



MAJOR FINANCIAL CHALLENGES OF MSMEs IN INDIA

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ABSTRACT

Universally MSMEs have been acknowledged as a growth engine of the economy for any country. In India nowadays MSMEs have become an issue of incredible intrigue. There are numerous financial institutions that grant various types of services and facilities to MSMEs for their start-up, reconstruction and growth. MSMEs comprise a significant part of India's economic development and advancement. Despite this reality, MSMEs are also confronting serious issues concerning absence of adequate and convenient supply of the funds, absence of working capital, education, training awareness, and absence of appropriate innovation. The current paper attempts to contribute new information to the current writing of MSMEs, Financial Management, Banks, and Working Capital. The study will be valuable for Entrepreneurs, communities, and different undertakings. The study is based on the secondary data gathered from various literature reviews on the MSMEs. The literature revealed that the serious issues of MSMEs are how to raise funds from banks and other financial institutions especially timely availability of funds. Every one of these issues may vary from area to area and Business to Business. This paper examines various types of issues faced by these units in raising funds.

Keywords: MSME; intrigue; innovation; working capital; financial management.

1. INTRODUCTION

India has lively and touchy MSMEs that assume a unique mindful job in Economic Growth and Development of any nation as far as rising exchange, producing most noteworthy business openings and making most recent ability advancement in India with their proficient, powerful, and creative enterprising soul [1]. MSMEs are the mainstay of any economy and a motor of financial development, progressing unprejudiced improvement for all [2-7]. Along these lines, to advance and back MSMEs, the Government of India through the Ministry of Micro, Small and Medium Enterprises (MSMED) Act 2006 gives various kinds of appropriations, plans, and impetuses

for this division and attempts to determine some significant issues identified with MSMEs for example absence of assets, absence of administrative aptitudes and so forth. The principal destinations of the Act are to oversee group advancement, give preparation to business people, framework improvement and elevate money-related access to this area. [8]. In India, MSMEs in numerous divisions for example farming, industry, and administration have a powerful commitment to national salary, esteem expansion, creating business openings, beneficial use of innovative aptitude, and capital. In any case, this division is confronting numerous issues for example non-accessibility of satisfactory and auspicious credit, acquisition of crude

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material, the significant expense of credit, absence of access of worldwide market, inaccessibility of talented labour, low creation limit, little size, foundation issue and so forth these issues are slaughtering this area and pulling it in the rundown of wiped-out enterprises [9]. This part has a more vulnerable money-related structure bringing about lower FICO assessment.

2. CLASSIFICATION OF MSMEs BASED ON INVESTMENT SLABS

Table 1. Existing MSME Classification

Criteria: investment in plant & machinery or equipment			
Classification	Micro	Small	Medium
Mfg. Enterprise	Investment <Rs. 25 lacs	Investment <Rs. 5 cr.	Investment <Rs.10 cr.
Services Enterprises	Investment <Rs. 10 lacs	Investment <Rs 2 cr.	Investment < Rs 5 cr.

Table 2. Revised MSME Classification

Composite criteria: investment and annual turnover			
Classification	Micro	Small	Medium
Manufacturing and services enterprises	Investment<Rs.1 and Turnover<Rs.5 cr.	Investment<Rs.10 cr. and Turnover<Rs.50 cr.	Investment<Rs.20 cr. and Turnover< Rs 100 cr.

2.1 Related Literature

Various studies have been conducted on MSMEs to highlight the issues. Few important studies have been coated here.

Gade [10] the study attempted to examine the contribution of micro, small and medium enterprises in the country’s growth and the regions which are necessary to intensify the micro, small and medium units to its sustainable share to the development of India. This study is based on secondary data. The study found that the MSMEs can be gain and a trust for Indian financial system in upcoming years; The MSMEs are contributing consistent development to the nation and can be operate the resources in suitable way in India. The MSMEs are extremely useful to eliminate the regional disparities. If this contribution will be continued, then their exceptionality and individuality wants to be foster in an open and clear manner. The small and medium enterprise should not be two different opinions about priority for accomplish the socio-economic aim of social fairness and employment generation.

