

Financial Problem in MSME- An Analytical Study

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Abstract: This study plans to give an evaluation of the Micro, Small and Medium Enterprise area finance in India. The study feature the critical qualities of the MSME area, and survey the interest for, and the progression of credit into the area. MSME is a condensing of Micro, Small and Medium Enterprises or Micro, Small and Medium – Size Enterprises. The destinations of the study was to survey the exhibition and development of MSME area in India and to talk about the fundamental wellsprings of finance for MSME's and present financing plans accessible for MSME's and to discover the attention to different government strategies and plans among MSME's financial issues being looked by MSME's for getting to assets from financial institutions. The study additionally evaluates the resulting hole in the financing needs of MSMEs. At long last, it investigates possible intercessions to support the progression of formal credit to the area.

Keywords: MSME, Micro, Small, Medium Enterprises, Credit, Finance

Introduction

MSMEs are quite possibly the most lively and delicate areas in Indian economy. The meaning of Micro, little and Medium Enterprises (MSMEs) is inferable from its ability of work age, low capital and innovation necessity, utilization of conventional or acquired expertise, utilization of neighborhood assets, assembly of assets and exportability of items. MSME is a contraction of Micro, Small and Medium Enterprises or Micro, Small and Medium – Size Enterprises. This area has been worldwide acknowledged as motor of modern turn of events and financial headway. The significant benefit of the area is its business potential at low capital expense. MSME area isn't just significant for created nations yet additionally fundamental for monetary improvement of the non-industrial countries. The accentuation is on high commitment to homegrown creation, considerable fare profit, more modest capital speculation, work age, successful commitment to unfamiliar trade acquiring of the country with tasks requiring low or

no import . MSME suits Indian monetary climate where huge populace and less asset are accessible. Father of Our Nation, Mahatma Gandhi, had longed for a country where the populace in towns and humble communities would be similarly prosperous as the greater urban areas. His vision of the destitute individuals ascending both financially and socially could be acknowledged through the setting up of little assembling unit that would produce work as well as will help the needy individuals of India to come up .

Need of the Study

Finance is needed by all organizations for their activities and development. It assumes a predominant part in each monetary movement and without satisfactory financial offices no solid modern base can be developed or recreated. Adequate accessibility of assets prompts an association that can investigate its choice altogether offices and have the best ability and assets accessible for its prosperity. Assets are

needed to guarantee that all exercises in an association are running easily. The meaning of accessibility of assets in working of the unit has driven the scientist to contemplate the components that influence the capacity of units in MSME area to approach reserves, when required. This Research will demonstrate supportive in understanding the financial issues looked by MSME's and recognizing the territories which have been disregarded by Government and MSME's itself. This investigation is additionally useful in understanding the different components which are obligated to make financial issue that influences MSME's capacity to profiting assets from formal wellsprings of finance like banks and other financial institutions. the Study additionally inspect the attention to government financial plans among MSME unit proprietor/advertiser, which will help in better comprehension of MSMEs current circumstances and furthermore animate the government and financial institutions uncommonly banks to build an ideal climate for advancement of MSMEs. This examination will be helpful in deciphering nitty gritty purposes behind absence of ideal development of MSME's and will enable MSME's to create business openings.

Review Literature

Universally SME area has been detailing challenges in admittance to finance (Bebczuk, 2004 ; Slotty, 2009 ; Balling et al. 2009 ; Irwing and Scott, 2010 ; Yongqian et al., 2012). Admittance to outer finance to SMEs has become all the more exorbitant and inconvenient while their openness has done forcefully declined. SMEs' financing imperatives limit their venture openings and stale development. Admittance to finance is broadly seen to be a fundamental factor for firms, and particularly SMEs, to keep up their every day business activity just as to accomplish long haul venture openings and advancement targets. Studies bring up that in created and creating economies SMEs contribute on normal 60% of formal work in the assembling area (Ayyagari et al. , 2007). A

significant viewpoint for SME area improvement is admittance to finance especially from financial institutions. Le, Venkatesh and Nguyen (2006) brought up that the accomplishment stage for a specific SME is to have satisfactory admittance to outside wellsprings of finance. Firm-level information gathered by the World Bank show that lack on admittance to finance apparent to be one of the fundamental impediments to working together. A few examinations have uncovered that financing is a significant requirement for SMEs to develop than for bigger firms, fundamentally in the creating scene (Beck et al. , 20059 ; Beck et al. , 2006; Fatoki and Assah, 2011, Kira and He, 2012).

