AN ESSAY ON MSME FINANCING AND THE DIGITAL REVOLUTION

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dx.doi.org/10.18374/RBR-23-1.7

ABSTRACT

This paper reviews the lack of financing of Micro, Small and Medium Enterprises (MSMEs). The importance of MSMEs is a major topic of discussion in global fora, including Group of Twenty Countries (G20). This paper suggests non-traditional ways to mobilize funding. An attempt is made to summarize the current lack of finances available to MSMEs and to suggest ways to increase the flow of funds using digital means and the positive role International Organizations can play in helping MSMEs raise capital.

Keywords: *Credit Line, Crowd Funding, Equity Financing, MSME, G20.*

1. INTRODUCTION

The importance of Micro, Small and Medium Enterprises, (MSMEs) to all countries, and more importantly to the Global South, cannot be stressed enough because they do not require large doses of capital or a very technically educated workforce. They help alleviate the employment situation and play an important role in industrial growth of underdeveloped regions. Micro enterprises also allow the weakest sections of society to enhance their income and to contribute to growth.

MSMEs are a high percentage of private sector in high income countries where they, as per Global Partnership for Financial Inclusion (GPFI), account for 60% of the income and 50% of the Gross Domestic Product (GDP), and in emerging economies they contribute to 50% of the employment and 40% of the GDP. In the bottom 59 countries, called Low Income Developing countries (LIDCs), comprising 59 countries, OECD 2014 states that MSMEs have a great impact on employment, poverty alleviation and social acceptance. The contribution by MSMEs is significant in achieving sustainable economic and social development. This conclusion has been confirmed by Yojana, a Government of India publication, which reaches similar conclusions in that job creation by MSMEs have a positive impact on poverty alleviation, and on human development indices, especially of women and youth.

2. LITERATURE REVIEW

MSMEs have been defined differently by various entities. It is usually the prerogative of individual countries or regions or organizations to define what they consider to be a Micro, Medium or Small Enterprise. For Example, the Government of India's definition of MSMEs is given in Table 1 below. There are two serious flaws in this definition, first the time at which investment is made in Plant and Machinery is not defined and second, the period of the turnover is also not defined.

Table 1: DEFINITION OF MSME; GOVERNMENT OF INDIA (Thousands Indian Rupees)

CLASSIFICATION	*INVESTMENT IN PLANT/MACHINERY*	*TURNOVER*
MICRO	DOES NOT EXCEED 10,000	DOES NOT EXCEED 50,000
SMALL	DOES NOT EXCEED 100,000	DOES NOT EXCEED 500,000
MEDIUM	DOES NOT EXCEED 500,000	DOES NOT EXCEED 2,500,000

Source: Gazette of India, June 1, 2020