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**FINANCE: A VEHICLE FOR ENHANCING PERFORMANCE IN INDIAN MICRO,SMALL AND MEDIUM ENTERPRISES (MSMEs)**

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**Keywords:**

*Barrier,  
Finance,  
MSME, growth and  
employment generation*

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**Abstract**

Every organization needs funds to carry out its functions where it is rightly said that “No one can make millions and keep millions without learning about finance” which indicates that finance is the bottom line of all business activities. It is the lubricant which keeps an enterprise running. The time and availability of finance in any organization indicates the health of a concern. According to FW Paish Finance is defined as “the position of money at the time it is wanted.” It also provides framework for making decision as to how to get funds and what should be done once we get it. It is the financial system that provides the platform by which funds are transferred from those entities that have funds to those entities that need funds. Finance plays an important role in MSME sector which is the backbone for Indian economy, engine for economic growth and promotes equitable development all over the world. MSME plays a key role in contributing to industrial output, exports and majority in employment generation at low capital cost. The paper highlights on the pillars of finance, sources of raising finance, barriers in raising finance, and problems of MSME sector. At the end of the paper the challenges hampering the growth of MSME sector is identified and concludes by suggesting ways in which MSME sector can grow and enhance its survival.

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## **INTRODUCTION**

Finance is an elixir that assists in formation of new businesses, gives new opportunities to grow and employ people. It is the lubricant in the process of achieving economic growth with the availability of finance which helps in initiating industrial development ultimately leading to new investment opportunities. Finance is a process of creating, moving and using money enabling the flow of money in the organization. Organization needs finance for daily operations, to meet essential expenses and payments and is rightly said that it is the nervous system of business body. With the growth in activities finance also needs growth. Importance of finance is also felt in MSME sector which is the vibrant and dynamic sector of Indian economy. With its agility and dynamism the sector has shown admirable innovation and adaptability to survive in recent economic downturn and recession. Its significance is attributable to capacity of employment generation, low capital, technology requirement, and use of traditional or inherited skills, use of local resources, mobilization of resources and exportability of products.

Availability of finance is a key enabler for economic activity and growth. in MSME context. Finance encompasses equity capital, loan for capital investment, working capital for meeting cash flow gaps for which several policies, regulatory and institutional initiatives have been taken to promote availability of finance to MSME sector which is supported by Government. MSME sector is an important pillar of Indian economy with its greatest contribution of 30 Million units, creating employment to about 70 Million, manufacturing more than 6,000 products, contributing to about 45% manufacturing output and 40 % exports directly or indirectly.

## **ROLE AND IMPORTANCE OF MSME SECTOR**

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into two Categories:

**(a) Manufacturing Enterprises** are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment level in plant & machinery.

**(b) Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under:

### **Manufacturing Sector**

#### **Enterprises Investment in plant & machinery**

Micro Enterprises Does not exceed twenty five lakh rupees

Small Enterprises More than twenty five lakh rupees but does not exceed five crore rupees

Medium Enterprises More than five crore rupees but does not exceed ten crore rupees

### **Service Sector**

#### **Enterprises Investment in equipments**

Micro Enterprises Does not exceed ten lakh rupees:

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Small Enterprises More than ten lakh rupees but does not exceed two crore rupees

Medium Enterprises More than two crore rupees but does not exceed five core rupees

**Key Highlights of MSME Sector:**

- MSMEs account for about 45% of India’s manufacturing output.
- MSMEs account for about 40% of India’s total exports.
- MSME sector is accepted as an engine of economic growth and for promoting equitable development. It plays a pivot role in generating the highest rate of employment employing over 6 crores of people. It also contributes to manufacturing output ranging from traditional to high tech items.

*“Make your money work so hard for you; so that you do not have to work for it”*

**PILLARS OF FINANCE**

Finance is the most critical input for any organization whether large or small for its growth and survival. The three pillars include:

**1) Liquidity and Cash Flow Management**

Liquidity is used to determine the financial health of a business. It not only helps ensure that a person or business always has a reliable supply of cash close at hand, but it is a powerful tool for determining the financial health of future investments as well.

**2) Long Term Asset Acquisition**

Long-term assets are assets which a company plans to hold for more than one year which includes buildings, land and equipment. which also include intangible assets, like patents, trademarks and copyrights. When a business acquires an asset, that asset must be recorded at cost. All costs associated with acquiring the asset and getting it ready to use should be considered as part of the cost of an asset. Remember that an asset is something the company owns or has the right to, which can be used to generate revenue.