Statement of Problem

Finance is needed by all organizations for their activities and development. It assumes a predominant part in each monetary movement and without satisfactory financial offices no stable mechanical base can be developed or remade. In India, great number of business banks and their branches are accessible however they have neglected to satisfy the financial interest of the enterprises (Patra and Misra, 2003). Little firms reliably report higher financing obstructions than medium and enormous Enterprises (Beck T. et al., 2006). Expanding admittance to finance for MSMEs is significant for improving generally speaking financial development in India. Independent companies in India are not right now ready to develop to their maximum capacity in light of the fact that the progression of financing to these Enterprises is confined. The limitation comes from both compulsory and willful prohibition. Compulsory prohibition happens on the grounds that the costs, terms and states of formal financial administrations are horrible to little borrowers. Then again, little firms may willfully avoid themselves from formal financial administrations because of their own financial ignorance.

Objectives of the Study

- To find the problems associated that MSMEs are facing for financing.
- To find the limitations and barriers in credit transactions to MSME Sector.

Research Methodology

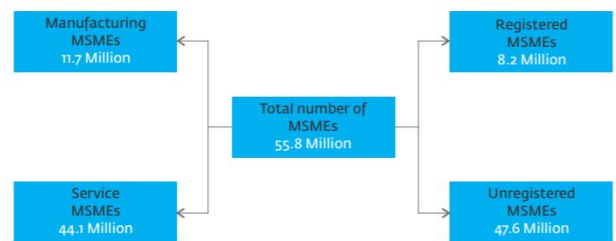
The investigation is fundamentally founded on subjective writing review technique. It encourages top to bottom examination of the issues identified with financing limitations for the maturing business visionaries and the MSMEs. Broad audit of the writing gave valuable knowledge about the significant limitations and bottlenecks that the MSMEs are confronting today in profiting credit offices from banks and other financial institutions. The investigation depends on optional information, which has been gathered from different MSME Annual Reports, International Finance Corporation Report on MSME Finance in India, and SIDBI Annual Reports. The whole examination for the investigation has been planned with the mean to comprehend the challenges looked by the units in the MSME area while orchestrating assets from financial institutions to satisfy their financial necessity for smooth operational exercises like extension, innovation up degree, recruiting talented labour, and so on Further, it talks about different activities and plans run by the government of India and its different organizations to help the MSME area.

Research Design

The research design involves;

- To select an appropriate type of research study;
- To identify a suitable & accurate population of study & sampling method.
- Period & plan of the Study;
- To collect secondary data from various sources.

