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Role Of Micro, Small And Medium Enterprises (MSMEs) And Its Economic Obstructions In India (A Case Study Of Micro, Small & Medium Enterprises In India)

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Abstract: *Globally, there is an increased recognition of the important role played by micro, small and medium enterprises (MSMEs) in the economic development of a country. Similarly, in the South Asia region, MSMEs is the main engine behind the economic growth. In particular, MSMEs are the biggest contributors to GDP, employment and plays a core role in the supply chain of large businesses. One of the major problem faced by MSMEs in South Asian countries is lack of finance to advance business growth. MSMEs are short of setup capital, liquid capital, working capital and investment capital to survive and grow in a dynamic and predatory competitive business environment. MSMEs heavily depend on the financial institutions such as banks, credit corporations and development banks for the supply of finance to meet their daily financial needs. Against this backdrop this paper will analyze the performance of MSMEs in recent decade and also examine the financial obstacles faced by MSMEs. In addition with this paper will provide some recommendations for change in government policy and regulation in assisting MSMEs.*

Keywords: *MSME in Manufacturing sector, Performance of MSME sector, Financial obstructions, Regulatory Policies and Recommendation.*

I. 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. MSMEs 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 & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth (Indian MSME report for 12th plan , 2012). MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The sector contributes significantly to manufacturing output, employment and exports of the country. In terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country (MSME report, 2010). It is estimated to employ about 60 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides maximum opportunities for both self-employment and wage-employment, outside agriculture sector. MSME sector contributes not only to higher rate of economic growth but also in building an inclusive and sustainable society in innumerable ways through creation of non-farm livelihood at low cost, balanced regional development, gender & social balance, environmentally sustainable development and to top it all, recession proofing of economic growth, which the sector has proven time and again. In this context this paper provides and delineate concerning the momentous role MSME in India. In the aforementioned background, it aims to rank the importance of each of the aforesaid financial obstacles to the owners/managers of MSMEs. The paper will also provide some important recommendations for owners/mangers of MSMEs and government policy makers so that the growth and survival of MSMEs in the manufacturing sector of India can be secured.

II. Literature Review

The issue of small business finance has been receiving increasing attention over the recent decade in the extant literature. There have been studies on various branches of small businesses: two of these branches are namely ‘financial management practices of small businesses’ and ‘implications of financial management strategies on the survival and growth of small businesses’ have been polarized by Berger and Udell (2002). Contemporary studies have tested the hypotheses for financial variables for other developing countries. There have been numerous studies that analyze the financial obstacles affecting the growth and survival of MSMEs. These studies are both quantitative and qualitative in nature.

In this section we will provide a brief overview of selected studies related to our study. This study underscored eleven financial obstacles that affect the survival of the MSMEs; namely, inability to obtain outside financing; insufficient capital; heavy operating expenses; poor money management; large losses due to crime; meeting the payroll; inability to obtain trade credit; insufficient profit; ability to meet financial obligations; health insurance costs and cost of workers' compensation. Thevaruban (2009) examined small scale industries and its financial problems in Sri Lanka. He underscored that MSMEs of small scale industries in Sri Lanka finds it extremely difficult to get outside credit because the cash inflow and savings of the MSMEs in the small scale sector is significantly low (Ganesan, 1982; Gunatilaka, 1997; Laxmi and Kumar, 1999; Balacchino.G, 1995) . Hence, bank and non bank financial institutions do not emphasize much on credit lending for the development of the MSMEs in the small scale sector in Sri Lanka.

III. Objectives of the study

The objectives for the study are set as follows:

1. To give an outline about the performance of MSMEs sector in India
2. To rank the importance of each of the aforesaid economic problems to the owners/managers of MSMEs.
3. To provide some important recommendations for owners/mangers of MSMEs and government policy makers so that the growth and survival of MSMEs in the manufacturing sector of India can be secured.

