

# A Study of Problems and Prospects of MSMEs In Uttar Pradesh

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## **Abstract -**

This study aims to investigate the challenges and potential opportunities faced by Micro, Small, and Medium Enterprises (MSMEs) in the state of Uttar Pradesh, India. MSMEs play a vital role in economic growth, employment generation, and regional development. However, they often encounter various obstacles that hinder their growth and sustainability.

The study begins with a comprehensive literature review, exploring the theoretical foundations and existing research on MSMEs, their significance, and the specific issues faced by them. It then proceeds to collect primary data through interviews, surveys, and focus group discussions with MSME owners, industry experts, policymakers, and other relevant stakeholders. The qualitative data is subjected to thematic analysis.

The findings of this study reveal several significant problems faced by MSMEs in Uttar Pradesh, including limited access to finance, bureaucratic hurdles, inadequate infrastructure, high operational costs, skill gaps among the workforce, and difficulties in technology adoption. Moreover, issues related to marketing, supply chain management, and competition are also identified as critical challenges. These factors contribute to the vulnerability and low competitiveness of MSMEs in the state.

## **I. INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in driving economic growth, fostering innovation, and generating employment opportunities globally. In the Indian context, MSMEs have emerged as a significant contributor to the country's economy, accounting for a substantial share of industrial output and employment. Uttar Pradesh, one of India's largest states, is home to a vast number of MSMEs, making a vital contribution to the state's economy and employment landscape.

However, despite their significance, MSMEs face numerous challenges that hinder their growth and sustainability. Understanding these problems and exploring potential prospects is crucial for devising effective policies and interventions to support and enhance the MSME sector. This study aims to investigate the problems and prospects of MSMEs in Uttar Pradesh, shedding light on the unique challenges they face and identifying opportunities for their growth and development.

The problems encountered by MSMEs in Uttar Pradesh are multifaceted and interconnected. Limited access to finance is a pervasive issue, with MSMEs struggling to secure adequate credit and investment for their operations and expansion. Bureaucratic hurdles, including complex regulatory frameworks and cumbersome licensing processes, pose additional obstacles. Insufficient infrastructure, such as inadequate transportation facilities and power supply, adds to the operational challenges faced by MSMEs in the state. High operational costs, including raw material procurement, labor, and energy expenses, further impede their competitiveness.

Moreover, skill gaps among the workforce, especially in emerging technologies and specialized areas, limit the ability of MSMEs to adopt and leverage innovative practices. Difficulties in technology adoption and upgradation hinder productivity and restrict their ability to compete in the dynamic market environment. Additionally, MSMEs often face challenges in marketing their products and services, establishing strong supply chains, and competing with larger enterprises.

However, despite these challenges, there exist prospects and potential opportunities for MSMEs in Uttar Pradesh. The state government has implemented various policies and initiatives to promote MSME growth, such as providing financial incentives, facilitating ease of doing business, and creating industrial clusters.

The presence of a large consumer market and favorable demographic factors offer a potential customer base and opportunities for expansion. Collaboration, networking, and skill development programs can also contribute to enhancing the competitiveness and prospects of MSMEs.

By conducting an in-depth analysis of the problems and prospects faced by MSMEs in Uttar Pradesh, this study aims to provide valuable insights for policymakers, industry associations, financial institutions, and MSME owners themselves. The findings and recommendations of this research can inform the development of targeted policies and interventions that address the identified challenges and capitalize on the prospects. Ultimately, fostering a conducive environment for MSME growth in Uttar Pradesh will not only empower these enterprises but also contribute to employment generation, regional development, and overall economic progress in the state.

## **2.0.LITERATURE REVIEW**

A review of literature reveals several research papers that emphasize the significance of Micro, Small, and Medium Enterprises (MSMEs) in terms of workforce engagement and reducing economic disparities at both the national and state levels.

**Fredland & Morris, (1976); DiPietro & Sawhney, (1977)** Small and medium enterprises faces several problems related to inadequate access to institutional credit which leads to high finance cost.

**Timmons,(1978); Keasey & Watson, (1993);Storey, (1994)** Small enterprises has high failure rate, no collateral security offer, less creditworthiness, high administrative cost, inadequate credit history, not suitable risk management and lack of information system with financial institution of MSMEs which demotivates to give credit. In comparison to large business, small businesses needs more credit and they has higher propensity to fail also.

