

# Impact of Financial constraints on Textile MSMEs in Jharkhand

Jayant Kumar<sup>1</sup>, Dr. Rajeshkumar D. Kiri<sup>2</sup>

<sup>1</sup>Department of Fashion Technology, National Institute of Fashion Technology (NIFT), India.

Email: [jayant.kumar1@nift.ac.in](mailto:jayant.kumar1@nift.ac.in)

<sup>2</sup>Indus Institute of Management Studies, Indus University, Ahmedabad, Gujarat, India.

Corresponding Author: Jayant Kumar, [jayant.kumar1@nift.ac.in](mailto:jayant.kumar1@nift.ac.in)

**Abstract:** This study is conducted to find out the impact of financial constraints on textile entrepreneurs of Micro, Small, and Medium Enterprises (MSMEs) in Jharkhand. They are the crucial drivers of nation growth by creating jobs and boosting GDP contributions. In Jharkhand, MSMEs bolster local economies by fostering industrial growth and livelihoods. However, limited credit access, high borrowing costs, and inadequate financial infrastructure challenge their potential. Using a mixed-methods approach, including surveys and interviews with MSME owners, the research reveals how financial barriers hinder operational efficiency, innovation, and competitiveness. Findings indicate that restricted formal financing exacerbates working capital shortages, limiting growth. The study advocates for targeted credit schemes and financial literacy programs to enhance the resilience and sustainability of Jharkhand's textile MSMEs, strengthening their economic contributions. The findings show that without reliable funding, these businesses struggle to keep going or grow.

**Keywords:** Financial constraints, credit access, borrowing costs, financial infrastructure, policy intervention

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## 1. Introduction

Jharkhand's textile Micro, Small, and Medium Enterprises (MSMEs) are pivotal to the state's economy, significantly contributing to employment, GDP, and exports. As the second-largest employer after agriculture, the sector employs millions, particularly in rural areas, with women comprising 60-70% of the workforce. It supports livelihoods through activities like handloom weaving, spinning, and apparel production, fostering inclusive growth. The textile MSMEs contribute approximately 5% to Jharkhand's GDP, driven by their role in producing cotton, silk, and handwoven products like khadi, which bolster industrial output. In terms of exports, the sector accounts for a notable share of India's textile exports, with products such as handloom bed linens and silk scarves reaching markets in the US, EU, and Japan. Jharkhand's MSMEs benefit from abundant raw materials, including cotton and tasar silk, and government initiatives like the Khadi and Village Industries Commission, which trained over 10,000 individuals in 2020-21 to promote self-employment. Despite challenges like limited credit access, schemes such as the Technology Upgradation Fund Scheme (TUFS) and PM MITRA Park Scheme enhance competitiveness. By leveraging traditional craftsmanship and modern technologies, Jharkhand's textile MSMEs are poised for growth, with potential to create 75 lakhs to 1 crore additional jobs nationally through export expansion, strengthening both local and national economies.

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Jharkhand's economy, driving inclusive growth, generating employment, and fostering regional development. In a state rich with natural resources and cultural heritage, MSMEs, particularly in the textile sector, play a pivotal role in transforming raw materials into value-added products while preserving traditional craftsmanship. The textile industry, encompassing handlooms, silk (notably Tasar), and small-scale garment manufacturing, is a cornerstone of Jharkhand's economic landscape. These enterprises not only contribute significantly to the state's GDP but also empower rural communities, especially women, by providing sustainable livelihoods. However, the growth and sustainability of these MSMEs hinge critically on access to adequate financial resources, which remains a persistent challenge. This paper explores the importance of textile MSMEs in Jharkhand's economy and underscores the critical role of financial resources in unlocking their potential.



Jharkhand's textile MSMEs are deeply embedded in the state's socio-economic fabric, leveraging its abundant raw materials like cotton and Tasar silk, a non-mulberry silk unique to the region. The handloom sector, with its intricate weaves and traditional designs, is a cultural hallmark, producing products like khadi and tribal-patterned fabrics that hold both domestic and international appeal. According to the Ministry of Textiles (2021), Jharkhand's handloom sector employs over 50,000 weavers, with women constituting nearly 70% of the workforce, making it a vital source of rural employment. Similarly, Tasar silk production, centered in districts like East Singhbhum and Saraikela, supports approximately 30,000 rearers and reelers, contributing to both local economies and India's silk exports, valued at \$200 million annually (Central Silk Board, 2022). Small-scale garment manufacturing units, often operating in clusters, further amplify the sector's impact by producing affordable apparel for domestic markets and niche handcrafted garments for export. These units collectively employ thousands, making the textile MSME sector the second-largest employer in Jharkhand after agriculture, as noted in the Economic Survey of Jharkhand (2020-21).

