improved their performance and presence through industrial cluster approaches. Suitable cluster interventions are necessary for enhancing competitiveness and sustainability of the SME sector. **Krishna** (2009-10) in his paper expressed his view regarding accelerating entrepreneurship as an opportunity to enhance inclusive growth of an industry. **Chakrabarty** ,(December 21,2011) in his speech focused on the needs of small and medium enterprises ,and emphasized on providing highest precedence to this segment in order to achieve unbiased, sustainable ,more reasonable and inclusive growth in the country. **Mathew** (jan2012) in his articles explained the relevance of MSMEs in India during the twelfth five year plan. In his articles it is described that apart from the entire challenges, MSME stand as the stepping stone to achieve inclusive growth in an economy. **Santosh kumar** (Oct 2011) in their article explain the role of small and medium enterprises. MSME is playing a vital input in creating dynamic market economies in the socio-economic development of a nation.

Ghani,E., R. Kerr,W., and O’Connel, S.(2011) India’s economic geography is still adjusting from the government –imposed conditions that existed pre-deregulation and much greater variation exists in spatial outcomes than is present in countries like the United States .**Maseko and Manyani** (2011) opined that the ministry responsible for SMEs should initiate accounting training programmes for entrepreneurs running small business .Further ,this study recommends

that record keeping in SMEs must be made mandatory to improve their accounting practices and increase chances of them formalizing their business operations. OECD Centre for Entrepreneurship Development (2012) studied that access to finance represents one of the most significant challenges for entrepreneurs and for the creation, survival and growth of small business.

MSMEs in India at a Glance

MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. The development of the MSMEs sector is one of the priority of government Agenda, As per the Results framework Document (RED) for ministry of micro small and medium enterprises (2012-13), the mission of government is to “promote ,growth and development of globally competitive micro, small and medium enterprises including Khadi village and coir industries ,in cooperation with concerned minister/Department, State Government and other stakeholders by providing support to existing enterprises and encouraging creation of new enterprises .To endeavor to achieve a cumulative growth of 40-50% in the number if registered enterprises by the end of 12th plan and enhance this sector’s contribution to GDP from 8% to 10% by the end of 12th plan. The role of MSMEs in the economic and social development of the country is well established as per the report of the working group on MSMEs Growth for 12th five year plan (2012-2017) the sector accounts 45% of the manufacturing output and 40% of the total exports of the country. Over 6000 products ranging from traditional to high tech items are being manufactured by the MSMEs in the country .The labour to capital ratio in MSMEs and overall in the growth in the sector is much higher than the large industries .The geographic distribution of the MSMEs is also more than even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

Table-1.1
Performance of MSMEs Growth, Employment and Investment

Year	Total working Enterprise (in Lakhs)	Employment (Lakhs)	Market Value of Fixed assets (in Crores)
2006-07	361.76	805.73	868543.79
2007-08	377.36	842.00	920459.84
2008-09	393.70	880.84	977114.72
2009-10	410.80	921.79	1038546.08
2010-11	428.73	965.15	1105934.09

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2011-12	447.64	1011.69	1182757.64
2012-13	447.54	1061.40	1268763.67
2013-14	488.46	1114.29	1363700.54

Source: MSME Annual Report-2014-15

The high growth witnessed during 2008 on account of reclassification of MSMEs as per MSMED Act.2006.

The MSME sector in India is highly heterogeneous in terms of size of the enterprises, variety of products and service produced and technology employed .While one of the MSMEs sectors spectrum contains highly innovative and high growth enterprises more than 94% of MSME are unregistered with large number of established in the informal or unorganized sector .The sector has a high growth potential and perform a critical role in the manufacturing and value chains.

Table-1.2
Contribution of Manufacturing output of MSMEs in GDP

Year	Gross value of output of MSMEs, manufacturing sector (in crores)	Share of MSME sector in total GDP			Share of MSMEs manufacturing output in total manufacturing output
		Manufacturing sector	Service sector	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.24	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.33

Source: MSME Annual Report-2014-15

The state wise distribution of MSMEs shows that more than 55% of those enterprises are in six states, namely Uttarpradesh, Maharastra, Tamilnadu, West Benge, Andhrapradesh and Karnataka .Further about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorship or partnership.

