



Role of Financial Resources in Implementation of MSMEs

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To Cite this Article

P. Maheshwari. Role of Financial Resources in Implementation of MSMEs. International Journal for Modern Trends in Science and Technology 2023, 9(05), pp. 325-327. <https://doi.org/10.46501/IJMTST0905054>

Article Info

Received: 06 April 2023; Accepted: 05 May 2023; Published: 15 May 2023.

ABSTRACT

The Government of India has introduced MSME or Micro, Small, and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

The MSME sector comprises micro, small and medium enterprises that are classified according to certain parameters. Before 2018, MSMEs were categorised based on the amount invested. After a change in regulations, they are classified based on their annual turnover, whether they operate in the manufacturing or service sector. The new conditions are as follows.

- Micro enterprise: When annual turnover is up to Rs. 5 crore
- Small enterprise: When annual turnover is above Rs. 5 crore and less than Rs. 75 crore
- Medium enterprise: When annual turnover is above Rs. 75 crore and less than Rs. 250 crore

MSMEs make a crucial contribution to India's GDP. MSMEs contribute more than 29% to the GDP and are responsible for 50% of the country's total exports. They are also accountable for one-third of India's manufacturing output. MSMEs employ more than 11 crore people, and the aim is to grow this number to 15 crore in the coming years. But these MSMEs are suffering from lack of financial resources. Among the sources of finance available to MSMEs the major source is loans from banks.

Finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle.

In view of the fact that banks is the predominant source of finance in India. Enterprises in the start-up, growth, and sustenance stages rated highly the approachability of formal financial institutions in influencing financial access.

Keywords: socio-economic development, financial resources, Employment.

INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a vibrant and dynamic sector of the Indian economy. MSMEs play crucial role in providing large employment opportunities at

comparatively lower cost than large industries. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the socio-economic development of the country.

At present, the Micro, Small & Medium Enterprises Development (MSMED) Act 2006 (Section 7) classifies the Micro, Small and Medium Enterprises (MSMEs) on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises. In February 2018, the Union Cabinet had approved changes in the basis of classifying Micro, Small and Medium enterprises from 'investment in plant & machinery/equipment' to 'annual turnover'. The objective of the change is to encourage ease of doing business, collection make the norms of classification growth oriented.

Under this scheme, new technology is provided to the business owners to replace their old and obsolete technology. The capital subsidy is given to the business to upgrade and have better means to do their business. These small, micro and medium enterprises can directly approach the banks for these subsidies. Financial planning is as important as business planning or marketing strategies and entrepreneurs need to pay attention to this aspect of financial management. According to experts, entrepreneurs should work out a quarterly financial plan and review every month to understand the financial pulse of your business and plan a larger expense. MSMEs generally struggle to get a bank loan and end up raising funds from informal channels, which in turn attract a higher rate of interest. Ideally, entrepreneurs should look at an alternative source from the formal system to raise funds.

In India, around 63 million Micro, Small and Medium Enterprises (MSMEs) employ more than 100 million people. With its vast potential as a source of employment and equitable development, the MSME sector is a growth engine for the country's economy and overall progress. The MSMEs have the potential to push India towards the ambitious goal of a \$5trillion economy, and it becomes crucial to support them with all the means.

In a post-Covid-19 world, there are various impediments to the sector's growth, such as lack of formal finance, modern technology, unavailability of skilled workforce, and limited access to global markets. And they can only be overcome with the concerted efforts of government as well as financial institutions.

OBJECTIVES

- i) To know the Source of MSME Finance
- ii) To know the Problem of MSME Finance

REVIEW OF LITERATURE

The predominant sources of finance used by MSMEs are bank loans; loans from nonbanking institutions (e.g., NBFCs); venture capital; microfinance institutions; loans and from family, relatives, and friends; equity finance; and own funds. The dominance of the informal sector in addressing the financial requirements of MSMEs is due to the inherent limitations of formal sources of finance.



Finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. This study is a first-of-its-kind attempt to focus on these aspects. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilization of sources of finance.

The World Bank has a wide range of available instruments to help meet the challenge of MSME finance.

Data and Analysis: Enterprise Surveys have been conducted in 135 countries and are the principal global source of data on enterprise performance and constraints. The World Bank also works at the country level to assess policy and regulatory barriers to MSME finance, and to survey financial-service providers.

Financing and Risk-sharing: The World Bank has an active lending portfolio of US\$3.2 billion supporting MSME Finance. Support for risk-sharing facilities, including partial credit guarantees, also helps unlock the financial resources of banks and other financial institutions.

Technical Assistance and Capacity-Building: The Bank provides advisory support, training and other services to help governments and regulators support MSME finance, and to help financial institutions expand access to finance. The Bank also develops guidance, principles and toolkits for governments, regulators and the private sector.

Problems / Challenges faced by MSME

- Lack of adequate capital
- Lack of awareness of resources availability
- Access to modern technology

Finance: The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem. Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them.

Raw Material: availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. Small scale units are thus forced to purchase the same raw material from the open market at very high prices.

Idle Capacity: There is under utilization of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this underutilization are shortage of raw material problem associated with funds and even availability of power.

Technology: Moreover, they lack requisite resources to update or modernize their plant and machinery due to obsolete methods of production; they are confronted with the problems of less production in inferior quality and that too at higher cost.

Marketing: They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements.

Infrastructure: There is inadequate availability of transportation, communication, power and other facilities in the backward areas. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas.

Project Planning: These entrepreneurs do not attach much significance to viability studies i.e. both technical

and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement. They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises.

Skilled Manpower: A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there.

CONCLUSION

The micro, small and medium scale business remains the most vibrant force and agent of economic enlargement and growth of nation. MSMEs encompass vast scope covering activities like manufacturing, servicing, retailing, financing, construction, and infrastructure. Experience shows that nations that support their courageous entrepreneurs have grown and prospered over the last 50 years, while nations that have placed barriers to the growth of their small business enterprises have been rated low on the performance graph. MSMEs are the backbone of a resilient national economy. Prioritizing their development is critical to the future of the country. The government has come out with a variety of enabling mechanisms over the last few years.

India needs more such measures, especially in the current environment. The next decade will be the metamorphosis of India from an emerging power to an established economic powerhouse and MSMEs will be an important cog in the wheel on this journey.

Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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