



A STUDY ON IMPACT OF FINANCIAL CHALLENGES FACED BY MSME IN INDIA

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ABSTRACT

This Research paper aims to study about the MSME objectives, functions, challenges and how to overcome from the difficulties of MSME in India. The MSME/SME sector is one of the main players for the growth in India, which has the fifth-largest economy in the world. The 'Make in India' movement is being driven by small firms, which are the engine driving the nation's economic expansion. Additionally, MSMEs can apply for a Business Loan for MSME to cover a variety of financial requirements for their companies. This is significant because such organisations confront a variety of financial difficulties, particularly in the first stage. The socioeconomic development of the nation has been greatly influenced by Micro, Small, and Medium-Sized Enterprises. As a supplier and vendor to large firms, MSME is regarded as the "Backbone of the Indian Economy" since it provides close to 30–40% of GDP and 48% of all exports. It also creates jobs in both rural and urban areas. The Micro, Small, and Medium Enterprises (MSME) sector, which accounts for nearly half of India's exports and more than a third of the country's GDP, is a crucial component of the Indian economy. More than 1 crore MSMEs are registered on the Udyam Registration platform, according to data from the MSME Ministry. The rise of the MSME sector is essential for India's inclusive economic growth and will increase manufacturing production, employment creation, and national exports of count collateral and meaningful credit history. Some of the formidable challenges faced by MSMEs in India include lack of adequate financial literacy, difficulty obtaining timely MSME funding, and complicated regulatory processes. It's crucial to comprehend these issues and streamline MSME financing in India if India is to succeed in becoming a major economic force on the world stage. This research paper gives an outline to learn about the goals of MSME financial challenges and remedies. It is also suggested that MSME entrepreneurs should properly utilized the remedies for enhancing their knowledge and skill to overcome the challenges in the sector.

Keywords: MSME, Financial Challenges, Opportunity, Government Initiatives, Technology and Remedies.

1. INTRODUCTION

MSMEs are introduced by the Indian government under the "Micro, Small and Medium Enterprises Development Act, 2006." Depending on their investments and revenue, the MSMEs are divided into Micro, Small, and Medium-sized enterprises. The cabinet updated the definition of an MSME in 2020 to encourage the sector to increase investment without sacrificing the benefits of MSME. The Government of India works to hasten the growth of MSME by implementing various programmes for this sector because the growth and sustainability of this sector do contribute to the sustainable growth of the nation. Globally, economies with strong SMEs segments are doing better than those without, demonstrating the importance of MSME in

economic development. India, a developing country, heavily relies on MSME for its long-term economic success. India has a wide distribution of MSMEs throughout the nation. According to the Ministry of MSME's annual report, there are 6,08,41,245 MSMEs in India overall, which highlights their importance to reducing poverty, creating jobs, and fostering rural development.

(Das, 2014) told that MSME facing lack of adequate funding and capital, marketing scope and non-availability of high skilled labour. Hence this sector should be supported and safeguarded as underscored by (Jaswal, 2014) who stated that these sector should be supported and encouraged so as to have a good growth in the Gross Domestic project since this sector is having more than 8000 range of products. But there are solutions to overcome the barriers and the obstacles that is in the MSME sector particularly (Prakash et al., 2021) emphasized that the expectation of the MSME sector could be accomplished by creating good and effective governance and this is clearly explained by (Gorde et al., 2022) that the Union Government has initiated many measures for supporting MSMEs like registration through Udyam; special website called My MSME; Direct benefit transfer (DBT) and any payment through digital gateway along with filing online complaints through MSME Samadhaan; job facilities through MSME Sampark; ICT enabled services through Champions.

Taking all these as an important one, the researcher of this study have considered the challenges in related to finance, labour, raw material, marketing and other problems being faced by the MSMEs generally along with finding the growth of the company.

2. REVIEW OF LITERATURE

Researcher of any study could able to understand the previous outcome and the results which is the core for the present study only through reviewing the past literature on the same domain and this section alone helps the researcher to identify their research gap. Various results of researches on the topic were discussed here.

Maswin and Sudrajad (2023) informed that the performance of MSMEs is significantly influencing by financial knowledge, behavior and attitude of the owners of the MSMEs. (Bhajantri and Kareem, 2023) found that there is a optimistic relationship between the investment in the MSMEs and the employment generation that too in the manufacturing sector and not in the service oriented MSME industries and this is corroborated by (Jain, 2019) who revealed that it is the micro sector that have more job opportunities than the small and medium one in the MSMEs and also stated that it also developing the socio economic status of the country. (Negi et al., 2023) showed up that inadequate infrastructure, low awareness among the employees towards the skill development and lack of coordination were the major challenges in having the skilled employees in the MSMEs.