Classification of MSME in India

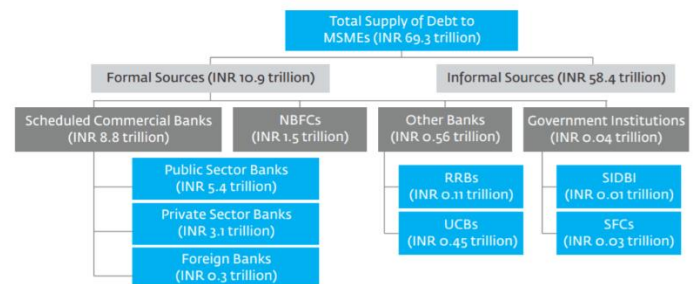


Source: MSME Annual Report

Figure 1: Broad Classification of the MSMEs in India

Flow of Finance to the MSME Sector

This study shows that of the overall smaller banks such as Regional Rural debt demand of INR 69.3 trillion Banks (RRBs), Urban Cooperative Banks (USD 1.1 trillion), a major part – (UCBs) and government financial 84 percent or INR 58.4 trillion institutions constitute the rest of the (USD 898 billion) – is financed from formal MSME debt flow. Informal sources. Formal sources cater Within the informal financial sector to only 16 percent or INR 10.9 trillion non-institutional sources include family, (USD 168 billion) of the total MSME debt friends, and family business, while financing. Within the formal financial institutional sources comprise sector, scheduled commercial banks moneylenders and chit funds.



Source: MSME AR 16-17, Bank and NBFC ARs, SIDBI, RBI, NABARD, Primary Research, Intelicap Analysis

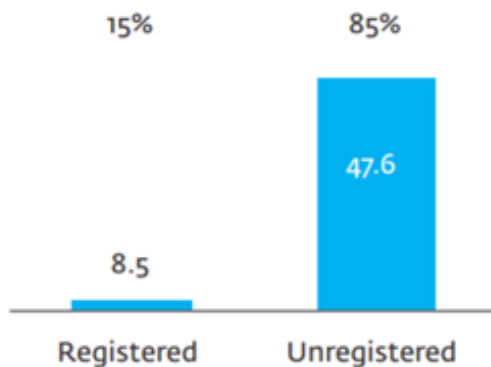
Figure 2 :- Flow of Finance to the MSME Sector

Table:- Key Statistics on MSMEs – 2017

Key Metric	Value
Total Number of Working MSMEs	55.8 million
Total MSME Employment	124 million
MSME Contribution to GDP (%)	31%
MSME Contribution to Total Indian Exports (%)	45%

Source: MSME Annual Report (2017), WBC-Intelicap Analysis

Figure:- Size of the MSME Sector in India (in million)



Source: Ministry of MSME-Udyog Aadhaar, WBG-Intellicap Analysis



Problems Faced by MSMEs

Prior to dissecting the different causes, it is advantageous to examine in a nutshell the rules for distinguishing proof of disorder. A unit might be viewed as wiped out on the off chance that it has caused money misfortune for one year and in the judgment of the bank it is probably going to keep on bringing about money misfortunes for the current year just as the next year and the unit has an unevenness in its financial construction, for example, current proportion of under 1:1 and demolishing obligation value proportion.

Different highlights of MSMEs problem might be:

- Continuous default in gathering for continuous half yearly portions of interest of Principal of Institutional advances.
- Continuous money deficit for a period or two years of proceeded with disintegration in the total assets by 50% or more.
- Mounting unfulfilled obligations by virtue of legal or different liabilities for time of a couple of years.

Problems faced by Banks in Lending to MSMEs

- Most of the MSMEs work in sloppy area. In this manner, they don't keep up legitimate records. This prevents banks in loaning credit to MSMEs.
- Banks consider MSME projects dangerous. Accordingly, banks don't really want to loan cash more than their need area loaning commitments.
- Banks for the most part require insurance security for MSME loaning which turns into a major obstacle for MSMEs in getting credit from banks.
- Banks generally don't finance groundbreaking thoughts. They like to stay with its standard clients.
- New business visionaries deal with issues in getting credit from banks in light of the absence of financial record.
- Bureaucracy in loaning strategy turns into a major obstacle for public area banks in MSMEs financing.