Financing of MSMEs

Credit is the lifeline of any business and more so for business in MSME sector. Inadequate and non availability of timely credit have been age old problems being cited by MSMEs. The problems cited by MSME borrowers in accessing the institutional finance are insistence on collaterals /guarantees, limited outreach of banks, rigid approaches, high interest and other costs, complex documentation, lack of supporting business development services, etc. Very often, they also need assistance to prepare project reports and maintenance of accounts .For new venture capital or start up funding is mostly through friends and relatives and this is an area where the demand far exceeds the supply.MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:

- Retained earnings, funding through sale of assets
- Ancestral capital, personal savings, loans from relatives, loans from unregulated market
- Institutional financing from scheduled commercial banks
- Venture capital funds/ seed funds among the formal financial institutions, commercial banks constitute the largest source of financial assistance for the MSME sector at about 87% as of 31st March 2011. The outstanding MSE credit by SCBs recorded a strong growth of 34% in FY 2011 on a strong base of 3,62,291 crore INR as of 31st March 2010

Table-1.3
Outstanding Bank credit to MSME

Years	Public sector Bank	Private Sector Bank	Foreign Bank	All Scheduled Commercial Bank
2004-05	67,800	8592	6907	83498
2005-06	82,434 (21.4)	40421 (21.3)	8430 (22.1)	101285 (21.3)
2006-07	112550	13136	11637	127323

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	(24.4)	(26.1)	(38.0)	(25.7)
2007-08	151137 (47.4)	46912 (257.1)	15489 (133.1)	213538 (67.7)
2008-09	191408 (26.6)	46656 (0.0)	18063 (16.6)	256127 (19.91)
2009-10	228398 (45.4)	64534 (38.3)	21069 (16.67)	354012 (42.1)
2010-11	376625 (35.3)	87857 (36.1)	21461 (1.9)	485943 (33.5)
2011-12	396343 (5.24)	111514 (25.79)	21760 (1.05)	528617 (8.77)
2012-13	502459 (26.71)	154732 (40.01)	30020 (37.95)	687209 (30.00)
2013-14	615976 (22.59)	200138 (29.35)	30020 (0.01)	864135 (23.15)

Source: MSME Annual Report-2014-15. (Bracketed figures are in Percentage)

In the banking sector banks have been the dominant player in the credit dispensation to MSMEs .The outstanding credit to MSMEs for the last ten years is given in the above table no.1.3. The credit flows by all commercial bank showing a decreasing trend. The highest percentage of financing is found 67.7% in the financial year 207-08. The pattern of funding by all commercial banks to MSMEs sector is showing a fluctuating trend during the study period.

THE MAJOR CHALLENGES FACED BY INDIAN MSMEs SECTOR

.The following are the major challenges encountered by the MSMEs in India.

- Lack of access to global markets
- Dearth of easy finance and credit instruments.
- Limited regulatory policies.
- Unavailability of modern technology.
- Lack of infrastructural facilities.
- Absence of marketing platforms and distribution networks.
- Labour laws and availability of affordable skilled labour

- Lack of skilled manpower in manufacturing, services, marketing, etc
- Cost efficient procurement of raw materials;
- Problems of storage, designing, packaging and product display.

In order to encounter the above challenge the Priminister of India has recently lunch some boosting package which can rejuvenate the sector and the mission for startup India and stand up India will be achieved.