IV. Research Methodology

This study was designed to explore the performance of MSMES and financial obstacles facing MSMEs in the manufacturing sector of India. The definition of MSMEs varies from country to country (Abdullah, 2000; Bracker *et al*, 2006). Hence, firstly, it makes an attempt to about the basic definition of MSMEs. The Commonwealth Secretariat's definitions of MSME's for small states were used for tabulating and analysis the size distribution of the sample. In particular, businesses with investment (*TO*) of less than 25,00,000 ($TO \leq$ 25,00,000) were considered as micro, more than or equal to 25,00,000 to less than or equal to 5,00,00,000 (25,00,000 $\geq TO \leq$ 5,00,00,000) were tagged as small and more than or equal to 5,00,00,000 to less than or equal to 10,00,00,000 (5,00,00,000 $\geq TO \leq$ 10,00,00,000) were regarded as medium (Indian Micro, Small and Medium Enterprises (MSME) Development Act of 2006). After conducting the literature review, a self administered questionnaire was designed and delivered to the owners/mangers of MSMEs in the manufacturing sector of India. Self responsibility was taken in the delivery and assortment of the questionnaire because the response rate seems higher than it is for straight forward mail surveys (Bragg.S.M and Burton E.J, 2006; Chand.G, 2004; Blaikie, 2010). The owners/mangers were asked to use their experiences in their business to rate the questions on a five point Likert scale where (1) signified not important and (5) signified extremely important (Brace, 2008; Datta .D, 2010). The questionnaire was developed using the previous questionnaires developed by Lownes-Jackson (1997), Reynolds (1998) and Lownes-Jackson *et al*., (2003) for their studies.

The questionnaires used for these studies were further modified to reflect the India context. The questionnaire was pre-tested with 20 owners/managers of MSMEs. The owners/managers comments were gathered and the questions were revised accordingly. The revised version of the questionnaire was delivered to 300 owners/managers of MSMEs in India. Apparently, out of the 300 questionnaires distributed, 207 (69 per cent) owners/managers returned the questionnaires. Table 1 shows the sample distribution of the owner managers of the MSMEs. The demographic indicators considered were gender, social group, age and working experience. Out of the 207 owners/managers there were 164 (79.2%) males and 43 (20.8%) females. Of the 207 owners/managers to the social group item, 30 (14.5%) were Scheduled Castes, 148 (71.5%) were Scheduled tribes, 22 (10.6%) were Backward class and 7 (3.4%) were others. The distribution of the age item is as follows; 2 (1%) were less that 20 years, 51 (24.6%) were between 20-30 years of age, 59 (28.5%) were between 31-40 years and 95 (45.91%) were more than 40 years old. A vast majority of the owners/managers working experience concentrated between 5-10 years (77 owners/managers; 37.2%) followed by 11-15 years (57 owners/managers; 27.5%), less than 5 years (34 owners/managers; 16.4%), 16-20 years (28 owners/managers; 13.5%) and more than 21 years (11 owners/managers; 5.3%).

Table 1: Demographic Characteristics of the Owners/Managers

Demographic Characteristics	Demographic Variables	Micro Business (MB) N=67		Small Business (SB) N=69		Medium Enterprises (ME) N=71		Total N=207	
		No	%	No	%	No	%	No	%
Gender	Male	49	73.1	52	75.4	63	88.7	164	79.2
	Female	18	26.9	17	24.6	8	11.3	43	20.8
customs	Scheduled Caste	16	23.9	4	5.8	10	14.1	30	14.5

	Scheduled Tribes	36	53.7	65	94.2	47	66.2	148	71.5
	Backward class	10	14.9	0	0.0	12	16.9	22	10.6
	Others	5	7.5	0	0.0	2	2.8	7	3.4
Age	< 20 Years	0	0.0	0	0.0	2	2.8	2	1.0
	20 – 30 Years	15	22.4	6	8.7	30	42.3	51	24.6
	31 – 40 Years	24	35.8	9	13.0	26	36.6	59	28.5
	> 40 Years	28	41.8	54	78.3	13	18.3	95	45.9
Working Experience	< 5 Years	10	14.9	4	5.8	20	28.2	34	16.4
	5 – 10 Years	29	43.3	10	14.5	38	53.5	77	37.2
	11 – 15 Years	15	22.4	34	49.3	8	11.3	57	27.5
	16 – 20 Years	10	14.9	15	21.7	3	4.2	28	13.5
	> 21 Years	3	4.5	6	8.7	2	2.8	11	5.3

(Sources: Created by authors, 2011-12)

V. Micro, Small And Medium Enterprises (MSMEs) In India: An Appraisal

4.1 Definition of Micro, Small and Medium Enterprises: There exist several definitions of the term small and medium enterprises (SMEs), varying from country to country and varying between the sources reporting SME statistics (Shambhu Ghatak, 2010). The commonly used criteria at the international level to define SMEs are the number of employees, total net assets, sales and investment level. If employment is the criterion to define, then there exists variation in defining the upper and lower size limit of a SME. The European Union makes a general distinction between self-employment, micro, small and medium sized businesses based on the following criteria:

Number of employees	Nature of Business
0	Self-employed
2-9	Micro business
10-49	Small business
50-249	Medium-size business

