

EMPOWERING MSMEs THROUGH EFFECTIVE BANKING & FINANCE: THE ROLE OF COST ACCOUNTANTS

Abstract

Micro, Small and Medium Enterprises (MSMEs) are the growth engine of the Indian economy, contributing significantly to employment, manufacturing, exports, and inclusive growth. However, their full potential remains untapped due to persistent challenges in *accessing and managing finance*. Effective banking and financial practices are critical for their sustainability and scalability. In this context, Cost Accountants play a pivotal role by bridging the gap between MSMEs and financial eco-system. With their expertise in financial planning, cost control, credit assessment, and compliances, CMAs can empower MSMEs to become financially disciplined and growth-ready. This article explores how Cost Accountants can become strategic partners in MSME growth by enhancing their financial literacy, improving creditworthiness, and facilitating access to formal finance.

Introduction

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy. With over 63 million enterprises contributing nearly **30% to the GDP, 48% to exports**, and employing over **110 million people**, MSMEs are engines of economic growth, employment generation, and regional development. However, despite their critical role, MSMEs face persistent challenges, especially in the areas of **banking, finance, business performance and financial management**.



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Among the key enablers who can support MSMEs in overcoming these challenges are **Cost and Management Accountants (CMAs)**. Their training, expertise, and regulatory position make them uniquely positioned to help MSMEs enhance financial efficiency, secure funding, manage costs, and ensure long-term sustainability.

This article explores the centrality of banking and finance in MSME growth, identifies major issues MSMEs face, and illustrates how CMAs can play a transformative role in strengthening this segment — thereby contributing to India's larger economic vision.

MSMEs and Their Financial Ecosystem: An Overview

1. Importance of Banking & Finance for MSMEs

Finance is often called the lifeline of any business, and this is particularly true for MSMEs. The ability to access, deploy, and manage financial resources directly impacts a small business's survival and success.

Key financial functions include:

- ⦿ **Working Capital Management**
- ⦿ **Project Financing**

- ⊙ Profit Planning and Monitoring
- ⊙ Cost Control & Profitability Analysis
- ⊙ Pricing & Budgetary Control
- ⊙ Financial Reporting & Compliance
- ⊙ Access to Institutional Credit

Yet, MSMEs remain **chronically under-financed** – mainly due to economic conditions. As per the IFC Report, the credit gap for MSMEs in India is estimated at over **₹25 lakh crore**.

2. Key Financial Challenges Faced by MSMEs

- ⊙ **Lack of Formal Documentation:** Many MSMEs operate informally with weak books of accounts, making it difficult to approach banks.
- ⊙ **Poor Financial Literacy:** Owners often lack the basic understanding of cost structures, pricing, and working capital cycles.
- ⊙ **Proposal Presentation:** Most of the MSMEs lack the knowledge on how to make an effective presentation to Banks for their Financial requirements.
- ⊙ **Low Creditworthiness:** Due to poor financial records, credit scores and ratings are low.
- ⊙ **Inadequate Cost Control:** Absence of cost management leads to price undercutting and cash losses. Good cost management & control can help optimise operations.
- ⊙ **Inefficient Use of Funds:** Funds are diverted to non-business activities due to a lack of discipline or monitoring.

The Role of Cost and Management Accountants (CMAs)

1. Understanding the CMA Profession

Cost and Management Accountants (CMAs) in India are governed by the **Institute of Cost Accountants of India (ICMAI)**, a statutory body under an Act of Parliament. CMAs are financial strategists trained in:

- ⊙ Designing and implementing costing systems and control
- ⊙ Budgeting and forecasting
- ⊙ Management accounting

- ⊙ Internal financial controls
- ⊙ Taxation and regulatory compliance
- ⊙ Project evaluation and investment decisions

Unlike Chartered Accountants (CAs), who primarily focus on audit, tax and financial reporting, **CMAs specialize in cost efficiency, profitability enhancement, and decision support systems** — making them ideally suited for MSMEs.