Rathore and Mathur [11] carried out a study on “Role and prospects of micro, small and medium enterprises in India” This study is based on the secondary data collected from annual reports of ministry of MSME, different websites, newspapers, and various published research papers etc. this study focused on new schemes and policy initiatives for the micro, small and medium entrepreneurs in India and role of MSMEs in improving the country’s economy. In this study the researcher identified the major problems faced by MSMEs are: Lack of technological

knowledge, Lack of proper finance, Lack of infrastructure is the main challenges of these units. This study also identified restrictions faced by entrepreneurs in recent past and schemes and polices taken by government of India. This study suggested that the MSME is extremely vibrant and dynamic sector for people to establish their enterprises. Study also founds how to reduce the obstacles for enhanced performance of MSME units in the end the researcher concluded that the MSMEs play a vital role in nation’s economy through generating employment opportunities for educated, talented, skilled and semi-skilled peoples.

Sugiarto [12] carried out a study on “Obstacles and Challenges in the Development of MSMEs” In this study the researcher used a qualitative method with a descriptive approach. Problems to developing MSMEs included quality, capital, infrastructure, human resources and technology. The study was conducted from March to May 2018 on MSMEs “Margamulya Village, Pasirjambu District, Bandung Regency” The aim of this study is to acquire and analyse the MSMEs strictly to build up their business. This study concluded that the “obstacles and challenges” faced by MSMEs in growing their enterprises could come from the interior and the exterior environment. The internal problems are faced by MSMEs include (HR) human resource competencies, production machinery and capital. Even as the exterior hindrances are faced by MSMEs are production competitiveness, marketing, and less optimal operation of information technology. This study suggested that the support of the provincial government is likely to be able to develop MSMEs by providing instructions and as a bridge to make easy to

obtaining credit assistance from banks and financial institutions.

Gugloth and Kumar [13] the major purpose of the study was to find out the marketing strategies of Micro, Small and Medium entrepreneurs in Andhra Pradesh India. The study is based on secondary source. In this current study the researchers concluded that the MSMEs boast as a back bone of the country's economy, the development and growth of this MSME sector mostly depends on marketing polices that formats and hold a customer satisfaction by way of the route of value addition. More ever, the micro, small and medium enterprises in the state has need of customer's satisfaction in their approaches to gain long-term competency and viability. This MSME sector is fed up with constraints like scarcity of electricity and lack of fundamental infrastructure along with hindrances allied to market. In this case to diminish these challenges and enlarge the MSME sector, best efforts done in the 11th five year plan (2007 to 2012), the study suggested the hindrances of businesses are multi-structural, These problems may be resolve by the hard work of entrepreneurs, government backing exclusive formalities, synchronize performance of back-up agenesis, also suggested, Government should attempt to offer easy, low-priced and complete transportation services to MSME units. The government should establish foundation or organizations in order to abolish broker and to make sure to provide a better quality of resources at low prices.

Syal [14], the study was focused on the "growth of micro, small and medium enterprises and summarized the opportunities existing for the micro, small and medium enterprises" in the nation's economy. The study is based on the secondary data and descriptive in nature. The study concluded that micro, small and medium enterprises in the country's Economy have exposed remarkable growth and outstanding performance with the support of policy structure and competent initiatives taken by the Government of India over a period of time intended for development and growth of the MSMEs in India. The study also concluded that development and growth of Indian MSME industries increased from last one decade. This study examined the improvement of MSMEs in production, fixed investment, employment generation, export, performance and contribution. Further; the study argued about job opportunities, testing laboratories, Infrastructure Development, (FDIP) Foreign direct investment policy, Export promotion and Competitive technology, inside the MSME area. Study also investigated the prospects prearranged in the country's economy for enhancement of MSME sector. In the end the current study suggested that

government have needed to reduce the charges of equipment up gradation, market saturation, reconstruction of infrastructure etc.

3. SOURCES OF FINANCE AND CHALLENGES INACCESSIBILITY

3.1 Finance Utilized by MSMEs at Various Phases of the Life Cycle

The review results uncovered the major monetary necessities of MSMEs at various phases of their life cycle and the overwhelming wellsprings of money used to meet those prerequisites.

