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Finacing The Msme Sector- Growth And Challenges

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Introduction

The growth of MSME sector has been quite impressive after 1991, with many new ventures coming up and providing job opportunities to millions of people. This was considered to be the emerging area of the economy as it was leading the change with innovation and support to the major industries. The ability to promote exports and drive revenue to higher levels expanded with government coming up with schemes that were business friendly in nature. Over the last five years the growth around this sector has got stagnated and there has been a severe challenge in terms of reviving the growth. The entrepreneurs have started facing problems in trade regarding the resource utilization and credit since both of them are on the sinking ground. The thirst for growth started subduing because the financial institutions are refusing to go with cheaper loans and they don't want to take on the risk of getting into bad debts. Many entrepreneurs have not made themselves aware of the various schemes that are available and have always relied on the fact that banks would rescue them in case of any

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capital needs . RBI's new policy emphasizes on the fact that the MSME should be given priority of 20% growth year on year which can promote the economy to greater heights. The banks have been instructed under various schemes laid down by the central bank in terms of governance and credit issues toward financing this sector.

This paper will try to address the various issues of procuring financing and leading the MSME sector to growth. The need of the hour is to bring in changes that can facilitate growth from different aspects so that the Indian economy can bloom further with brighter prospects. This is the time where we see that the dependency on the large scale and public sectors industries have come down and need for innovation through better ideas have taken the centre stage to drive growth.

MSME and labour issues

The current scenario faced by the MSME starts with the challenge of skilled labour, where the industry is not able to get the required work force which is making them to go back on their output. The reason stems from the fact that the non availability of finance to promote these kinds of skills and due to this they are not able to raise any standards of production or go for any alternative sources of finance. The other major issue is the image factor of this sector, everyone believes that the volume drives the growth and hence it becomes a very big challenge for the industry to show great numbers. For example if you look into the auto ancillary parts , the comparison is always with those giants like Maruti or Mahindra who can easily woo their investors with their sheer size. There is also a hitch in terms of creating a capital pool where we can look for funding options like the SHG. Over the last few years especially after the demonetisation, the financial crunch has hit hard on this sector because at different stages the MSME feel the challenge of getting money to take up their work. In the

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long run the MSME owners have always felt dejected with the fact that growth is only a distant dream.

Secondly this sector also has a unique problem of hiring unskilled workers and regular cash rotation. On a seasonal basis they are not able to get over the labour and the wages issue which really puts them behind the production schedule. The need for new business development is also a big challenge which needs to be addressed separately. There is a constant push for getting new business with bigger contracts and deals which makes the business for a longer time period. To bid for these contracts the industry needs to have quick money which can make them to win over contracts and gain further momentum. The reserve bank of India has made special provisions with banks and other financial institutions to grant loans with subsidies and lesser interest rates to promote growth among this sector. But for the banks the question of recovery and the constant slow down of the economy is making them worry about the repayment and financial stability standards. The governance factors for this sector needs to be modified and we need to bring in more financial inclusion through which the MSME channel can have better access to the market. Sectors like textiles, hardware and construction will require even more a deeper understanding in terms of their working patterns and build a systematic renewal plan to build their competencies.

Sun rise or Sun down sector- a deeper insight

With the advent of apps and technology, the new business format is go online and develop millions of customer worldwide. This is the new format of MSME sector where you can see a young breed of entrepreneurs coming up with great ideas. This sector has got better funding and promotional aspects from the angel investors and technocrats due the visibility in the long run. Unfortunately this might not be true for a jewellery making unit located in west Bengal or Gujarat where there is regular push for money and sales is needed. Thought the

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government of India had come up with lot of sun rise sectors including health care and IT, the growth seems to be stunted in the majority of ancillary sectors. With the infusion of GST the sector has started facing greater challenges of paying higher taxes with lower output. In order to revive this sector we need a lot of support for the private sector also as they need to come forward to give them a helping hand in terms of small time projects and building sustainability in them. The time has come where the push for private public partnership to create a common pool for funding this sector. The major challenge comes during the mid stage or the survival stage because even after establishing the company there are many times where the business is not able to grow because of short term fund loss. These sectors are also influenced highly by small time money lenders who tend to create a chaos by bringing in huge interest rates and create burden for the entrepreneurs. The concept of instant loans and gold loans by small time finance companies have put this sector which a spark that you can find solace to this problem but actually this does not work out as they tend to drag the personal life as well as the balance sheet in a different direction all together. The state run cooperative banks and societies have identified different means in terms of asking for collaterals and guarantees to fund the business for short time. The government also needs to come up secured guarantee for this sector which can make the MSME sector to get funding with minimum hassles and make the organization gain more momentum in the long run. The sector also needs to helping hand from institutions who can provide seed funding with skilled manpower so that they can mange human resources and finance.

Compared to the Asian peers, the formalities involved in starting the firms and getting funds are complicated in India which also makes rank low and delay in investments from bigger companies and FIIs.

Need for changes

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- Legal awareness:

  The need to know about things and their functioning is very important for the entrepreneurs as they need to understand what the clauses are in which they can apply for the loans and best possible to way to operate a business with less challenges.

- Easy documentation

  The business need to understand the ease of documentation. This helps to fasten the business start up and build the rapport with the investors. People normally get confused and irritated with documentation which leads to the closure of business. They should reduce the steps involved in documentation and make user friendly procedures to complete the work faster.

- Simpler taxation policies

  The business needs to have simple tax policies which do not turn out to be burden in the long run. They need to give a comprehensive growth and returns so that investor is assured in the long run about the profits.

- Specific lending methods

  NBFCs play a major role in understanding the business houses. They need to understand the role of financing on a phase by phase method which can ensure the MSME regular availability of funds to growth.

Conclusion

The roadmap for MSME is not going to be easy since the challenges ahead not just from a financial angle. But keeping in view with the context of making things brighter, we need to see the banks and financial institutions coming forward with better plans and schemes to help the sector to grow. The economy will directly depend on consumption and production of goods for which we need to see the small scale industries with better performance. Today the

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borrowing capacity and risk taking ability have come down to a larger extent which is making the sector vulnerable to growth. We need to revive the confidence and morale back to the entrepreneurs to make this sector a truly growth oriented and positive one.

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