**3) Funding**

A business without a funding source will flounder under the weight of its own debt. Funding is the fuel on which a business runs. A business can take different avenues to attain funding, and more than one option can be used. The chosen funding will depend on the business’ desire to be in debt, how solvent the business owners are at the time the business is founded and the amount of money a business will need to launch and maintain itself through a variety of events.

**SOURCES OF RAISING FINANCE**

MSME needs finance to carry out its activities and it is raised through two types of sources:

**1) Non- Institutional Source of Finance**

This source includes loan from money lenders, friends and relatives who exploit by charging high rate of interest.

**2) Institutional Source of Finance**

This includes institutions that provide finance with specialized objective of levying reasonable rate of interest and flexibility in repayment.

**Institutional Framework for MSME in India include:**

- **Central Government – SSI Board**
- **State Government – DI's, DIC's, SFC and SSIDC**
- **Financial Institutions – SIDBI, CB, Co-operative and NABARD**
- **Industry Association – FASSI, CII, FICCI and CWEI**
- **Other Agencies – TCO, NGO, KVIC and EDII**

**TYPES OF FINANCE**

**1) Short Term Finance**

These funds are required for a period of less than one year to meet variable, seasonal and temporary working capital requirement. Under this sources include trade credit,, instalment credit and customer advances.

**2) Medium Term Finance**

This type of funds are provided to meet permanent working capital ,small replacements and modification which is raised by issue of shares, debentures and borrowing from bank.

**3) Long Term Finance**

These funds are provided for a period exceeding 5 years which is required for acquiring fixed assets, establishment of new businesses through issue of shares, debentures and loans from financial institutions and ploughing back of profits.

**PROBLEMS/BARRIERS OF MSME SECTOR**

MSME face several problems in its day to day operations and cannot spend much on advertising research and marketing. The problems faced by MSME are given below:

- 1) Stiff competition from emerging firms-** A clear cut business plan is the very first requisite for business which acts as a blueprint. MSME sector should invest into for technological up gradation.
- 2) Inadequate infrastructural facilities-** It is required for successful functioning and survival of the business. Absence of well developed infrastructural facilities hampers the growth.

- 3) **Lending Problems** -Most start-up businesses need financing in order to begin its operations. The problem is that banks do not normally provide financing for start-up businesses as there might be problem in repayment.
- 4) **Industrial Sickness**- Industrial sickness specially in small-scale Industry has been always a demerit for the Indian economy more and more industries like cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem.
- 5) **Problem in rating of MSME**- Rating agencies like CRISIL, ONICRA, ICRA, SMERA, Brickwork, India Ratings (earlier known as FITCH) and CARE .assess a firm's financial viability and capability to honour business obligations, provide an insight into its sales, operational and financial composition, threreby assessing the risk element, and highlights the overall health of the enterprise which also benchmarks its performance within the industry. Absence of such rating may pose a problem.
- 6) **Absence of adequate and timely finance** - creates an obstacle in the process of firms growth
- 7) **Low Productivity Capacity** - hinders the growth and sustainability
- 8) **Ineffective Marketing Strategy** - leads to difficulty in promoting its products
- 9) **Problems in manufacturing of products** -affects the demand
- 10) **Lack of latest technology**- leads to ineffective sales and affects the health of the business