Ernani Hadiyativ (2015) there are various metrics that can be used to evaluate how well the government is empowering MSME. Success is measured by the growth of the country's and the world's logical economic performance, which is measured by the GDP and the GDP of each region's ability to create jobs and raise non-oil export revenue. Aruna (2015) focused on how MSMEs played a part in India's economic progress and reorganisation. According to empirical evidence, the government should deal with obstacles including financial constraints and problems with the acquisition of power-related raw materials more skillfully. According to the statistics gathered, India's overall globalised business environment has been generally positive for the development of micro and small-scale industries.

NEW DEFENITION OF MSMEs

As per the new definition of MSMEs announced in May 2020, the investment limit has been revised upwards and an additional criterion of turnover introduced. The distinction between manufacturing and services has been done away with. Now, a micro firm is one with investment up to Rs.1 crore and turnover less than Rs.5crore, the small firm has investment up to Rs.10 crore and turnover up to Rs.50 crore and medium-firm will be one with an investment of up to Rs.20 crore and turnover under Rs.100 crore.

Existing and Revised Definition of MSMEs



Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 20 cr. and Turnover < Rs.100 cr.

3.

RESEARCH METHODOLOGY

The study is descriptive in nature and is based on secondary data collected from variety of public sources, including MSME annual reports, pertinent journals, economic evaluations, articles, books, magazines, journals, internet and information from official websites.

The research focuses on analyzing the following Objectives:

1. To study about the objectives of the MSMEs.
2. To examine about the functions of the MSMEs
3. To analyze about what are the financial challenges faced by MSME.
4. To find out the solutions to overcome the difficulties of MSME.

4. DISCUSSION AND ANALYSIS:

The prospects of MSME financial challenges and how to solve the problems using the remedies are analysed here and also help the MSME entrepreneurs should properly utilized the Government Training programmes for enhancing their knowledge and skill to overcome the challenges in the sector has been discussed below:

4.1 MAIN OBJECTIVES OF MSME IN INDIA:

- e-government: supplying the necessary e-infrastructure for the provision of e-services.
- Electronics hardware manufacture and the IT-ITeS industry are promoted through the e-Industry.
- Implementing an R&D framework, enabling the development of innovation/R&D infrastructure in developing ICT&E fields, and establishing a mechanism for R&D translation are all examples of e-Innovation and R&D.
- Supporting the growth of the network for e-Skills and Knowledge through e-Learning
- Promoting the use of ICT for more inclusive growth is e-Inclusion, which focuses on securing India's cyber environment.
- India's participation in international platforms for internet governance should be strengthened.
- The state becoming more industrialized.
- Growth of small, medium, and micro industries.
- To improve the industrial and social economy of the State, attract investment.
- Modernize and enhance the state's industrial sectors so they are capable of competing worldwide.
- Creating a favorable environment for the industries so they can compete on a national and international scale.
- Create policies that are appropriate for the development of the industries and an environment that is conducive to business.
- Act as a facilitator and assist in coordination between business and other organizations.
- Development of the fundamental infrastructure required for industrial growth.
- Establishing employment prospects through self-employment programmes.

- Educated unemployed youth and help them build their entrepreneurial talents.
- Promote self-employment among educated unemployed youngsters.
- Ill or abandoned industrial facilities reopening.