Source: *Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development (2004), UNIDO and OECD.*

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Rs.2.5 Million/Rs.25 Lakh	Rs.1 Million/ Rs.10 Lakh
Small	Rs. 50 million/ Rs. 5 crore	Rs. 20 million/ Rs. 2 crore
Medium	Rs. 100 million/ Rs. 10 crore	Rs. 50 million/ Rs. 5 crore

* *Investment limit in Plant & Machinery* ** *Investment limit in equipments*

Source: *Annual Report, 2008-09. Ministry of Micro, Small and Medium Enterprises,* www.msme.gov.in

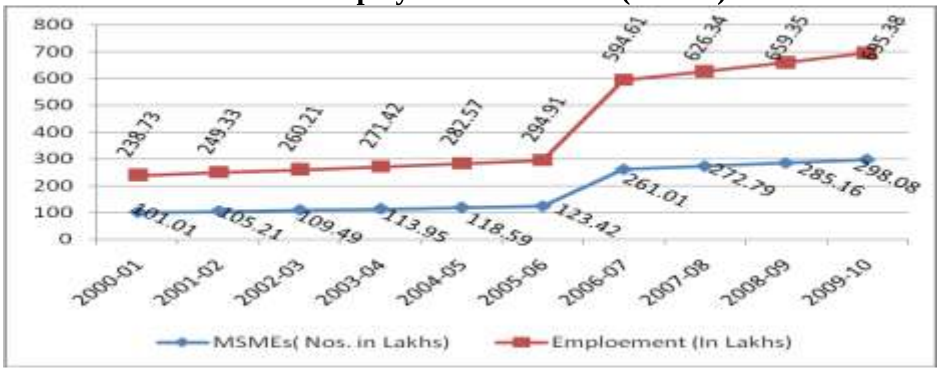
According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India) a micro enterprise is categorized MSMEs as shown as below, where the investment in plant and machinery does not exceed twenty five lakh rupees. A medium enterprise is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees. In the case of the enterprises engaged in providing or rendering of services, as (a) a micro enterprise is where the investment in equipment does not exceed ten lakh rupees. (b) a small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees. (c) a medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Before going further, it is important to mention some of the organizations that are associated with small-scale industry/ MSMEs: Small Industries Development Organization (SIDO), Small Scale Industries Board (SSIB), National Small Industries Corporation Ltd. (NSIC), Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), PHD Chamber of Commerce and Industry (PHDCCI), Associated Chamber of Commerce and Industry of India (ASSOCHAM), Federation of Indian Exporters Organization (FIEO), World Association for Small and Medium Enterprises (WASME), Federation of Associations of Small Industries of India (FASII), Consortium of Women Entrepreneurs of India (CWEI), Laghu Udyog Bharti (LUB), Indian Council of Small Industries (ICSI), Indian Institute of Entrepreneurship (IIE), National Institute of Small-Industry Extension Training (NISIET), National Backward Caste Finance

Development Corporation, National Institute for Entrepreneurship and Small Business Development (NIESBUD),Small Entrepreneurs Promotion and Training Institute (SEPTI), Small Industries Development Bank of India (SIDBI) etc. Graphical representation below indicates that the growth in nos. of MSMEs, fixed investment, production performance, employment generation and vertical wise plan allocation in 12th five year plan (2012-17):

4.2 Role of MSMEs and Employment Generation: The contribution of micro, small and medium enterprises (MSME) sector to manufacturing output, employment and exports of the country is quite significant. According to estimates, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country. There are more than 6000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs

Figure-1: Trends in the growth of Micro, Small and Medium Enterprises (MSMEs) and the Employment Generated (in lakh)

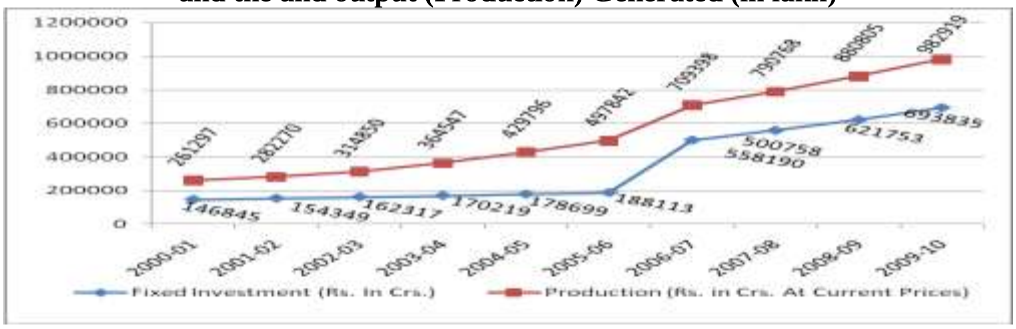


(Source: Annual Report of Ministry of MSME for the year 2010-11)