**Murthy, (1980); Yadev, Vinod Kumar, (2013)** Small and medium enterprises faces the problem of lending, financing and marketing problem. SMEs are not following the definite capital structure. Enterprises are not having the adequate finance. Enterprises in rural are unable to access credit from financial institutions. Owners of these enterprises do not have financial leverage knowledge. Micro enterprises rely on external sources. Small scale enterprises are not maintaining the adequate financial records also.

**Berger & Udell (1998, 2002); Radelet and Sachs (2001); Bracker et al. (2006); Mandal et al. (2008); Zeffane & Zarooni, (2008); Thevaruban, (2009); Rahaman,(2011)** researchers found that an inadequate financial resource is the main problem of SMEs which creates hurdles in the growth and development of MSMEs. MSMEs can obtain debt with the sufficient level of collateral. MSMEs owners should follow financial management practices then financial institutions can lend loan to them.

**Berger and Udell, (1998)** Policies affects the funding and creditworthy of MSMEs in both developed and developing nations. Credit availability affects the micro, small and medium enterprises of any country. In US, smaller SMEs rely on internal source of finance i.e. personal savings, angel finance, and trade credit for the initial level of capital. This is because of narrow accessibility to small level business in the market.

**Berger & Udell, (2002)** Researchers found that there have being huge reduction in the credit facilities provided to micro, small and medium enterprises.

**Van Horne, (1986);Davidson and Dutia, (1991), Sushama Rani Verma (2010)** Turnover, Profitability, Liquidity debt and solvency determines the financial features of SMEs. In small enterprises inadequate finance leads to bankruptcy. Small enterprises have low profitability as they maintain liquid assets.

**Agarwal, (1987)** Wrong selection of location, under estimation of cost of capital, demand over estimation, not timely implementation of project, inadequate financial management and cost control and managerial insufficiency, inadequate finance and working capital, weak collection of bill receivables, weak management of funds are some of the problems of small industries.

**Gangwal, (1990)** Shortage of liquid assets, not satisfactory debt equity ratio, delayed payment to suppliers, problems in payment of instalments are some of the financial problems of MSMEs.

**Bradford Jane, (1993)** Researchers found that low ability to provide collateral for loan, lack of financial expertise, inadequate management skills, undercapitalized, lack of knowledge of management of cash flow, dependent on local market and restricted customers are the problems which MSMEs faces.

**Inang and Ukpong, (1993); Essien (2001); Akinyosoye (2006)** Investors are unable to access long term credit and they lack accurate information. MSMEs faces the financial problems like investors has inadequate access to long run credit, detailed information are not available to investors and decreases the pre-investment cost which is high.

**Yusuf, (1995)** Inadequate finance facility of financial institutions and non-financial institutions towards MSMEs also hinders the survival of MSMEs.

**International Finance Corporation, (2000)** Capital is needed for companies so that they can meet the requirement of fixed and variable cost. Many companies face the difficulty of inadequate capital in establishing and operating firm so they have to borrow the money. The dependence on debt depends on size of firms. If firm is small there will be more debt dependency. As a primary source of early and growth stage micro enterprises is dependent on debt. Services related small firms have the tendency of transacting in cash and keeping less records. Manufacturing enterprises and order-driven services requires more money as they have longer working capital cycle and more capital expenditure.

**Ramachandra, (2001)** Sick enterprises can be revive by providing suitable technology, training relating to management, skilled labour, promotion of export and all this is possible with sufficient finance. The financial institutions should disburse the sufficient amount to SMEs which promotes them. There is a need of awareness of credit availability and various schemes of SMEs.

**Baughn & Neupert, (2003)** Entrepreneurs depends on financial assistance from friends and family which offer unreliable credit source. Financial challenges faced by African MSMEs are unable to exploit entrepreneurial opportunities. Many micro, small and medium enterprises are excluded from formal financial system which adversely affects the entrepreneurship growth in Africa.

**Bruton et al., (2005); Bastiea et al. (2016)** According to Bruton et al. in year 2005, founds that African entrepreneurs are unable to access affordable credit. According to Bastiea et al. in year 2016 states that financial availability decides the firm market entry.