3.1.1 Start-up stage

Enterprises in this stage reported the utilization of assets from individual and family sources, from companions, and public (i.e., government-claimed) banks generally for working capital. The other exceptionally reported utilization of an institutional source was public banks for guarantee financing. This inferred a serious level of readiness or hazard avoidance, or both while starting an enterprise.

3.1.2 Survival stage

Working capital, transient advances, and overdrafts were the basic roles for which undertakings in the survival stage looked for monetary help. Finance for working capital was obtained to a great extent from public banks and moneylenders, trailed by private assets and private banks. Private Banks were likewise used to get transient advances and overdraft offices. Enterprises likewise announced the utilization of moneylenders, however less significantly. The pattern of utilizing formal sources or believed casual sources appeared to proceed from that revealed by undertakings in the Start-up stage. Enterprises in this stage would be hoping to take care of obligations, for which they would require smooth every day working with satisfactory accessibility of turning out capital for the equivalent.

3.1.3 Growth stage

Enterprises required working capital, insurance financing, and transient credits at this stage. Working capital was obtained from public banks, individual and family sources, and less significantly from private and cooperative banks. Security financing was acquired from public banks, and less significantly from helpful banks. Private and helpful banks were utilized for getting momentary credits, albeit the utilization of moneylenders viewed as referenced. This perception perhaps implies that enterprises were

more centred on their particular monetary necessities and the sources needed to satisfy them. The prevailing utilization of public banks for guarantee financing and the utilization of the financial framework and family abundance to meet working capital requirements demonstrate the job of confidence in getting this kind of money. As agreeable banks were additionally referenced as a source to satisfy numerous monetary requirements of ventures at this stage, it should be checked whether these banks' arrangements and methodology help give the fast admittance to momentary money required by enterprises in the growth stage.

3.1.4 Sustenance stage

Enterprises in this stage revealed the utilization of money from individual assets, cooperative banks, public banks, and private banks for working capital. Helpful banks were likewise utilized to guarantee to finance and to get transient advances. Working capital, insurance financing, and transient advances appear to overwhelm the scene of necessities of ventures at this stage. This proceeds with the pattern, noted above, of utilizing finance from sources that are seen to be relied upon by undertakings. An enterprise in this stage would decide to acquire from sources with which it has grounded connections and those which could be relied upon. Enterprises at this stage detailed the prevailing utilization of cooperative banks for working capital, guarantee financing, and momentary advances, and it would be intriguing to inspect the purposes behind this commonness.

3.2 Difficulties in MSME Finance

3.2.1 Start-up stage

Major difficulties in getting to back detailed by enterprises in this stage remembered the trouble for giving security or assurance, handling time for advance applications, absence of information about accessible plans, and procedural intricacies, in a specific order. Enterprises additionally felt that high assistance charges for advance solicitations and trouble in finishing required documentation were difficulties. Enterprises in the beginning- the stage will be unable to give insurance to an advance and they need information about accessible plans, which might ruin them from picking the best choice for monetary help.

3.2.2 Survival stage

The significant difficulties experienced by enterprises at this stage were like those detailed by ventures in the beginning-up stage, however, the request was unique. The trouble in giving insurance or assurance and

procedural complexities were mutually appraised the most noteworthy. The four issues of extended handling time, absence of information about accessible plans, high assistance expenses for handling advance solicitations, and trouble in finishing the necessary documentation were appraised to be similarly difficult. Undertakings in this stage would typically be hoping to make back the initial investment as to speculations made at fire up, and might likewise want to fill in their business sectors. They would consequently require working money to meet their everyday necessities. These undertakings can't be anticipated to give a guarantee and would be obstructed by convoluted methodology and postponements in advance disbursements. They additionally keep on lacking information on accessible monetary help plans.

3.2.3 Growth stage

Major difficulties announced by enterprises in this stage incorporated an absence of information about accessible plans, high help charges for handling advance solicitations, trouble in the arrangement of insurance or assurance, high paces of interest, and trouble in finishing the necessary documentation. As there would be both working capital and momentary credit prerequisites for ventures in this stage, an absence of information in regards to explicit plans could thwart proprietors from settling on the most proper decision of financing for their endeavour. However, enterprises proprietors might be more disposed to look for formal monetary help, high assistance charges and high paces of interest could be an impediment. Enterprises in the development stage likewise would be in a condition of quick change and subsequently, the need to give documentation to getting monetary help would impede getting to reserves.