It can be deciphered from the above Fig.1 that the number of MSMEs has increased steadily in India from 101.01 lakhs in 2001-01to 298.08 lakhs in 2009-10. This could be possible due to the conducive policy environment during the liberalization era (post 1991). Similarly, number of persons employed in MSEs has risen from 238.73 lakhs in 2000-01 to 695.38 lakhs in 2009-10. The yawning gap between the two lines over the years indicates that employment elasticity of the MSE sector has improved. However, much of the labor absorption has taken place in the unorganized/ informal enterprises.

4.3 Role of MSMEs and Performance of output: According to estimates, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of India. There are more than 6000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs. It can be deciphered from the Fig.2, indicated below, that the Investment incurred in MSMEs over the period of last decade (from 2000-01 to 2009-10), the Investment of MSMEs has increased steadily in India from 146845 Crs. in 2000-01 to 693835 Crs. in 2009-10. This could be probable due to the expansion of the MSME Industry sector during the post liberalization era. Similarly, the output of MSME in India also in a significantly a positive trend during the past ten years. It has risen from 2612.97 lakhs in 2000-01 to 982.919 lakhs in 2009-10. The cavernous gap between the two lines over the years indicates that elasticity of Production in MSME sector has improved.

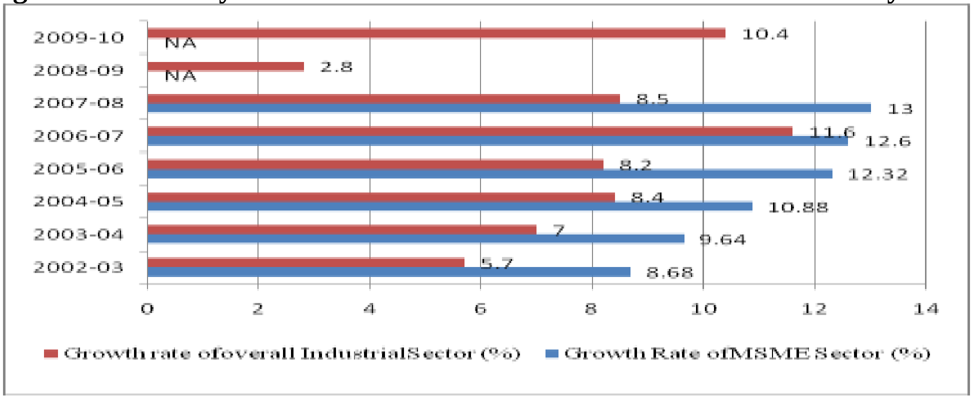
Figure-2: Trends in the Investment of Micro, Small and Medium Enterprises (MSMEs) and the and output (Production) Generated (in lakh)



(*Source: Annual Report of Ministry of MSME for the year 2010-11)*

4.4 Comparative growth rate of MSME sector to Industrial sector: MSME sector has consistently registered a higher growth rate than the overall growth of industrial sector as can be seen from the Fig.3 given below:

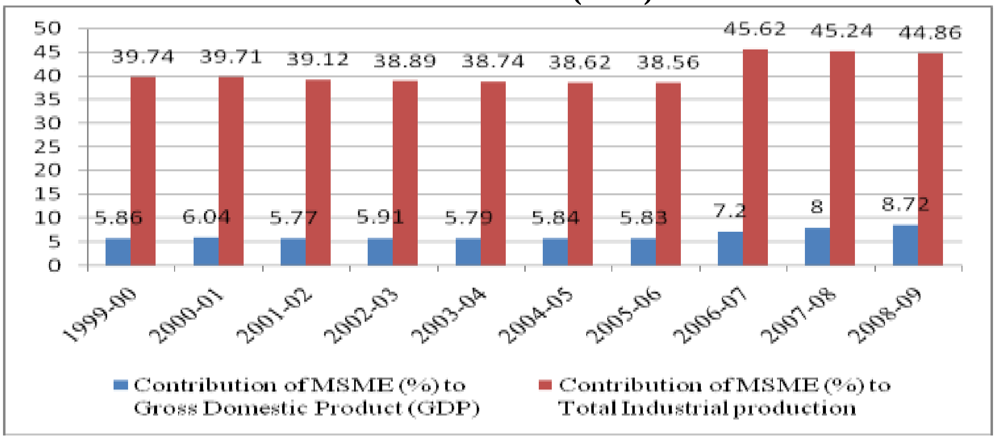
Figure-3: Tendency of Growth rate of MSMEs sector to Overall Industry sector