**Fumo & Jabbour, (2011); Rao & Ganesh, (2011)** In year 2011 Fumo & Jabbour found that Micro and Small enterprises are mostly affected by financial and competitive barriers which creates problem in the development of a Nation. Inability to obtain external finance, internal finance, not sufficient capital, start up costs, high price of raw materials, high whole sale price are the various financial problems of MSMEs. According to research done by Rao & Ganesh in year 2011 founds that lack of bank credit is the major problem of micro enterprises. Banks are not willing to provide credit to women, unable to provide security and margin money tight schedule of repayment are various problem of enterprises. The major reason of not getting credit are inadequate information about credit and security.

**Malhotra., et. al. (2007)** Small firms face difficulties like inadequate access to financial services, distortion of financial sector policy, inadequate bank knowledge, inadequate audited financial statements, high risk associated to SMEs lending.

**Sia, Manuel & Donna Nails, (2008)** The micro and small entrepreneurs has small capital base, they are dependent on personal savings, loan taken by friends and relatives. In the developing countries in the phase of startup, entrepreneurs are dependent on informal source of funding and experiences the basic problems i.e mismanagement in cash flow.

**Dasanayaka, (2009)** Finance affects the growth of small and medium enterprises. Suffering from financial problem leads to weak production facilities, use of outdated technology, lack of quality control, inadequate market orientation and which leads to low profitability. Finance problem can be divided into four broad categories 1) finance is not available by banks 2) Loan accessibility problem 3) cost of borrowings is high, 4) mismanagement of finance. Sufficient finance should be available on time for the survival and growth of the enterprises. MSMEs capital base is normally weak as initial investment is done through own fund or loan taken from friends and relatives.

**Mawoli & Alivu, (2010)** MSMEs face problem in raising funds from capital and money market both. Loans are provided by commercial bank base on the availability of collateral security, risk level, performance of previous years. Commercial banks provide loan at high interest. In Nigeria, small and medium enterprises are provided less than one percent of total capital required by them.

**Yesseleva, (2010)** Majority of entrepreneurs are not satisfied with the services provided by financial institution. Because of high cost, entrepreneurs are not switching from financial institutions.

**Yartey, (2011)** MSMEs is facing universal problem of inadequate finance. The stakeholders of manufacturing sectors of MSMEs are facing the problem of inadequate access of internal and external source of finance, not favourable conditions of market and weak tax regime.

**Naidu & Chand, (2011)** Micro, Small and Medium Enterprises faces the various challenges like inadequate collateral, poor preparation of accounts, poor cash management, unable to obtain internal and external finance, inadequate capital and high cost of startup.

**Rao & Ganesh, (2011)** Banks do not provide credit to women entrepreneurs because women are unable to provide adequate security, strict repayment money are some of the problems of MSMEs sector.

**Fumo and Jabbour, (2011)** Researchers found that MSMEs are unable to obtain external finance, huge losses due to crime, unable to obtain trade credit, weak money management, inadequate profit, high health insurance cost and workers compensation cost. Financial and competitive barriers are likely to be most affected in micro and small enterprises for their growth and development.

**Chancharat , (2011)** Business organization fails because of poor management, poor cash flow management, deficit in accounting, not suitable finance source, dependent on suppliers or customers, weak research, marketing and overtrading, fraud. Business fails also due to external factors like suppliers or customers bankruptcy, environmental protection, international development.

**Joshi, (2011); Arun & Kamath (2015)** There are three problems access to market, credit and capital which are faced by micro, small and medium enterprises. Inadequate suitability among funds accessed by the SMEs. There is no systematic approach to MSMEs, transaction cost is high, procedure of granting loan is lengthy but at the end loan disbursement is small amount. Inadequate access to formal source of funds and non-availability of full information. Rate of interest for investment and working capital is quite high. Many MSMEs lacks transparency, inadequate financial and managerial capabilities.

**Sandhu, Hussain & Matlay, (2012)** Women entrepreneurs have low risk taking ability. Women entrepreneurs commence business with low level of capitalization and debt finance and does not utilize private equity for the sustainability of business. Women are not involved in banking activities due to illiteracy and cumbersome procedure of bank. Banks are not interested in providing loan because of low credit worthiness, high interest rates, non existence of past history of credit, credit bearing capacity is low, not healthy relationship with banks for availing bank loans. Women entrepreneurs do not have the knowledge of financial assistance i.e incentives, subsidies, tax relief etc. which leads to business failure. Women entrepreneurs are dependent on small personal savings, loan taken by family, friends which are not enough for sustainability of business.