4.2 MAJOR FUNCTIONS OF MSME IN INDIA:

- ❖ Foster institutional support for the state's small companies and MSME sector to further their overall development.
- ❖ By utilising a cluster-based strategy, build and develop the MSME and small company ecosystem.
- ❖ Give MSMEs the tools they need to increase the quality of their products and technologies and to grow their businesses while supporting innovation.
- ❖ Facilitate access to finance for MSMEs & small enterprises to satisfy their different financial requirements across the business life cycle and offer financial services to enable MSMEs access to top class technologies by promoting the establishment of Common Facility Centres (CFCs) in clusters
- ❖ Offer MSMEs and other small businesses consulting services to help them perform better in the market.
- ❖ Increase the export capacity of Haryana's MSMEs to facilitate their entry into the global value chain. help state MSMEs and small firms establish marketing connections so they can access newer markets, both local and international, and increase their visibility.
- ❖ Promote Ease of Doing Business (EoDB) and lower the Cost of Doing Business (CoDB) to encourage the spirit of entrepreneurship development and give a boost to the state's MSME & small business landscape.
- ❖ Create a solid policy framework to support MSMEs and small business ecosystem, and interact with all important stakeholders, including Business Membership Organisations (BMOs)
- ❖ Encourage research and development (R&D) among MSME and small enterprises by connecting them with influential think tanks and R&D institutes, thereby fostering productive links between the government, industry, and academia.
- ❖ Launch R3D and technology transfer programmes to improve the state's technological landscape in cooperation with bilateral and international organisations
- ❖ Support and make it easier for state MSMEs and small firms to take advantage of different federal and state tax advantages.
- ❖ Work with MSMEs and Traders Business Membership Organisations (BMOs) that are focused on a particular region or type of product to facilitate swift resolution of complaints.
- ❖ Grant appropriate business licenses and offer facilitation support to small enterprises, retail and wholesale operators. Coordinate with numerous financial, research, and technical institutes, as well as state and federal government authorities.
- ❖ Holding MSMEs and small companies up through economic shocks and business disruptions Create a monitoring system to assess the effects of the government's numerous projects and programmes using data synthesis.

4.3 CHALLENGES FACED BY MSME

The MSME sector of India has been able to raise its GDP share by 2.6% as of the year 2014, which consists of 10.2% of imports and 18.7% of exports. It produced direct employment for 8 million people and contributed to a \$192 billion (Indian Rupee) global revenue. While the MSME sector faces many obstacles in the future and their influence will be felt in many areas of India, one of the biggest problems is their lack of visibility in certain industries, such as industrial investment, which prevents many new generation enterprises from taking advantage of business prospects in this field.

Multiple issues, some of which are "external," have had a significant negative impact on industrial investments in the MSME sector as well as their MSMEs, while many other difficulties are also "internal." Understanding the different difficulties MSMEs are currently facing is crucial since it will affect them and their future. These difficulties can be split into internal and external causes, with internal variables having the potential to be further subdivided into four groups. The example has proven that while having a significant potential for development in exports, India's total exports have only increased by 5%, making the country's general financial health one of the external factors. These difficulties also include things like the state of the world's macro economy.

4.4 MSME FINANCIAL CHALLENGES

The MSME (Micro, Small and Medium Enterprises) sector in India is a big driver of growth, with millions of people employed and a large GDP contribution. The industry's inability to reach its full potential is a result of one of the biggest problems MSMEs face: financing the expansion. Despite the fact that numerous business needs of MSME owners are being attempted to be funded by new government policies and programmes, there are still certain obstacles to obtaining loans for MSME owners.

In India, MSMEs are a major source of employment and are essential to the development of the nation. Given their significance, the Indian government offers support and assistance through a variety of programmes to make sure that MSME growth, particularly through MSME loans, continues unabated despite the global economic crisis. Even though they make a considerable economic contribution and receive government backing, the lack of adequate and prompt access to MSME credit and funding continues to be a key challenge for the sector, which has impeded their development.

4.5 ACCESSING MSME BUSINESS LOANS IS DIFFICULT FOR MSMEs IN INDIA.

1. Uncertainty in Providing Funds for MSME

Since their financial needs may be modest in scale and they are dubious of the MSMEs' ability to repay the loans, banks are hesitant to provide credit for MSMEs. Because of this confidence problem, banks frequently implement tight eligibility and approval requirements for offering loans to MSME. MSMEs are regarded as high-risk borrowers since they might not have a history of good credit; they see these loans as a high expense to their company. A business's ability to obtain MSME loans is also hampered by the frequent failure to maintain credit ratings. Small business owners' frustration is also increased by the drawn-out procedure for MSME loan approval. Some companies make it difficult for themselves to obtain loans by failing to monitor their credit scores. Additionally, without the protracted and onerous MSME loan approval procedure, normal lending choices make it challenging for business owners to achieve tight qualifying requirements.

2. Insufficient Loan Security

A strong collateral requirement for MSME loans may make it challenging for some small enterprises to qualify. To avoid having to worry about pledging assets or security in order to get a loan approved, business owners who operate small enterprises that may not have the financial capacity to guarantee loan payback terms may choose to borrow unsecured business loans from lenders.