(*Source – Annual Report of Ministry of MSME for the year 2010-11)*

The above graphical representation (Fig.3**)** depicts that the comparative performance of MSMEs growth rate to overall industry sector during the period from 2002-03 to 2009-10. It can be deciphered that the growth rate of MSMEs has in increasing trend i.e. from 5.7 to 8.5% and it was increased steadily with some fluctuation during the period from 2007-08due to financial crisis. This could be possible due to the favorable policy environment during the liberalization era (post 1991). Similarly, the overall industry performance has risen from 5.7 % to 8.5 % over the period of study. The cavernous opening between the two appearances over the years indicates that performance elasticity of the MSE sector has improved.

Figure-4: Contribution of MSE sector (other than services) to the Gross Domestic Product (GDP)



Source – Annual Report of Ministry of MSME for the year 2010-11
**The data for the period up to 2005-06 is for Small Scale Industries (SSI)*

It can be witnessed from the above Fig.4 that the contribution of the MSE sector to overall industrial production has declined marginally from 39.74% in 1999-2000 to 38.57% in 2006-07. The contribution of the MSE sector to the gross domestic product (GDP) has increased from 5.86% in 1999-2000 to 5.94% in 2006-07. The greatest advantage of implementation of Umbrella Scheme under each vertical is the visibility of impact of implementation of such Schemes.

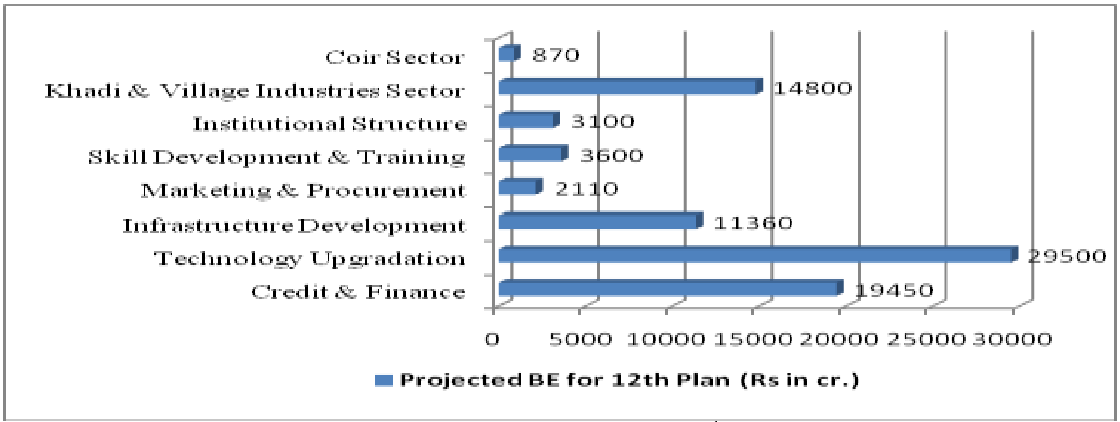
4.5 MSME future prospective: From the Fig. we depicts that the MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. According to a report of 12th Five Year Plan prepared by Ministry of MSME, New Delhi, the mainly concentrated on Technological up-gradation, credit finance, Khadi & Village Industries and infrastructure development.

Technology will be the foremost factor for enhancing the global competitiveness of Indian MSME Sector. Without infusion of appropriate technology, survival in the global market place would be a question mark for a large majority of micro & small enterprises and even the medium enterprises. It was suggested Rs.9500 crore as a total allocation for various schemes under Technology vertical during 12th Five Year Plan, of which Rs.5000 crore is proposed for Modified NMCP, Rs.4000 crore for Scheme for Technology Acquisition and Development including CLCSS and Rs.500 crore for Scheme for Promoting ICT Application.

The summary of the recommendations of the report under major verticals especially Credit is a crucial input for promoting growth of MSME sector, particularly the MSE sector, in view of its limited access to alternative sources of finance. It was recommended a total allocation of Rs.19450 crore for various schemes under Credit vertical during 12th Five Year Plan.