**Aldaba, (2012)** Firms has to borrow because of lack of collateral requirement and takes long duration in processing loan application. Micro, small and medium enterprises finds loan restructuring problematic, short period of repayment. Financial institutions charge high interest charge and inadequate fund for start-up, inadequate access to venture capital funds. Financial institutions treat MSMEs as high risk borrowers. Bank thinks that MSMEs lacks the financial management capacity.

**Rao & Apparao, (2012)** The major financial problems of MSMEs owner are unable to obtain internal and external finance, high cost of start-up, not sufficient capital, costly raw material, huge losses due to scrap rate, crime, decrease in sales, write offs and bad debts, high cost of equipment, high government tax, high cost of transportation and petrol, high rate of interest on loans, high cost of insurance and payment delay of account receivables.

**Mehta, (2013)** The various problems of MSMEs are inadequate finance, capital and limited knowledge, high cost of credit, inadequate skilled manpower and inaccessibility to global markets.

**Tauringana & Afrifa, (2013)** Working capital management is the major challenge for micro and small enterprises.

**Tambi, (2013)** Repayment problem is more serious than availability of finance. The procedure of repayment of financial liabilities are stressful and are not encouraging because of low sales and paying capacity.

**Vijayakumar & Naresh, (2013)** The problem of finance is related to inadequate finance, difficulties arises in getting credit from bank, low capacity of bearing risk, unable to expand due to inadequate capital, problem in capital for expansion, unawareness of suitable source of finance, inadequate collateral security, cumbersome procedure for availing loan. Women entrepreneurs suffer from lack of financial resources. Entrepreneurs are not able to avail loan due to low credit-worthiness and lack of collateral and bank balance.



**Bose, (2013)** They are performing task with inadequate capital. These enterprises depends on owners capital and business revenue. There are various issues like low technology, inadequate product variants and unable to increase manpower etc. These issues cannot be solved without sufficient credit. With sufficient credit enterprises can invest in distribution network, building brand, technical knowledge, research and development. These suppliers face the problem of realisation of payments for product and services. In the absence of credit, enterprises are unable to expand operations and if there is inadequate working capital then existing operations cannot be perform well.

**U.B. Singh and N.K. Mishra (august 2013)** shows in their research paper that MSMEs are very important to involvement of workforce and reduced economical imbalance not only country level but also within state.

**Kumar & Kumar, (2014)** Small and women entrepreneurs face the problem of lack of financial resources and working capital. They have inadequate external funds because of lack of collateral security and credit in the market. Women are not having properties on their name that's why they lack security for availing loan. Women do not understand the difficult and complicated formalities of bank loans, time taking process in obtaining loans and huge transaction cost involved makes women difficult in getting loans and in becoming successful entrepreneurs.

**Jain & Jain, (2014)** Finance is treated as life blood of any type of business organization irrespective of big or small. Women entrepreneurs faces problem of lack of fund in two ways firstly, women does not carry name in the property so that it cannot be used as collateral for procuring funds. Women have limited access to external source of funds. Secondly, Banks and financial institutions treat women less credit worthy and a bank assumes that women borrowers can leave the business organization any time. Women rely more on friends and relatives, personal savings which is quite inadequate. Due to these reasons and because of lack of funds women entrepreneurs fail to become successful entrepreneurs.

**Dhameja & Yadav, (2015)** Inadequate working capital is the main financial problem of women oriented enterprises.

**Siddiqui, (2015)** The various problems of financing are high credit cost, insufficient working capital, unable to recover money from debtors, adequate and timely credit is not available, lack of collateral requirement. For availing loan paper work is excessive used in financial institutions.

**Noorinasab, Seifabad & Zarei, (2016)** Entrepreneurs face problems like for startup how to raise capital, inadequate fund. Many entrepreneurs are unable to access external funds because of inadequate security and credit in market. The process of loan availing facility is time consuming .Other problems is decrease in profit because of competition, financial statements are not properly maintained by entrepreneurs of MSMEs, inadequate guarantees for raising loans, through equity problem in raising capital, dependent on money lenders for loans which are high cost.

**Siddiqui, (2018)** During early growth stages micro, small and medium enterprises need timely and sufficient capital. MSMEs rely on various sources of finance. Various financial problems are inadequate and non-timely credit, limited knowledge and capital, collateral security requirement, not sufficient working capital, recovery from debtors, for availing loan from financial institutions excessive paper work is required.