How CMAs Can Empower MSMEs in Banking & Finance

The unique financial and operational challenges of MSMEs make them ideal candidates for professional financial management. Here's how CMAs can intervene effectively:

1. Improving Financial Discipline & Systems

CMAs can help MSMEs:

- ⊙ **Establish sound accounting systems** using Tally, ERP, or cloud platforms
- ⊙ Annual budgets, **cash flow and working capital statements**
- ⊙ Prepare and maintain proper **books of accounts** for financing needs
- ⊙ Develop monthly and quarterly **MIS reports** to monitor performance

Impact: Enhances effective business monitoring, transparency, facilitates better business decisions, and builds trust with banks.

2. Facilitating Access to Bank Credit

CMAs act as enablers between MSMEs and financial institutions. They can:

- ⊙ **Assess fund requirement** based on working capital and project needs
- ⊙ Prepare **project reports and DPRs (Detailed Project Reports)** for loan applications
- ⊙ Help in completing **CMA Data formats** required by banks
- ⊙ Liaise with banks to ensure documentation is correct, complete, and persuasive

Impact: Increases **CREDIBILITY** with financiers and hence chances of loan approval and reduces

processing time.

3. Cost Control and Profitability Enhancement

Most MSMEs operate with thin margins and often fail to identify profit leakages. CMAs can:

- ⊙ Conduct **cost audits and variance analysis**
- ⊙ Identify unproductive cost centres and inefficiencies
- ⊙ Develop **product-wise or customer-wise profitability models**
- ⊙ Introduce **standard costing and benchmarking practices**

Impact: Boosts bottom line, helps in rational pricing, and strengthens competitiveness.

4. Project Evaluation and Capital Budgeting

Before investing in capacity expansion or diversification, MSMEs require sound feasibility analysis. CMAs can:

- ⊙ Prepare **capital expenditure proposals**
- ⊙ Do **cost-benefit analysis** and financial projections with the **payback** period of investment
- ⊙ Conduct **sensitivity and risk analysis**
- ⊙ Suggest **debt-equity mix**, subsidies, and funding avenues

Impact: Reduces financial risk and ensures better ROI on capital investments.

5. Working Capital Management

Efficient working capital ensures business stability. CMAs support MSMEs by:

- ⊙ Analyzing **receivables and payables cycles**
- ⊙ Improving **inventory management**
- ⊙ Monitoring **bank limits utilization**
- ⊙ Introducing **credit control policies**

Impact: Optimizes liquidity and improves operating efficiency.

6. Compliance with Regulatory Requirements

MSMEs are required to comply with various statutory obligations:

- ⊙ GST, Income Tax, Companies Act

- ⊙ Udyam Registration, MSME Annual Returns
- ⊙ Credit rating, Environmental norms

CMAs can:

- ⊙ Ensure **timely compliance**
- ⊙ Avoid penalties and interest
- ⊙ Conduct **internal audits and health checks**

Impact: Builds *credibility and trust* among lenders, investors, and stakeholders.

7. Credit Rating and Financial Health Monitoring

CMAs play a crucial role in preparing MSMEs for credit rating by agencies like CRISIL, ICRA, CARE, etc. They:

- ⊙ Improve financial reporting quality
- ⊙ Assist in creating **robust business models**
- ⊙ Maintain **financial ratios** as per benchmarks
- ⊙ Prepare for **credit rating interviews and site visits**

Impact: Higher credit rating leads to easier access to finance at lower interest rates.

8. Advisory on Government Schemes & Subsidies

Many MSMEs are unaware of various government support schemes such as:

- ⊙ CGTMSE, SIDBI funding, Mudra Loans
- ⊙ Interest Subvention Schemes
- ⊙ PMEGP, Startup India, MSME Champion Schemes

CMAs help in:

- ⊙ **Identifying eligible schemes**
- ⊙ Preparing required documentation
- ⊙ Tracking fund utilization and compliance

Impact: Ensures MSMEs benefit from government incentives and reduces financial burdens.

CMA as a Strategic Partner in MSME Growth

Unlike one-time consultants or compliance vendors, CMAs can become **long-term partners** in an MSME's financial journey.