Khadi & Village Industries The broad targets for development of khadi and Village industries sector during the 12th Plan period are to achieve at least 11% growth in Khadi sector and 13% growth in Village Industries. In order to have a greater impact of interventions, thin spreading of resources has to be avoided. A number of schemes having apparently overlapping objectives were under implementation during XI five year plan. The report recommended that a total allocation of Rs.14800 crore for various interventions in Khadi & Village Industries sector during 12th Plan Period.

Figure-5: The vertical wise proposed plan allocation of MSME for 12th Five Year Plan



Source: Annual Report of Ministry of MSME for MSME growth for 12th Five year plan (2012-2017)

The Ministry of MSME has adopted the cluster approach as a key strategy for enhancing the technical and physical infrastructure as well as capacity building of micro & small enterprises and their collectives in the country. It launched a special scheme known as 'Integrated Technology Upgradation and Management Programme' (UPTECH) in 1998. In August 2003, the Scheme was renamed as Small Industry Clusters Development Programme (SICDP) and made broad-based by adopting holistic development encompassing soft interventions (viz. technology, marketing, exports & skill development) and hard interventions (viz. setting up of Common Facility Centre (CFC), etc.). The report recommended that a total allocation of Rs.11360 crore for various schemes under Infrastructure vertical during 12th Plan period, of which Rs.7500 crore is proposed for Establishing new & modifying existing Tool Rooms/ TDCs/CFTIs, Rs.1560 crore for Industrial Infrastructure Development Project Rs.1000 crore for Setting up new & up scaling existing Testing Centers / Testing Stations, Rs. 800 crore for MSE-Cluster Development Programme and Rs.500 crore for establishing Marketing Infrastructure for MSMEs under PPP mode.

VI. Basic Economic Obstructions Of Msmes In India

The mean scores are sub-divided according to the size of the business to get a broad understanding of how each of the financial obstacles affects the MSMEs in the manufacturing sector of India. It is an evident from the below Table 2 shows that factors with high mean values are foremost financial obstacles facing MSMEs. These financial obstacles are as follows: namely; inability to obtain external financing; inability to obtain internal financing; insufficient capital, start-up costs; expensive raw materials; high wholesale price; large losses due to scrap rate, sabotage, breakage and crime; decline in sales volume; bad debts and write offs; heavy equipment and maintenance costs; government tax, VAT and customs duty; payroll, rent and utilities; transportation and petrol costs; high interest rates on loans; ability to meet financial obligation; insurance costs and delay in account receivables payment. Financial obstacles which are of less significance to the owners/managers are heavy advertising and promotional costs; and training and development costs.

Table 2: Simple statistics of the financial obstacles facing owners/managers

	Financial Obstacles	Micro Business MB	Small Business SB	Medium Enterprise MB	Min	Max
F1	Liability to obtain external financing	4.83	4.91	4.77	1.00	5.0
F2	Inability to obtain internal financing	4.74	4.79	4.73	1.00	5.0
F3	Insufficient working capital	4.93	4.87	4.96	1.00	5.0
F4	Start-up costs	4.07	4.97	4.92	1.00	5.0
F5	Expensive raw materials	4.88	4.94	4.88	1.00	5.0
F6	High wholesale price	4.81	4.88	4.92	1.00	5.0
F7	Large losses due to scrap rate, breakage and crime	3.70	3.94	3.77	1.00	5.00
F8	Decline in sales volume	4.86	4.64	4.96	1.00	5.0
F9	Bad debts and written off	4.74	4.82	4.88	1.00	5.0
F1	Heavy equipment maintenance costs	3.93	4.48	4.81	1.00	5.0
F1	Government tax, VAT and customs duty	4.98	4.76	4.58	1.00	5.0
F1	Heavy advertising and promotional costs	2.09	2024	2.58	1.00	5.0
F1	Payroll, rent and amenities	4.09	4.97	4.77	1.00	5.0
F1	Transportation and petrol costs	4.02	4.78	4.92	1.00	5.0
F1	High interest rates on loans	4.86	4.76	4.88	1.00	5.0
F1	Ability to meet financial obligations	4.91	4.97	4.84	1.00	5.0
F1	Training and development costs	2.07	2.27	2.38	1.00	5.0
F1	Insurance costs	2.95	3.27	3.81	1.00	5.0
F1	Delays in account receivables payment	4.98	4.88	4.69	1.00	5.0