**MS Jyoti Sharma and MS Guneet Gill (2016)** in this paper an attempt has been made to see the contribution of MSMEs to the Indian economy. In the contribution of MSMEs, the focus has been on GDP manufacturing output and production.

**U.B. Singh (2019)** Clearfield by his researches that growth of MSMEs in terms of units and volume solves the problem of workforce as well economic growth of country and state.

**S. Tripathy and T. Bisoyi (2021)** worked and analyses by their survey conducted on MSMEs by the All-India Manufacturers Organization confirmed that the self-employed MSME units, predominantly 35% of MSMEs sector.

**D.K. Nema, P. Survanvanshi and T.L. Verma (2021)** this article focuses on over changing the definition of MSMEs, in this article the definition changing tool is highlighted.

In summary, these research papers collectively emphasize the critical role of MSMEs in fostering workforce engagement, reducing economic disparities, and contributing to the overall economic development of countries and states. Additionally, they shed light on specific aspects such as the contribution of MSMEs to key economic indicators, the prevalence of self-employment within the sector, and the evolving definition of MSMEs.

### III. Methods

#### 3.0 Research Methodology

##### 3.1 Research design

The researcher has organized all the research activities in a way that only focus on achieving research objectives. The current study is a study of problems and prospects of micro , small and medium enterprises in Uttar Pradesh. This study is based on descriptive and experimental research and is also based on secondary data what government has analyzed about the problems and prospects of MSMEs in Uttar Pradesh .

**Primary Data :** The structure of this research study is an analysis based on baseline data collected by questionnaire. Respondents are selected on the basis of purposive sampling. The research design has enabled the researcher to provide an appropriate way of conducting research activities. To conduct the study, 30 people were selected purposively. To gather the information a questionnaire is used. Questionnaire have been made as beneficial to the people that easily they can answer the question and it is divided in part to know the problems and prospects of MSMEs:

- 1- Problems details
- 2- Prospects details

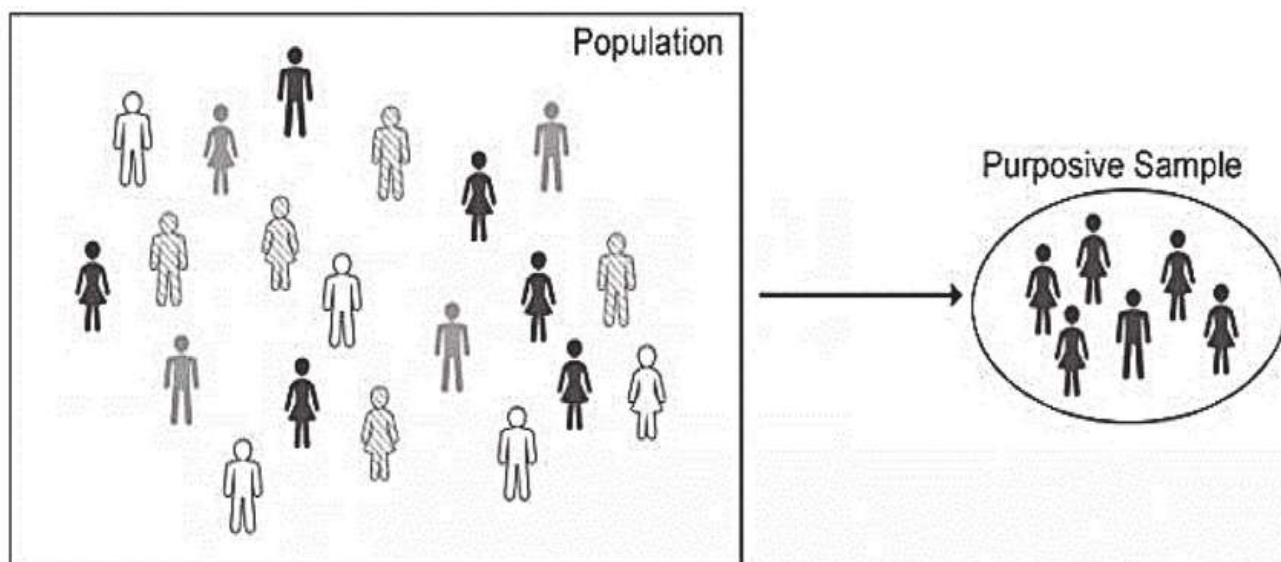
In the present study various analytical tools are used depending on the type, need and suitability of available data. Different tests are used in the data collected to determine the key outcome and the results, findings, recommendations, limitation and future scope of the study also discussed. • Purposive sampling method: The sample will be selected by purposive sampling method, as the persons engage in an enterprises. For the data collection a questionnaire is created and distributed in the audience and request to fill without any biasness (no scientific method of sampling is used). The information is collected from different region. Sample size will be sufficient to get the information required for the objective of research.