They act as:

- ⊙ **Interpreters of Financial Data**
- ⊙ **Business Performance Monitors**
- ⊙ **Risk Managers**
- ⊙ **Strategic Advisors**
- ⊙ **Cost Efficiency Engineers**

Case Example: A medium-scale manufacturer of auto components in Pune was facing working capital stress and losing orders due to poor pricing. A CMA intervened, redesigned the costing model, optimized working capital, and helped raise a ₹3 crore term loan. Within a year, the unit turned around with 20% improved margins.

Policy-Level Role of CMAs in Strengthening MSME Ecosystem

CMAs are not only enablers at the enterprise level but also serve the **nation-building agenda** by contributing to policymaking, especially for MSMEs:

1. Involvement in Government Panels

CMAs can be part of:

- ⊙ RBI committees on MSME financing
- ⊙ MCA working groups on SME reporting
- ⊙ Finance Ministry panels on costing and pricing
- ⊙ GST Council sub-groups

2. Representation through ICAI

The Institute of Cost Accountants of India has been advocating:

- ⊙ Mandatory cost audits for larger MSMEs
- ⊙ Recognition of CMAs in banking sector for project appraisals
- ⊙ Standardized MIS and costing practices for MSMEs

Recommendations to Institutionalize CMA Support for MSMEs

To maximize the impact of CMAs in the MSME sector, the following should be considered:

1. Mandatory Financial Monitoring for Larger MSMEs

MSMEs with turnover above say Rs. 50 crores can be mandated to appoint a CMA for:

- ⊙ Preparing annual Budgets
- ⊙ Quarterly financial reviews – particularly Profitability analysis
- ⊙ Cost analysis reports
- ⊙ Working capital efficiency reports

2. CMA Panel at Banks

Banks and NBFCs should empanel CMAs for:

- ⊙ Project appraisal
- ⊙ Financial monitoring of loan accounts
- ⊙ Rehabilitation and restructuring cases

3. Government Scheme Linkages

Subsidies and incentives should be linked with:

- ⊙ Standardized financial reporting
- ⊙ Cost-benefit analysis certified by CMAs

4. CMA Helpdesks in Districts

ICMAI can create MSME helpdesks across districts for:

- ⊙ Free advisory
- ⊙ Basic financial health checkups
- ⊙ Credit-readiness evaluation

Conclusion

India's journey toward becoming a \$10 trillion economy rests heavily on the shoulders of its MSME sector. However, no amount of ambition can translate into achievement unless MSMEs are empowered financially — in thought, practice, and access.

Cost and Management Accountants are uniquely positioned to bridge the gap between MSMEs and sound financial management. Their expertise in cost control, financial systems, banking processes, and compliance makes them indispensable for small businesses seeking sustainable growth.

It is time that MSMEs actively leverage the power of CMAs — not just as compliance officers but as

growth navigators. At the same time, policymakers and institutions must acknowledge the critical role CMAs can play in nation-building through MSME development.

As India stands at the cusp of exponential growth, empowering MSMEs through effective banking, finance, and professional cost management is not a choice — it is a national imperative. MA

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Corporate Corner

Congratulations!!!



**CMA Kshirod
Chandra Nanda**

Our heartiest congratulations to CMA Kshirod Chandra Nanda on assuming the office of Director (Finance & Corporate Affairs) of GRIDCO Ltd, a Govt. of Odisha undertaking w.e.f 1st July 2025.

He is an Associate Member of the Institute, M.B.A. (Finance) from K.J. Somaya, Mumbai and associated with ICMAI-Sambalpur Chapter since 2008 in different capacities as Chairman & Secretary.

He is having rich post qualification experience of more than 30 years in the field of Finance-NBFC, Steel Industry (Audit, Accounts & Costing), Rubber industry & power sector (Distribution).

Prior to assuming charge of Director (F&CA) of GRIDCO Ltd, he was Sr. GM (Regulatory Affairs & Strategy) at TPWODL (formerly WESCO Utility) of more than 25 years in various areas viz. Finance & Accounts, Pre-audit, Franchisee Operation-commercial & Regulatory wing under different capacity. His immense contribution in the Odisha power sector (Distribution) brings many new ideas and concept in Regulatory domain for sustainable Retail Supply Tariff across Odisha.

We wish CMA Kshirod Chandra Nanda the very best for all his future endeavours.