- The objective of compliance regime based on self certification is to reduce the regulatory burden on startups. This self-certification will apply to laws like payment of gratuity, contract labour, employee's provident fund, water and air pollution acts.
- A startup India hub will be created as a single point of contact for the entire startup ecosystem to enable knowledge exchange and access to funding.
- A startup will be to able to set up by just filling up a short form through a mobile app and online portal. A mobile app will be launched on April 1 through which startups can be registered in a day. There will also be a portal for clearances, approvals and registrations
- The government is also working on a legal support for fast-tracking patent examination at lower costs. It will promote awareness and adoption of Intellectual Property Rights (IPRs) by startups and help them protect and commercialise IPRs.
- In order to provide funding support to startups, the government will set up a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over four years. The fund would be managed by private professionals drawn from the industry while LIC will be a co-investor in the fund. The credit guarantee fund for start-ups would help flow of venture debt from the banking system to start-ups by standing guarantee against risks.
- A National Credit Guarantee Trust Company is being envisaged with a budgetary allocation of Rs 500 crore per year for the next four years.
- Currently, investments by venture capital funds in startups are exempt from this law. Now, the same is being extended to investments made by incubators in startups.
- Income tax exemption to startups announced for three years
- Tax exemption on investments above Fair Market Value
- Innovation core programs for students in 5 lakh schools. There will also be an annual incubator grand challenge to create world class incubators
- Atal Innovation Mission started to give an impetus to innovation and encourage the talent among the people

- PPP model being considered for 35 new incubators, 31 innovation centres at national institutes
- Government shall set up seven new research parks - six in IITs, one in IISc with an initial investment of Rs 100 crore each.
- Five new bio clusters, 50 new bio incubators, 150 technology transfer offices and 20 bio connect offices will be established.

SUGGESTION AND CONCLUSION

The study has been carried out to measure the performance of MSMEs in India for the period 2004-05 to 2013-14 based on four important performance variables like Total Factory units, Employment generation, Investments and production. The study reveals that there is an increasing pattern in the number of units, employment, investment and production. It is significant to note that there exists high degree of relationship between the total Factory units and Employment, and between production and Investment. The future of MSME sector is rosy .It can be conclude that MSME manufacturing and service sector will be constrained to meet the expectations of the planners in future years, as far as employment generations is concerned and MSMEs should made use of announcement made in MSMI Policy,2008on infrastructure support, direct catalytic subsidy ,technical support ,information and marketing support.

As regards to financing the MSMEs the study reveals that:-

- Banking and financial institutions are becoming very choosy to extend credit to MSMEs as most of the first generation units are becoming seek and fails to repay their debts.
- As maximum units are encountering series of impediments like financial, legal, operational, infrastructural and technological fronts. They could not able to compete with new generation Units.

The following suggestion in this regard may be incorporated.

- Technology should be adequately leveraged by the banks and financial intermediaries to cater to the needs of MSMEs.
- MSMEs should improve their book keeping and record management to enhance the confidence of the financial intermediaries.
- There should be revitalization of institutions, particularly the state level institutions such as District Industries Centers. Technical Consultancy Organization.

- In order to improve the competitiveness of MSMEs sector, the National Manufacturing Competitiveness Programme will have to be implemented in the right earnest with the co-operation of industries Associations, technical bodies and all other stake holders.
- In order to facilitate the access of MSMEs to the capital market there is need to promote a separate exchange exclusively for the sector.
- Eco-tourism may be promoted in the State through PPP mode by identifying potential destinations and developing the existing one.
- Infrastructure facilities especially uninterrupted power supply and last mile connectivity should be ensured for comprehensive development of the MSME sector.
- Packaged food cluster could be developed keeping in view the availability of particular food items in specific areas.
- An online platform containing information related to MSMEs products available in the respective State may be created for better marketing avenues.
- Single Window System for regulatory clearances may be covered under Public Service Guarantee Act of the respective state government. The grievances/ complaints redressal mechanism such as “Silpa Adalat” could be made more effective and dynamic.
- Mandated public procurement from MSMEs may be strictly enforced and monitored .
- Appropriate training modules should be developed by banks to create a pool of work force to handle cases related to MSMEs sector.

In order to ensure the sustained growth of MSMEs, sustained flow of affordable credit to this sector is required. A holistic approach needs to be followed that could address the demand and supply side issues of credit dispensation to MSMEs.

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