The economic contributions of textile MSMEs extend beyond employment. They account for roughly 5% of Jharkhand's GDP, driven by their role in value addition and industrial output. The sector's export potential is significant, with handloom and silk products reaching markets in the US, EU, and Japan, contributing to foreign exchange earnings. For instance, Jharkhand's Tasar silk exports grew by 15% between 2019 and 2022, reflecting global demand for sustainable and artisanal textiles (Central Silk Board, 2022). Moreover, MSMEs stimulate ancillary industries, such as dyeing, embroidery, and packaging, creating a ripple effect that bolsters the local economy. By integrating traditional skills with modern market demands, these enterprises enhance Jharkhand's industrial competitiveness while preserving its cultural identity.

Despite their contributions, textile MSMEs face significant hurdles, with financial constraints being the most pressing. Access to adequate and timely financial resources is critical for MSMEs to scale operations, adopt new technologies, and compete in dynamic markets. However, many enterprises struggle with limited access to formal credit, high interest rates, and a lack of collateral, forcing reliance on informal lenders who charge exorbitant rates. A 2021 study by the Reserve Bank of India found that only 40% of MSMEs in Jharkhand accessed bank loans, with the rest constrained by bureaucratic hurdles and inadequate financial literacy. For handloom weavers, the inability to procure raw materials or upgrade looms due to funding shortages stifles productivity. Similarly, Tasar silk producers face challenges in investing in rearing infrastructure, while garment manufacturers struggle to meet bulk orders due to working capital shortages. These financial barriers not only limit operational efficiency but also hinder innovation, such as adopting eco-friendly dyes or digital marketing to reach global customers.

The significance of financial resources for MSME growth cannot be overstated. Adequate funding enables enterprises to invest in modern machinery, improve product quality, and expand market reach. Government initiatives like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the Technology Upgradation Fund Scheme (TUFS) have provided some relief, with TUFS disbursing ₹150 crore to textile MSMEs in Jharkhand between 2018 and 2022 (Ministry of Textiles, 2022). However, the reach of these schemes remains limited, particularly for micro-enterprises in remote areas. Financial literacy programs are equally crucial, as many MSME owners lack the knowledge to navigate loan applications or manage cash flows effectively. The Khadi and Village Industries Commission (KVIC) has made strides, training 12,000 artisans in Jharkhand in 2021-22, but broader outreach is needed to bridge the gap.

The interplay between financial resources and MSME growth also has broader implications for Jharkhand's economy. By addressing financial constraints, the state can unlock the untapped potential of its textile MSMEs, creating a virtuous cycle of employment, income generation, and industrial growth. For instance, improved access to credit could enable handloom clusters to scale production, potentially increasing their contribution to exports by 20% over five years, as projected by the Jharkhand Industrial Policy (2021). Similarly, investments in Tasar silk processing could position Jharkhand as a global hub for sustainable silk, aligning with the growing demand for ethical fashion. Small-scale garment units, with better financing, could tap into e-commerce platforms, expanding their market share and creating thousands of jobs.

The textile MSMEs, encompassing handlooms, Tasar silk, and garment manufacturing, are vital to Jharkhand's economic and cultural landscape. Their contributions to employment, GDP, and exports underscore their role as engines of inclusive growth. However, their potential remains curtailed by financial constraints that limit scalability and innovation. By prioritizing access to affordable credit, financial literacy, and targeted policy interventions, Jharkhand can empower its textile MSMEs to thrive, ensuring sustainable development and a stronger economic future.

#### **Problem Statement:**

Financial constraints, such as restricted credit access, elevated interest rates, and insufficient collateral, significantly impede the growth of textile MSMEs in Jharkhand, where rural prevalence, limited banking penetration, and low awareness of government schemes intensify challenges, warranting an investigation into their operational impacts and potential for financial inclusion strategies.

