



Latest Trends in Financial Support & Innovation for Msme's Growth & Development in Delhi / NCR

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ABSTRACT

MSMEs are one of the most progressive, vibrant and sensitive sectors of the Indian economy with a GDP contribution of around 8 percent and the largest after agriculture in employability.

With globalization, expansion has been seen in supply of superior technology, which has also forced MSMEs to face bitter competition from large domestic firms and MNCs. The sector has undergone several changes regarding definition.

The current paper is an attempt to critically analyze the latest trends in financial support & innovation for MSME's growth & development in Delhi/ NCR. This research has analyzed the present status of the financial support & innovation for MSME's growth & development.

A total of 100 MSMEs were randomly selected from a cross section of a population of 150 MSMEs spread in NCR. Participants were selected through a simple random sampling process. Primary data for analysis was taken with the help of questionnaire and interview. The responses to the questionnaires were complemented with personal interviews of the key operators. Moreover, findings and discussion were drawn and conclusion recommendations were made for future growth of MSME sector in NCR.

KEYWORDS : MSMEs, SMEs, SSIs, Finance, Small Industry, Micro Industry

Introduction:

MSMEs are considered as the most essential part of any financial system in general and in India especially in ensuring evenhanded, comprehensive & employment friendly financial development. In India, the MSMEs act as an important function in the entire industrial economy of the country. MSMEs in India make up over eighty percent of the total number of industrial enterprises and generate over 9000 value-added products and services. It is predictable that in terms of value, the segment accounts for 50% of the industrialized production and 60% of the overall export of the country and employs more than 7 crore people.

MSMEs are essential and are of supreme importance in the growth of any country especially in a developing country like India. Micro Small and Medium Enterprises (MSMEs) play an essential role and can be regarded a back bone of nationwide financial system (Peters and Waterman, 1982; Amini, 2004; Radam, 2008).

MSMEs are capable of making their existence felt mostly due to the simple structure and they can also react rapidly to altering economic circumstances and meet local requirement of customers, growing at times into large and influential corporations or failing within a short period of the firm's commencement. To control, distinguish, and moderate the credit risks at the earlier stages can be advantageous for financial institutions in identifying possible defaults of the enterprise and decrease losses incurred by the financial institutions.

Literature Review:

UNIDO (1969) in a study based on evidence from a number of developing countries indicated that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital intensive enterprises.

Mali (1998) observed that small and medium enterprises (MSMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation.

Bala Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must

be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Dixit and Pandey (2011) applied co integration analysis to examine the causal relationship between MSMEs output, exports, employment, number of MSMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between MSMEs output and India's GDP.

Objectives of the Study:

Is to access the latest trends in financial support & innovation for MSME's growth & development.

Problems for SMEs in India and NCR

At present, MSMEs are facing various problems in India. Since the area of this study is National Capital Region (NCR), the focus is on this area only. But, we found that these problems are very common in the entire nation. e.g. if we talk about the entire country or a particular region like NCR in India, MSME have same issues of concerns. Despite their high enthusiasm and inherent capabilities to grow, MSMEs in NCR are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations.

There are a certain challenges which continue to hamper the growth of MSMEs. To list a few:

- Issues related with Finance
- Access to Markets
- Poor Technology Base

- Lack of proper Infrastructure
- Lack of knowledge of foreign markets
- Marketing and Distribution Problems
- Lack of Skilled workers
- Competition

Financing has always been a major problem for MSMEs in India. Receiving timely and adequate finance at the agreeable conditions is a tedious and cumbersome exercise for MSMEs. According to the Indian Government Survey, 90% of the total Micro units in NCR procure funds from friends, lenders and private lenders only.

Research Methodology

The purpose of this research methodology is to discover answers of questions through the application of various procedures with the use of primary and secondary data. The main aim of this research is to find out the feasibility and viability of the financial support provided to MSMEs.

Data Collection Tools

- Primary data: Qualitative - Questionnaire & Quantitative - Interview
- Secondary data.

Data Analysis

Data analysis has been conducted using percentage method after collecting information from the questionnaire.

Findings from the Questionnaire

The questionnaire was completed by 100 respondents in National Capital Regions (NCRs). The questionnaire was distributed through post, e-mail and face to face. All the respondents reviewed were professionals or from local or national MSMEs. The information gathered from the questionnaire has been vitally assessed in order to attain a specific conclusion for the rationale of the research.

Type of business

Majority of respondents i.e. 46% said that they are running service rendering business in NCR such as consultancies, BPOs, KPOs, NGOs, repairing services, etc. Moreover, 29% of respondents said that they are doing trading business in NCR like stock market broking house, financial services, etc. On the other hand, 35% of respondents said that they are running production business in NCR like small factories of everyday used goods.

Duration of business

Majority of respondents i.e. 33% said that their duration of operating business in NCR is less than 5 years. Moreover, 26% of respondents said that their duration of operating business in NCR is more than 5 years. On the other hand, 23% of respondents said that they are new in the industry and their duration of operating business in NCR is 1 year. Similarly, 18% of MSMEs have just started their business and their duration of operating business in NCR is less than 1 year.

No. of Staff

Majority of respondents i.e. 38% said that they have less number of staff and employ upto 5 people for their business. Moreover, 24% of respondents said that they employ upto 10 people for their business. Furthermore, 17% of respondents said that they employ from 10 to 20 people for their business. On the other hand, only 11% of MSMEs have employed more than 20 people for their business.