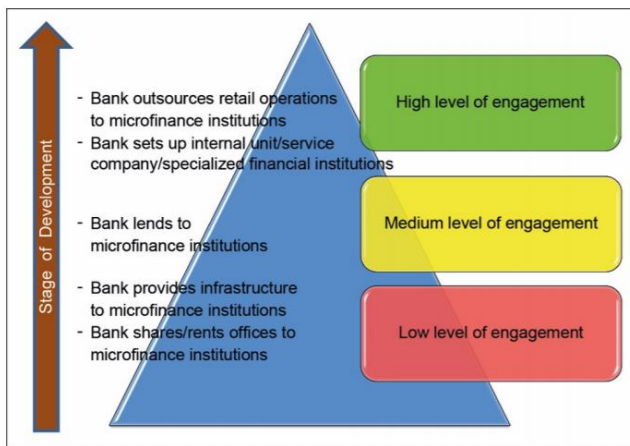


Figure : Commercial Banks and MSME Financing

Findings of the Study

- The financial institutions (the moneylenders) have not been reviewed and consequently further exploration could be considered from the opposite side of the issue, the financial framework by gathering information for reasons of advance applications reject by bank or denied by clients. This would empower to have a superior comprehension of the issue.
- Role of government approaches and plans for strengthening of MSMEs area regarding finances and the effect of these plans.
- Data from DIC and other related government organizations could be gained and considered.
- Present study has been dealt with chosen factors in this manner, as a further examinations, an imminent specialist likewise takes rest of the components and serious investigations dependent on part of Government.
- The size of the unit builds, the proprietorship structure additionally changes. The conceivable explanation could that of expansion in capital needed to help the association development.
- The number of ownership and association units decline with the increment of size from Micro to Small and from Small to

Medium. Then again, a converse pattern can be found if there should be an occurrence of Private and Public restricted organizations.

- There ought to be inspiration/motivator/grant or prize program for the Credit Sanctioning Officers by each bank and area insightful to urge more loaning to MSME area.
- Government should make expound arrangements to make all the financiers, and forthcoming and existing business people mindful of credit strategies and all government uphold plans. Keeping in see the huge commitment of this area to the Indian Economy, underscore ought to be given on business and this ought to be remembered for the higher optional educational plan, so our young age pick business as their profession and the information and methodology of getting advance from banks will empower them to furnish with all necessary data for ideal credit.
- There ought to be single window framework for MSMEs, so they can get all advantages at one spot.

Conclusion

MSMEs assume a critical part in our economy. Every once in a while, Government and Reserve Bank of India (RBI) have executed a few arrangements to improve the progression of credit to the MSME Sector. Regardless of whether we talk about need area loaning or guarantee free advances, the severe the truth is that, still it's a lumbering cycle for MSMEs to profit credit offices from the Banks or other financial institutions. Banks additionally deal with a few issues at their end while conceding advances to the MSME area. As the greater part of MSMEs work in the sloppy area, so they don't keep up any legitimate records or accounting reports. Without the presence of appropriate monetary records, Banks discover it

truly hard to loan credit to MSMEs. Banks don't have that a lot of trust on recently arrangement undertakings or the new businesses. They consider MSME projects unsafe and are terrified of NPAs while giving credit to new businesses. Along these lines, Banks by and large loan just the recommended sum to this area as referenced under need area loaning commitments. Another serious issue that MSMEs face in getting to credit from banks is nonappearance of insurance security. Banks for the most part require guarantee security for MSME loaning and it turns into a major obstacle for MSMEs in getting credit from banks. The growing business visionaries can't benefit credit from banks in view of the shortfall of financial record. MSMEs likewise deal with the issue of uncouth administration. The proprietor/administrator by and large doesn't have all the abilities needed to deal with a firm productively. Non accessibility of gifted labor is another significant issue that thwarts the development of MSME area. Aside from this, MSMEs deal with a few different issues like issue of advertising their items. When the item is prepared, it gets basic for the proprietor/supervisor to sell it into the market. By and large, MSMEs can't utilize appropriate delegates for the advertising of their items. To summarize it, it tends to be inferred that MSMEs face a few obstructions and preventions in getting to finance from the banks and other financial institutions. In spite of the fact that a ton of endeavors have just been made by the government to cause the progression of credit simple to this area yet a great deal of work needs to be done to meet the genuine finance necessities of the MSME area in India.

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