3.2.4 Sustenance stage

Common difficulties to getting to fund announced by undertakings in this stage remembered trouble for the arrangement of security or assurance, procedural complexities, absence of information about accessible plans, extensive handling time for advance applications, high help expenses for handling credit solicitations, and trouble in finishing required documentation. A sensible number of enterprises likewise detailed high paces important to be a test. Even though business people in this stage announced procedural hardships, handling time, and high paces important to be difficulties in getting to back, the job of an absence of information about accessible plans and their impact on different moves should be inspected. The business visionaries were worried

about the prerequisite to having insurance or security. This would propose that banks or loaning foundations should be more reasonable with regards to loaning to MSMEs that have as of now secured themselves on the lookout.

3.3 Factors that Hinder Financial Access

3.3.1 Start-up stage

The most important difficulty changed into the postpone within side the processing of mortgage programs. Business proprietors additionally felt that it changed into now no longer sensible to regularly go to banks for clarifications and that the function of retailers within side the gadget wishes to be minimized.

3.3.2 Survival stage

The number one worry has been headaches within side the method and the reaction of bankers.

3.3.3 Growth stage

Enterprises suggested that financial institution officers had an awful attitude towards them due to the fact nonperforming property of MSME schemes have been increasing and executives have been averse to thinking about their programs for finance. The two most important problems have been the long term had to method programs and inadequate facts supplied approximately to be had authorities schemes. Owners additionally referred to those small companies are

3.4.2 Survival stage

Enterprises felt that the authorities had to offer loans at lower hobby charges and additionally bear in mind mortgage subsidies.

3.4.3 Growth stage

Enterprises have thought that authorities should maintain business proprietors knowledgeable of MSME schemes and eligibility necessities. Many respondents felt that the implementation of the products and offerings tax could assist within side the decision of payment-associated problems, and that crimson tape hampered value-brought tax bills and annual license renewal. They additionally felt that financial institution managers and authorities' representatives should meet with MSME proprietors periodically to talk about functions of numerous schemes, consisting of eligibility, and to streamline the MSME registration method.

3.4.4 Sustenance stage

Enterprises highlighted the want for correct conversation of MSME finance schemes and their eligibility, and for the supply of economic subsidies to marketers whose establishments cater to the wishes of presidency departments and public region establishments. Other key problems covered the right implementation of tax schemes, minimizing not on-time bills from clients, and catering to industry-unique problems and necessities. Examples covered delays in presenting credit scores to tour retailers for an authorities-subsidized tour and to weavers for the procurement of automatic devices for energy looms.

normally unstable, which uploads to their vulnerability and implies that capital necessities range at some stage in the year and that the character of their operations changed into now no longer identified or factored into the lending choices made via way of means of economic establishments.

3.3.4 Sustenance stage

Enterprises highlighted excessive hobby charges as an impediment to economic access. Two different key problems that triggered troubles have been (i) lack of know-how on the part of economic establishments of the world wherein establishments operated and the corresponding regulations needed; and (ii) crimson tape worried in hierarchical processing of loans (i.e., shifting mortgage programs from one department to another), thereby inflicting a lack of time. Enterprises also recommended that the restoration of bills from clients should be enforced through the right implementation of laws.

3.4 Government Intervention for Financing Enterprise

3.4.1 Start-up stage

Support required via way of means of start-up establishments covered decreasing hobby charges for finance supplied immediately via way of means of the authorities. Respondents from the energy loom cluster felt that weavers should be covered on par with agriculturists in phrases of securing authorities' loans.

3.4.5 MSMEs contribute to the economy at the current price

Year	MSME- Addition of Gross Value	Growth (%)	Total Addition of Gross Value	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	–	8106946	32.35	8736329	30
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics & Program implementation

The contribution of Manufacturing MSMEs in the country’s total Manufacturing (GVO) Gross Value of Output at current prices has also remained constant at around 33% i.e. one-third during the period from 2011-12 to 2018-19

with a quiet revolution based on small and medium enterprises [15].