The government makes an effort to make corporate financing widely available to small enterprises, yet many companies still have trouble getting finance or access to MSME loans. Small businesses could have a hard time getting MSME loans because of the rigorous collateral policy of lending banks. The resources required for small enterprises to qualify for MSME loans may not be available to them. Regional companies like handicrafts, art, marble, masonry, etc., for instance, are present in many MSME industries. Even though these sectors are expanding rapidly on the global market, banking institutions are not doing enough to assist MSME lending.

Despite these difficulties, business success is possible with perseverance, and these issues facing MSMEs can be quickly resolved if you receive the correct assistance from creditors.

3. Absence of Contemporary Financial Solutions

Older management systems, which mandate that small enterprises obtain licences, insurance, certificates, etc., are one of MSMEs' issues. These rules prevent MSMEs from getting capital in a timely manner. However, due to a lack of confidence and a lack of experience with technology, many small firms choose not to engage in online business transactions. Opportunities for MSME are also hampered by regulatory loopholes that result in delays in getting licences, insurance, and certificates.

5. Ineffective Technology

Due to a lack of information and understanding, many firms are unable to take advantage of the most recent technology advancements in their industry. MSMEs must, therefore, be aware of technology advancements that are essential to the expansion of their companies. Scientific research topics should keep in touch with their local MSME collections and be aware of any technical difficulties they may be experiencing.

Despite government initiatives and the emergence of Fintech companies, many MSME businesses, particularly those in rural areas, are still unaffected by technological and legal advancements. When MSMEs offer compelling arguments for obtaining and getting MSME loans, they are additionally hampered by antiquated technology and a lack of experienced personnel.

Many businesses struggle to produce goods, make timely purchases, get access to new technologies, or pick up new skills due to a lack of capital. MSMEs ought to be informed about technology advancements because they are essential to their success. Links between research institutions and regional MSME collections should be made, and their technical challenges and issues should be taken into consideration. If there is continued inefficiency and inequity in the system, developing legislation will not achieve its intended goals.

4.6 SOLUTIONS OR REMEDIES TO OVERCOME THE DIFFICULTIES OF MSME

In order to strengthen SME financing in the nation, financial institutions, governmental agencies, for-profit businesses, and other stakeholders are urged to collaborate and address the problems MSMEs confront. The following are a few possible course of action:

1. Increasing Knowledge of Government Programmes and Initiatives:

Stakeholders can take proactive steps to inform MSMEs about the different government programmes and initiatives undertaken to support SME financing. This would make it easier for MSMEs to take advantage of these programmes and obtain financing for their companies.

2. Creating Creative Financing Solutions:

Financial institutions should create creative financing options that are tailored to the special requirements of MSMEs. Alternative credit scoring systems, online lending platforms, and other cutting-edge approaches that lessen the dependency on security and conventional credit histories can be included in these solutions

3. Promoting Private-Public Partnerships:

Private-public partnerships can be an effective instrument to advance SME financing. Governments and businesses in the private sector can collaborate to create financing options that are specific to the requirements of MSMEs.

4. Lowering the Cost of Credit:

MSMEs may find it difficult to obtain finance due to high interest rates on loans. Stakeholders should take action to lower the cost of borrowing for MSMEs, which will make it simpler for them to invest in their companies and spur growth.

5. Utilising Technology:

Technology has the potential to significantly enhance SME funding. Stakeholders should use technology to create online lending platforms, credit scoring systems, and other techniques that can speed up and lower the cost of obtaining funding.

5. CONCLUSION

Given that they now account for 28 percent of India's GDP, MSMEs have a tremendous amount of potential. A sustainable financial ecosystem is, nevertheless, desperately needed. For businesses to successfully market their creative ideas, such a system should provide a healthy and safe finance access. The high debt rate and limited loan disbursement availability would keep Indian enterprises immobilised till the credit gaps are closed. As a result, the country as a whole need to conduct a financial reorganisation. The government is making every effort to keep the MSME sector competitive despite the numerous obstacles MSMEs confront. The cost of financing is gradually declining, and both the public and private sectors are attempting to provide better products that can compete in terms of both quality and price. MSMEs might be able to defeat larger companies if we eliminate corruption and place a stronger emphasis on quality.

In this research also, the major challenges that highlighted for the growth of MSMEs are the raw material and the General problem and it could be aligned only by utilizing the proper training and skill development programme being organized by the Union and State Government as rightly pointed out by (Ali

and Husain, 2014). At the same time, Government should also give maximum relaxation to the entrepreneurs in the MSME for their development and growth as MSME is the only boosting engine for the growth of Indian Economy.

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