The **primary data** collection method have been also used in this research is the survey method. Primary data is known as first-hand information in order to find out the solution of a specific problem.

Primary data is collected from its primary sources i.e., source of its origin, where the data is generated. It is first time collected by its investigator for statistical analysis. Each participant asks to fill the questionnaire and, the questionnaire has filled through the Google form. (The data collected by questionnaire is based on purposive sampling where the selected persons are having an enterprise and there views are collected in the data to know the problems of MSMEs and different benefits provided by government whether they have get any benefits or not).

The **questionnaire** is also used in the research for data collection. The questionnaire method can be used for collecting data about opinions, behaviours and attributes for descriptive or explanatory research. In this research paper, the questionnaire is self-administered which is completed by the respondents. Furthermore, the types of data variables that are collected through questionnaires are opinion variables and behavioral variables. The questionnaire is constructed with list questions, category questions, and rating questions.

#### SAMPLING TECHNIQUE



### Purposive sampling

Purposive sampling is a non-probability method for obtaining a sample where researchers use their expertise to choose specific participants that will help the study meet its goals. These subjects have particular characteristics that the researchers need to evaluate their research question. In other words, the researchers pick the participants “on purpose.”

### Secondary Data :

For the purpose of this study, a comprehensive range of secondary data sources has been utilized to collect relevant information. The data collection process involved the examination and analysis of various published reports and documents. The following secondary sources have been consulted:

1. **Annual Reports of the Ministry of MSMEs:** The annual reports provide valuable insights into the policies, initiatives, and performance of the MSME sector in Uttar Pradesh. These reports offer information on government programs, schemes, and the overall state of MSMEs in the region.
2. **Data Published by the Central Statistics Office and the Ministry of Statistics and Program Implementation:** The data published by these government bodies offers statistical information on various aspects related to MSMEs, including employment, production, exports, and financial indicators. These datasets provide a comprehensive overview of the MSME landscape in Uttar Pradesh.
3. **Reports Released by the Reserve Bank of India (RBI):** The reports released by the RBI contain valuable data and analysis on credit access, financing trends, and regulatory frameworks relevant to MSMEs. These reports provide insights into the financial aspects of the MSME sector in Uttar Pradesh.
4. **Information from the Press Information Bureau (PIB) and the Directorate General of Commercial Intelligence and Statistics (DGCIS):** The PIB and DGCIS provide press releases, statistical data, and market intelligence related to MSMEs. These sources offer information on industry trends, market conditions, and policy updates affecting the MSME sector.
5. **Data from the Credit Information Bureau India Limited (CIBIL):** The data released by CIBIL provides insights into the creditworthiness, credit history, and loan repayment behavior of MSMEs. This data helps in understanding the financial health and credit access of MSMEs in Uttar Pradesh.

### V. CONCLUSION

The comprehensive study on MSMEs in Uttar Pradesh uncovers the formidable challenges impeding their growth, which demand immediate attention and remedial action. Embracing a broader perspective on addressing these issues is essential for sustainable economic development in the state. By strategically tackling financial constraints, infrastructural limitations, technology adoption barriers, regulatory complexities, skill shortages, and market access challenges, the state

can create an enabling environment that unlocks the vast potential of MSMEs. Continued research, monitoring, and adaptive policies will be necessary to ensure the sector's continued growth and contribution to the overall economic prosperity of Uttar Pradesh. Addressing these issues requires a multi-pronged approach involving both the government and private sector stakeholders. By providing adequate financial support, improving infrastructure, promoting technology adoption, simplifying regulations, investing in skill development, and facilitating market linkages, the state can unlock the full potential of MSMEs and foster economic growth. Additionally, continued research and monitoring of the sector's progress will be essential to assess the impact of implemented policies and make necessary adjustments over time.

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