3.5 The Necessity of MSMEs for the Indian Economy

Around the world, SMEs are recognized as a vehicle to promote economic growth and equitable development. It is known to provide the highest economic growth rates. MSME has taken India to new heights with its low investment, operational flexibility and ability to develop adequate domestic technology.

1. SMEs are the second largest employment sector after agriculture, employing approximately 120 million people.
2. There are about 45 lacquers in the country, providing about 6.11% of GDP in manufacturing and 24.63% of GDP in service activities.
3. MSME ministry plans to increase its contribution to GDP by 50% by 2025 as India moves towards a \$5 trillion economy.
4. About 45% of India's total exports.
5. SMEs contribute to inclusive growth by providing employment opportunities to socially disadvantaged groups, especially in rural areas.
6. MSMEs in Tier 2 and Tier 3 cities are helping create opportunities for people to use banking services and commodities, which ultimately mean the economy, can include MSMEs.
7. SMEs promote innovation by allowing start-up entrepreneurs to create creative products to increase business competition and stimulate growth. India's MSME sector provides covert support to the country's economy and serves as a hedge against global economic turmoil and adversity. So, it can be said that India is moving towards a sustainable global economy

3.6 Why Need of Finance

India is the second biggest populated nation on the planet after China. India is wealthy in characteristic assets and has human capital in mass. Yet at the same time, the development pace of the nation is very lower in light of the need for capital arrangement. Even though the obtainment of assets is extremely important for any business concern, MSMEs are confronting issues in securing funds. On the off chance that we experience the past examinations, we would have the option to realize that the rate commitment of MSMEs is expanding step by step being developed of the nation through giving work openings, rising exchange, and presenting creative innovative soul. This division by and large requires two sorts of assets: long-haul reserves and working capital or momentary assets. Long haul reserves are required for interest in repaired resources for setting new business and rebuilding/extension/modernization of existing speciality units. Then again transient reserve or working capital is critical to overseeing everyday exercises of the business. As a result of expanding rivalry, Indian MSMEs are thinking that it’s hard to sell their items in national just as worldwide markets. Once in a while, the item isn't adequate to enter the worldwide market as a result of its awful quality. Money assumes a significant job in each segment and it is the foundation of the enterprises. It helps underway, promotion, development, and improvement. MSMEs area, as well as all the areas, require an account for pre-seed, seed, and start-up. In this serious world, each area needs to be globalized and needs to sell its items in the household just as in the universal market. To satisfy this target they have to receive trend-setting innovation, talented labour, crude material in mass and satisfactory working capital which can't be conceivable without adequate and opportune funds.

4. CONCLUSIONS

MSMEs are a significant benefactor towards the development of the Indian economy and improvement. MSMEs are the foundation of any country and assume a significant job in the business age, creating the most recent abilities and so on. At present this division is turning into a zone of extraordinary intrigue. Be that as it may, regardless of its significance this part battles with various issues like inaccessibility of satisfactory and opportune funds, high credit cost, numbness of banks and money related foundations, absence of gifted human capital, ignorance of government plans, absence of present-day innovation, appropriate showcasing and framework offices and so on. This area is confronting trouble in selling its items in household and global markets. Indian MSMEs need to overhaul their innovation and put more spotlight on advancement methodologies. Then again, the government is giving more consideration towards fortifying this division and presenting numerous strategies and plans yet a large portion of the business people don't know about it. Banks and Financial establishments need to improve their guidelines and guidelines to give assets at a high pace important to the MSMEs with the goal that they can raise reserves effectively and assume an increasingly contributory job in the nation. To sum up, MSMEs face various difficulties at each phase of the existence cycle. Each issue concerning financing was evaluated testing by something like one venture in both the beginning up and development stages. In the endurance stage, undertakings didn't feel that foundation, work, work law consistency, or venture enrolment were difficult in getting to fund. Undertakings in this stage approach satisfactory work and foundation. Undertakings in the food stage would probably have dynamic current records, and thusly didn't feel that to be a test.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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