5.1 Analysis and Discussion: During the start-up stage of a MSME, the owners/managers will have to depend on both formal and informal channels of financing (Bianchi and Bivona, 2000). MSMEs are faced with heavy start-up costs (MB=4.07; SB=4.97; ME=4.92) because they need to secure enough finance for purchase of assets and meeting daily operational expenses (Narayan P.K. and Prasad B.C., 2003; Levy *et al.*, 1999). This outcome is clearly evident with the high rating for expensive raw materials (MB=4.88; SB=4.94; ME=4.88), high wholesale price (MB=4.81; SB=4.88; ME=4.92), payroll rent and utilities (MB=4.09; SB=4.97; ME=4.77) and transportation and payroll costs (MB=4.02; SB=4.78; ME=4.92). Notably, the need for finance by the MSMEs fluctuates due to the MSMEs age of maturity in the pecuniary life cycle (Read, 1998; Organization for Economic Cooperation and Development, 1999). Owners/managers of MSMEs will distinctively rely on internal and external sources of funds to finance their businesses (Baron and Shane, 2008; Yusuf.A., 1995). MSMEs in the manufacturing sector of India find that debt financing is necessary. Particularly, internal sources of finance for the owners/managers of MSMEs include personal savings and borrowings from family and friends. When the internal financing is insufficient then the owners/managers of MSMEs will resort to external sources of funds. The external sources of financing for owners/managers in the manufacturing sector of India include banks, business suppliers and asset based lenders. Essentially, it is difficult for the owners/managers in the manufacturing sector of India to secure loan as banks and other commercial lenders are charging high interest rates on MSME loans. Table 3 shows interest rates on MSME loans provided by banks in India.

Table 3: Interest Rates on MSME loans Provided by Banks in India

Bank	Type of MSME Loan	Limits	Interest Rate on MSME loans p.a.
ANZ India	MSME loans	-	10.95%
EDB	Micro Credit Scheme	-	6.5%
	Agri. Finance Scheme	-	7.5%
	Focus sector loans < $50,000	<$50,000	8.6% - 9.6%
	• Micro loans and SME loans in: • Wholesale, retail, hotels &	-	8.6% - 9.6%
Westpac Banking	MSME loans	-	9.99%
Baroda	Commercial loans	$50,000 - 200000	10%
		<$50,000	11%

(Source: Interview with loan officers, 2011)

The above Table 3 shows that ANZ is charging 10.95% on MSME loans, Westpac Banking Corporation is charging 9.99%, Baroda is charging 10% to 11% and FDB has various schemes for MSMEs and it charges interest according to each of the schemes. The high responses for interest rates on loans from the owners/managers are clearly evident of the financial obstacles that the manufacturing sector is currently facing ((MB=4.86; SB=4.76; ME=4.88).

In 2009, India's economy contracted by an estimate of 2.5% (Government of India Islands, 2010). Apparently, a contraction in the economy has resulted in declining ability of the MSME to obtain internal (MB=4.74; SB=4.79; ME=4.73) and external (MB=4.83; SB=4.91; ME=4.77) financing, diminishing sales volume (MB=4.86; SB=4.64; ME=4.96), insufficient working capital (MB=4.93; SB=4.87; ME=4.96), increase in bad debts and write offs (MB=4.74; SB=4.82; ME=4.88), delays in accounts receivables payments (MB=4.98; SB=4.88; ME=4.69) and declining debt to equity ratio (MB=4.91; SB=4.97; ME=4.84).

Government financial regulation on MSMEs has significantly disadvantaged the MSMEs as compared to its large counterparts. Specifically, the financial regulations imposed on MSMEs such as government tax, VAT and customs duty has various implications on the success and survival of small business. More importantly, government has provided enormous tax breaks to large employers who operate in tax free jurisdictions- tax free zones. Owners/managers of MSMEs in the manufacturing sector of India usually have the political clout to enjoy such tax free advantages however, the idea of MSMEs tax free zones have not yet been implemented in India. Currently, the owners/managers of the manufacturing sector are charged 31% income tax on their profits and 12.5% VAT and particularly in 2011 the VAT charges will increase to 15% (Interview with Taxation Officer, 2010). This is clearly evident from high rating for responses for government income tax, VAT and customs duty from owners/mangers from the manufacturing sector of India (MB=4.98; SB=4.96; ME=4.58).