***"Finance really needs to understand its wide ranging role and set of responsibilities more clearly."***

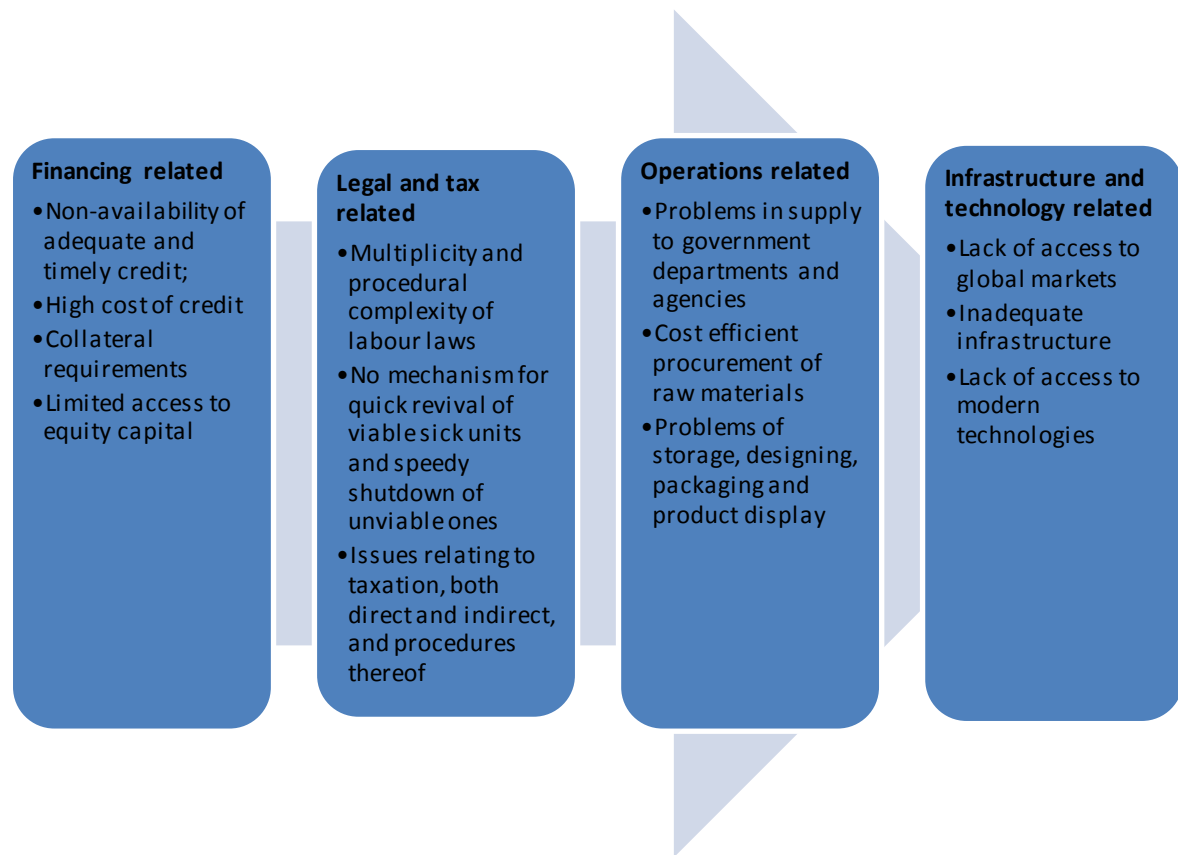
#### **FINANCIAL CONSTRAINTS FACED BY MSME**

The growth in providing finance to MSME cannot be achieved without addressing concerns of financial institution. MSME are considered as high risk borrowers due to factors such as inefficient assets, low capital risk, lack of transparency and lack of finance discipline. The financial constraints are mentioned below:

- Mentoring and Advocacy
- Credit
- Absence of adequate and timely banking finance
- Limited capital and knowledge
- Globalization of trade and commerce
- Non availability of suitable technology
- Low production and ineffective marketing strategy
- Exit mechanism
- Strategy and intervention for revitalization and growth
- Follow up with Government agencies to resolve problems

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## ISSUES OF MSME SECTOR



## CHALLENGES HAMPERING GROWTH OF MSME SECTOR

- Issue related to finance
- Access to Market
- Poor Technology Base
- Competition
- Lack of Skilled Workers
- Marketing and Distribution problems

## MEASURES TO HELP MSME IMPROVE ACCESS TO FINANCE

- Create an IT enabled platform to track MSME receivables to facilitate securitization of trade receivables
- Strengthen MSME credit information bureau and expand scope of information
- Start research institutions to have better understanding of financial patterns of service enterprises in MSME sector
- Endorse establishments to syndicate finance and provide advisory support to MSME in rural and semi urban sectors

### **WAYS TO ENHANCE MSME SURVIVAL**

- Intensive support is required for emerging activities
- Government should create enabling environment especially to avoid corruption
- Reintroduction of soft loans to financial institutions

### **CONCLUSION**

MSME sector has potential to emerge as a backbone for Indian economy acting as a engine for growth given the right set of support and enabling framework. Its growth has been rapid and impressive. They face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure and total quality management. Hindrance in accessing to finance from banks and other financial institutions where lot of efforts are made by Government to make flow of credit easy to this sector and lot of work needs to be done to meet the actual finance requirement of MSME sector in India. MSME sector can evolve to be more competitive and can contribute more significantly towards India's goal of sustainable and inclusive growth with greater access to finance.

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