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# Challenges in Availing Finance for MSME Entrepreneurs

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## Abstract

*In India's socio-economic development, Micro, Small and Medium Enterprises play an important role. The agricultural sector is the first in employing the majority of the people, whereas MSMEs hold second place. MSME sector provides employment opportunities at the minimum capital cost. It assures more equitable distribution of national income/wealth and reduces regional imbalances as they are widespread both in urban and rural areas.*

*In many cases, entrepreneurs struggle to find any finance for new and uncertain businesses without collateral security. In recent years, spectrums of new Government programs are available to start-ups and growing businesses. This paper attempts to provide a view of those financial needs of Entrepreneurs, various Government schemes, challenges faced by Micro, Small and Medium Enterprises while availing the loans.*

**Keywords:** MSME Entrepreneurs, Finance, Government schemes.

## Introduction

The Indian MSME sector acts as a backbone in structuring national economy. MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. They have been able to provide employment to around 120 million persons and contribute 45% of the overall exports from India. The sector has consistently maintained a growth rate of over 10%. About 20% of the MSMEs are based out of rural areas which indicate the deployment of significant rural workforce in the MSME sector. It is an exhibit to the importance of these enterprises in promoting sustainable and inclusive development as well as generating substantial scale employment, especially in rural areas. Tamil Nadu is the third leading state in MSME in terms of the number of enterprises and employment in all India level. Finance is the lifeblood of every business organization. It is the prime requirement for Entrepreneurs to start and operate Micro, Small, and Medium Enterprises. Entrepreneurs can contribute their hard earned money for starting the business; it is not feasible for anybody to arrange finance by themselves to continuous operations and development of enterprises. The Indian Government implemented schemes for MSME to avail loan/finance for their promotion and development. This study details to understand the financial needs of MSME Entrepreneurs and the challenges by them in availing the same.

## Review of Literature

**Omid Sharifi, Bentolhoda Karbalaei Hossein (2015)** examined the main difficulties faced by startups in India and discusses the financing resources of startups in India by using a literature-based analysis. This paper is focused on problems faced by fresh graduates and who are willing to start their own business. In recent years the self-employment consciousness among college

students is increasing, and the students are less likely to rely on parents or schools or wait for opportunities. Instead, they tend to take the initiative to look for new chances for themselves.

**Jaskaran Singh, Davinder Singh (2014)**, studied the problems related to the financing of small firms in India. This paper examines the issues of medium and small enterprises. This paper is the combined study of the type of Industrial Finance required, various Financial Sources of MSMEs, Own financial Resources for Innovation, difficulty in access to finance and government Policies.

**Daniel, Agbenyo (2015)**. The general objective of this research work is to access the challenges facing SMEs in credit in the Kumasi Metropolis of the Ashanti Region of Ghana. Also, it investigates the requirements for Microfinancing SMEs and its effects on SMEs operations in the Kumasi Metropolis. It examined challenges SMEs face when accessing micro-credit in the Metropolis.

**Sanjay Manocha (2012)**, looked over innovation and entrepreneurship in today's scenario. The paper reviewed the famous entrepreneurs who have earned a name in the industry. The study also reveals the role of an innovative entrepreneur in the economy.

**K.Shashikala, Dr.SP.Mathiraj (2016)**, the paper gives insights about financing to small scale industries in India with the help of data. The contribution provided by State financial corporation, SIDBI, and commercial banks to small scale industries in India has been discussed in the paper year wise.

### Research Objectives

1. To understand the Financial needs of MSME Entrepreneurs.
2. To study the challenges faced by MSME Entrepreneurs to avail finance.

### Research Methodology

The study is based on secondary data. The secondary data required for the studies were collected from websites and publications related to the topic under study.

These were collected from various sources such as Ministry of Micro, Small and Medium Enterprises, Confederation of Indian Industry, Government of

Tamilnadu Micro, Small and Medium Enterprises Department and District Industries Centre at Dindigul District.

### Limitation of Study

1. This study analyses only the Micro-Entrepreneurs in Dindigul District. It does not cover Small and Medium Entrepreneurs.
2. Researchers can analyze the reason for Non-Functional MSME Enterprises in Dindigul District

### Study Area

This study was conducted at Dindigul District in Tamilnadu State.

### Period of Study

The study was conducted during the financial year the 2016-17.

### Financial Needs of Msme Entrepreneurs

Business enterprises, whether large or small, require finance to grow and survive, many enterprises are self-financed in the beginning, and they need external funding for development.

Entrepreneurs need finance for Capital Investment in the long term and Working Capital Investment in a short time towards continuous operations of the business. Immovable Property Collateral Security is must for getting finance for Capital Investment. It is mandatory for any enterprise to perform and yield a profit to get a loan from the bank for Working Capital Investment. They need money for procurement of raw materials, for paying wages, meeting other working capital requirements, expansion plan, and up-gradation of technology.

Central Government and State Government provide the following loans schemes for development of New Entrepreneurs.