MSMEs in the manufacturing sector of India are handicapped with low echelon of process automation and elevated cost of importing better technology. The imported technologies and the software solutions are not customized and further the cost of customization is exorbitant. More importantly, the maintenance is expensive and time consuming. In particular, the manufacturing sector in India is also faced with large losses due to scrap rate, sabotage, breakage and crime. Simultaneously, the MSMEs have to develop an insurance plan for their business. MSMEs in the manufacturing sector of India often insure for property and liability insurance. Of greater significance is the fact that having a property and liability insurance cover for MSMEs helps in securing good customers. This is clearly evident from high responses from owners/managers for heavy equipment and maintenance costs (MB=3.93; SB=4.48; ME=4.81), large losses due to scrap rate, sabotage, breakage and crime (MB=3.70; SB=3.94; ME=3.77) and insurance costs (MB=2.95; SB=3.27; ME=3.81). Apparently, the low means for heavy advertising and promotional costs (MB=2.09; SB=2.24; ME=2.58) and training and development costs (MB=2.07; SB=2.28; ME=2.38) indicate that MSMEs primary goal is to survive in contracting economic environment of India.

VII. Recommendations

6.1 Minimum Government Regulation and tax: Notably, one of the serious complaints from MSME owners/managers is the impact of regulation on MSMEs and particularly the disproportionate impact of government regulations on MSMEs in India. The disproportionate impact of the government regulation and taxation system hinders the growth and survival of MSMEs in India and might otherwise drive out some of these MSMEs who make substantial contribution to the economy (Price, 1999; Pinson and Jinnett, 2006). Essentially, from the public policy perspective, both the direct cost of regulation and the cost of compliance of the regulation should be reduced. On 1st of January, 2006 the income tax incentive scheme was introduced by the government to support the establishment of MSMEs in sectors namely; agriculture, fishing projects, supportive projects to tourism industry, tourism projects and social services. This tax incentive scheme required that the income derived from agriculture, fisheries or tourism activities of the relevant SMEs that have gross sales not exceeding $300,000 per annum is exempt from tax. This tax incentive scheme should be expanded to include other industries such as wearing apparel, jewellery, bakery and logging (India Islands Revenue and Customs Authority, 2010).

6.2. Better Access to Finance: Importantly, commercial markets work extremely well in providing financial services to the MSMEs. Apart from the obvious banking services, more specialist services such as term loans, factoring, invoice financing, leasing and venture capital are offered by firms which rigorously compete with each other to maximize their profits. Also part of this competition, MSMEs find it difficult to compete with its large counterparts and access the services on offer. This constrains their growth and survival. It is essential for policy makers to recognize that there need to be cohesive and precise public policy targeted for MSMEs that will ensure that MSMEs are well protected in this dynamic and competitive environment. This recognizes the need for extensive range of diverse and well targeted programmes such as loan guarantee programmes; regulating the interest rate charged on MSME loans by the commercial markets; establishment of well established venture capital market; establishment of markets for private placements and initial public offerings of varying sizes; government sponsored programs for delivering credit and equity funds of small business units; creating good awareness on the financial programs available to small businesses; and ensuring that MSMEs keep proper financial records.

6.3. Proper Cash and Credit Management Practices: MSME owners/managers need to realize that the real success of the business is based on their ability to keep close control over cash flows, avoiding holding excessive stocks and collecting debts on time. Many MSMEs in India have failed because the owners/managers focused more on technical matters and forgot about cash flows. MSMEs still believe that delivering a quality service ensures timely payment however, owners and managers of MSMEs in India need to recognize that they need to do something positive to ensure timely payment from debtors. Owners/managers of MSMEs have to ensure that they send timely invoices to their customers.

Overdue credit accounts avert further sales to the slow paying customer. This overdue account ties up seller's working capital and can also lead to losses from bad debts. There are four key items which the MSMEs need to tightly manage i.e annual profit growth percentage, to equal or exceed sales growth percentage; cash flow effectiveness to minimize external debt; efficient use of assets that is as slim as possible to achieve sales; and interest avoidance since the cost is a drain in profits.

VIII. Conclusion

This study analyzed the importance of nineteen financial obstacles facing owners/managers of MSMEs. Financial obstacles of great concern to owners/mangers of MSMEs are as follows: namely; inability to obtain external financing; inability to obtain internal financing; insufficient capital, start-up costs; expensive raw materials; high wholesale price; large losses due to scrap rate, sabotage, breakage and crime; decline in sales volume; bad debts and write offs; heavy equipment and maintenance costs; government tax, VAT and customs duty; payroll, rent and utilities; transportation and petrol costs; high interest rates on loans; ability to meet financial obligation; insurance costs and delay in account receivables payment. Financial obstacles which are of less significance to the owners/managers are heavy advertising and promotional costs; and training and development costs. It is envisaged that this research will provide an explicit picture to both the academic and policy community in regards to the financial obstacles faced by owners/managers of MSMEs. It should assist the policy makers in designing and implementing specific and well targeted policies for the overall benefit of MSMEs.

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