Performance of business

Majority of respondents i.e. 48% said that lack of capital is the major problem in setting up their business. Moreover, 30% of respondents said that high cost of procuring operational equipment and facilities is the major problem in setting up their business. Furthermore, 17% of respondents said that scarcity and costliness accommodation is the major problem in setting up their business. On the other hand, only 5% of MSMEs said that official recruitment is the major problem in setting up their business.

Problems of Managing Micro, Small and Medium Enterprise

According to the above table, majority of respondents i.e. 31% said that inadequate financing or financial constraints is the major problem in managing their business.

Findings from the Interview

As an element of the survey or interview, essential information from few respondents was collected on diverse characteristics of MSMEs in NCR. Interviewees selected for the interview session were owner/partner, C.E.O. and head managers of some MSMEs of NCR. The form of interview is focus group with structured questions.

Access to finance is the major external factor influencing the growth of MSMEs in NCR

The interviewees were asked to give their opinions with respect to the financial matters that influence their growth. The 1st respondent said that with the analysis controlling for firm characteristics and using country fixed effects, micro firms are more likely to be credit constrained. Similarly, the 2nd respondent purported that smaller firms tend to face more constraints when it comes to finance. On the other hand the 3rd respondent revealed the fact that large firms are 85 per cent less likely to be credit constrained than micro firms. In addition to the 3rd respondent, the 4th respondent said that large firms are 97 percent more likely to have a loan or overdraft facility and 75 percent more likely to have a share of investment financed externally than micro firms. While interrupting the conversation, the 5th respondent said that comparing Medium sized and Micro sized enterprises he noticed huge gap difference in financial sector. Moreover, he said that Medium-sized and Large-Sized have 32 and 43 per cent better chances to have sales credit, while small firms are about 19 per cent more likely to offer sales credit than micro firms.

All interviewees told that they started up with internal sources of finance only. The 6th respondent told that this occurs with most of the new enterprises in NCR as they face difficulties to get external financial help. Accompanying the statement, the 6th respondent told that it is extremely difficult for entrepreneurs to receive a loan in NCR. The major issue here is lack of collateral and restrictions of banks towards firms with lower capital. Hence, the firms that were studied started with their own capital.

While the 7th respondent said that banks in developing countries seeks if the business ventures future is bright and this way grant loans at the beginning, this how company has the possibility to fund upcoming expenses. He further said that every company struggles at the beginning with different issues and it is very important that they get access to finance.

Therefore, NCR's company's main problem is getting loans from banks. After doing research and interviewing the managers for this research, it is considered that access to finance as a major problem at start-up phase.

Conclusion

Micro, small and Medium Enterprises (MSMEs) are one of the most effervescent and sensitive sectors in Indian economy. This research report has analyzed the research trends in financial support & innovation for MSMEs in National Capital Regions (NCRs).

This study has found that the major problem that hampers the growth of MSMEs in NCR is access to finance. Financing has always been a major problem for MSMEs and most of them receive funds from friends, lenders and private lenders only. Moreover, the limited budgets constrain the SMEs to create market access through the marketing and promotions. Many MSMEs do not have sufficient financial support to increase marketing tactics and many are not aware of contemporary low-cost marketing strategies.

Various initiatives and policies were provided by Indian Government and SEBI in order to encourage and preserve MSMEs against overwhelming development. Moreover, there are facilitates like advancement of technology for MSMEs which aim in technology up gradation and offer capital subsidy. Furthermore, some credit schemes were also offered by the government to promote MSMEs in NCR like loan, collateral and third party credit schemes, etc. The MSMEs Development Act of 2006 is perhaps the most crucial of these recent policy changes.

Recommendations

MSMEs are becoming one of the important contributors in the national wealth of the India and its importance is increasing day by day.

Moreover, the significance of Micro, small and Medium Enterprises (MSMEs) is attributable to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products.

MSMEs in NCR are facing a major problem of financing. Therefore, in order to overcome this issue, MSMEs in NCR need to adopt innovative approach with this. Moreover, the government should revise their plans or schemes in order to promote MSMEs in their region.

Thus, with regards to these various issues, following recommendations can be made in order to help MSME to survive in this highly competitive market:

- The government should create an enabling environment that is appreciably devoid of corruption and bureaucracy
- The government should re-introduce the small business credit scheme so that beneficiaries can use them to run the micro, small and medium enterprises
- There should be re-introduction of soft or instant loans for small and medium business by the government and financial institutions in NCR
- Government and other non-governmental organization should regularly organize seminars for potential MSMEs in NCR where they should be educated on how to plan, organize, direct and control their businesses

The MSMEs have been acknowledged as the engine of financial development and for promoting fair growth. The major benefit of the segment is its employment prospective at low capital cost. Moreover, the MSMEs comprise of over ninety percent of total enterprises in NCR and are accredited with producing the maximum rates of employment growth and account for a major share of industrial production and exports.

Thus, MSMEs are essential and of supreme importance in the growth of any country especially developing country like India. MSMEs play an essential role and can be regarded a back bone of nationwide financial system. Therefore, the government should take effective measures in order to promote MSMEs and help them to survive in this highly competitive global environment.

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