### Needs

India needs many New Entrepreneurs for the continuous development of the Indian economy. Indian Government introduced the New Entrepreneur-Cum-Enterprise Development Scheme (NEEDS) to give entrepreneur training, assist to prepare their business plan, help to tie up

with regulated financial institutions to set up new Manufacturing and Service ventures. This scheme connects Entrepreneurs to the financial institutions for the Project cost from minimum Rs.5.00 Lakhs to not exceeding Rs.1.00 Crore. The entrepreneur has to meet the Preliminary & Preoperative expenses such as cost of land, Rented/Leased Building, Technical Knowhow.

### **UYEGP**

“Unemployed Youth Employment Generation Programme (UYEGP)” was introduced by Micro, Small and Medium Enterprises Department. It aims to overcome the unemployment problems of socially and economically weaker section of the society, particularly among the educated and unemployed to become self-employed by setting up Manufacturing / Service / Business enterprises by availing loan up to the maximum of Rs.10 Lakhs, Rs. 3 Lakhs and Rs. 1 Lakh respectively with subsidy assistance from the State Government up to 25% of the project cost (Maximum to a limit of Rs.1.25 Lakhs).

### **PMEGP**

Prime Minister’s Employment Generation Programme (PMEGP) is the Scheme by Indian Government by merging the two schemes namely Prime Minister’s Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for the generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. PMEGP is a central sector scheme to be offered by the Ministry of Micro, Small and Medium Enterprises. The Scheme is implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the official control of the Ministry of MSME as the single nodal agency at the National level. At the State level, the Scheme will be executed through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks.

### **Challenges Faced by MSME Entrepreneurs**

Access to credit is probably the biggest hurdle that Entrepreneurs face. Tedious loan procedures, long disbursal periods, collateral requirement, and high-interest rates are some of the factors that make

banks a problematic option for MSME loans. As banks perceive lending to MSMEs is the riskiest because of volatility in the market and revenue not guaranteed, they are very dependent on internal factors as well as external factors. The risk of giving loan to MSME sector is very high. Banks prefer to give the significant value of investments for big companies rather than providing a small number of jumbo loans to the MSME sector.

Micro enterprises, due to their small size and low capital base, generally obtain it challenging to satisfy the conditions laid down by the banks, particularly, in establishing the viability of the project, meeting collateral requirements also making timely repayment of loans. Hence, they do not find a place among the preferred clients of the banks.

Given the enormous contribution of the MSME sector towards the Indian economy, the government has taken some steps to give the industry a boost. Various schemes have been announced by the government that offers fiscal incentives for small businesses to grow and flourish.

### **Government Financial Schemes for MSME Entrepreneurs**

The Central Government Entrepreneur schemes for Finance are listed below:

SIDBI schemes

- Growth Capital and Equity Assistance
- Refinance for Small Road Transport Operators (SRTO)
- General Refinance
- Refinance for Textile Industry under Technology Upgradation Fund
- Acquisition of ISO series Certification by MSE Units
- Composite Loan
- Single Window(SW)
- Rehabilitation of Sick Industrial Units
- Development of Industrial Infrastructure for MSME Sector
- Integrated Infrastructural Development (IID)
- Bills Re-Discounting Equipment
- Bills Re-Discounting Equipment (Inland Supply Bills)

## NABARD Schemes

- Producers Organisations Development Fund
- Poultry Venture Capital Fund
- Commercial Production Units of Organic Inputs
- Establishment / Modernisation of Rural Slaughter Houses
- Establishing “Poultry Estates” and Mother Units for Rural Backyard Poultry
- Dairy Venture Capital Fund

## Suggestions

Though there are a lot of procedural hurdles in availing the loans from the bank through Government provided Schemes NEEDS, UYGEP, PMEGP, MSME Entrepreneurs should opt these schemes through Banks for availing finance rather than the other sources. If the initial stage obstacles are handled with difficulties, it will be so helpful in the long run for the benefit of enterprises such as only a bank gives Loans at fixed and reasonable interest rates, Government Subsidies, A variety of options for financial assistance, Flexible repayment options, A simple and transparent system for loan processing, Comprehensive consumer protection framework above all Bank is a regulated entity.

Entrepreneurs submit all the documents as asked for by the bank at the application stage to help the Bank to assess their financial standing and the feasibility of their business plans. Banks retain

authority to accept or reject application citing valid reasons.

The best way to repay the loan amount is to make payments to the bank at regular intervals. This will help Entrepreneurs to build a good credit reputation, which allows to enhance the relationship with the bank.

## Conclusion

Though finance is the critical requirement, it can be arranged by using the Government Schemes for MSME sector. Entrepreneurs should enhance knowledge on financial management to avail the facilities of Government Schemes. Entrepreneurs can approach the District Industries Centre to know the various schemes provided by the Government for starting and developing the business. They provide Entrepreneurs Development Programme Training and guidance regarding subsidies and loan availability.

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