Summary of Macro Research Report

A Study on Issues and Challenges in MSME Financing in the State of Bihar

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The developing world is full of entrepreneurs and visionaries, who with access to education, equity, and credit, would play a key role in developing the economic situations in their countries.

~ Muhammad Yunus ~

Bihar is the third most populous state in India and enjoys a rich demographic dividend as 58% of the state population is below 25 years of age. However, a rural population exceeding 89% of the total state population, coupled with one of the lowest urbanization rates in India, offers limited full-time service class employment opportunities to all. To tackle the situation, the State Government of Bihar in line with Central Government initiative have brought radical policy measures to boost the growth of micro, small, and medium scale enterprises. Most importantly, 95% of the industries operating in Bihar fall under MSME; thus, the industry serves as the lifeline and is core to the economic prosperity of the state. The employment opportunities generated via MSMEs are bridging the income divide and thus serve as a vehicle to foster social equity.

Despite all the combined efforts, MSMEs suffer umpteen hurdles. One such major issue hampering operations of MSMEs is access to finance. In our research focusing around the financing related issues with the MSMEs operating in Bihar, we observe the credit supply to remain smooth and unbiased irrespective of the industry, sector type, and the type of ownership of an MSME operating in Bihar. However, the real bottleneck arises with the working capital management of the sanctioned, the onus of which falls under the discretion of an MSME applicant. The findings showcase poor management of working capital by allocating more share to short term loans by MSMEs applicants with lower education and digital awareness level. Since the early launch phase of a new venture is characterized by negative cash flows and marginal profit, the likelihood of repayment of short-term debt is abysmally low. It further endangers sustainable business operations of the enterprise in the long run, and the fallout of such ventures in futures can have cascading effects on the banks, resulting in piling up of NPAs in the coming future.

Hence, the need of the hour is to put a special impetus on education precisely, financial literacy and vocational training. It should be further coupled with digital awareness campaigns to be organized in collusion with banks, with the state acting as an enabler by facilitating penetration of such programs at grass root levels. Another important observation is MSMEs operating in rural and allied services shooting up in the state of Bihar. With the nation already struggling with low agricultural productivity, special emphasis has to be given to MSMEs operating in such sectors. Most importantly, stimulated effort from Central and State Government and banks have streamlined the credit supply to new ventures at grass-root level. However, an ill-equipped and less trained worker would further lead to diminishing returns, thus crippling the economy further. The findings pave the way to explore further the working capital management in MSMEs that have attained healthy cash flows and are operative at a later stage of the business cycle. Noteworthy, an optimal short term to long term debt would sufficiently provide enough leverage to enterprises and sustain business operations in the long run.