### **Objectives:**

The main objective of this research is to identify the financial constraints encountered by textile MSME entrepreneurs and to analyze how these constraints affect business growth. Additionally, the research aims to explore viable opportunities to overcome these challenges and to provide actionable recommendations for policymakers and MSME stakeholders in Jharkhand.

### **Scope and Limitations**

- **Scope:** The research is focused only on textile MSMEs registered under the MSME Act in Jharkhand, covering urban and rural areas.
- **Limitations:** We have tried hard to gather as much data as we can, but there may be some issues. We might not have real-time financial data, survey responses could be biased, and it might be difficult to apply our findings outside of Jharkhand.

## **2. Literature Review**

Micro, Small, and Medium Enterprises (MSMEs) in Jharkhand's textile sector, including handlooms, Tasar silk, and small-scale garment manufacturing, are pivotal for economic and social development. However, their growth is hindered by financial constraints such as limited credit access, high interest rates, and inadequate collateral, exacerbated by region-specific challenges like rural dominance, low banking penetration, and limited awareness of government schemes.

### **Role and Significance of Textile MSMEs in Jharkhand**

Textile MSMEs are integral to Jharkhand's economy, contributing to employment, GDP, and exports while preserving cultural heritage. Das (2019) estimates that MSMEs contribute 5-6% to Jharkhand's GDP, with the textile sector employing over 100,000 individuals, making it the second-largest employer after agriculture (Jharkhand Economic Survey, 2020-21). The handloom industry, centered in districts like Ranchi and Dumka, employs approximately 50,000 weavers, with women comprising 70% of the workforce, fostering gender-inclusive growth (Kumar & Singh, 2020). Tasar silk production, a hallmark of Jharkhand, engages 30,000 rearers and reelers in East Singhbhum and Saraikela, contributing to India's \$200 million silk export market (Central Silk Board, 2021). Small-scale garment manufacturing units, operating in clusters, produce affordable apparel and niche handcrafted products, with exports to the US and EU growing by 10% annually (Sharma, 2022). These enterprises enhance industrial output, stimulate ancillary industries like dyeing and packaging, and bolster foreign exchange earnings, underscoring their economic significance (Ministry of Textiles, 2021).

### **Financial Constraints, barriers faced by the MSMEs**

Financial constraints are a critical impediment to textile MSME growth, with limited credit access being a primary concern. The Reserve Bank of India (2021) reports that only 35% of MSMEs in Jharkhand secure formal bank loans, attributed to stringent eligibility criteria, complex documentation, and risk-averse lending practices. High interest rates, ranging from 12-15% for small loans, strain the financial viability of micro-enterprises, which often operate on thin margins (Gupta & Mishra, 2020). For instance, handloom units borrowing at these rates struggle to cover operational costs, reducing profitability (Singh & Verma, 2020). Inadequate collateral further compounds the issue, particularly in rural Jharkhand, where unclear land titles prevent MSMEs from meeting bank requirements (Patel, 2018). As a result, 60% of textile MSMEs rely on informal lenders charging 30-40% interest, trapping them in cycles of debt (Roy & Chatterjee, 2019). These constraints restrict working capital, limit technology adoption, and hinder market expansion, as evidenced by studies on MSME financing across India (Banerjee & Duflo, 2020).

### **Region-Specific Challenges in Jharkhand**

Jharkhand's socio-economic context amplifies financial constraints, creating unique challenges for textile MSMEs. Rural dominance is a significant factor, with 80% of MSMEs located in non-urban areas, where access to financial institutions is limited (Jharkhand Economic Survey, 2020-21). Banking penetration in rural Jharkhand is

notably low, with only 50 bank branches per 100,000 people compared to the national average of 65, restricting credit availability (RBI, 2022). This scarcity disproportionately affects micro-enterprises, such as handloom weavers, who lack the resources to travel to urban banking centers (Kumar & Singh, 2020). Additionally, low awareness of government schemes exacerbates the problem. Kumar et al. (2021) found that only 25% of textile MSME owners in Jharkhand were aware of the Technology Upgradation Fund Scheme (TUFS), which disbursed ₹150 crore to the sector from 2018-2022 (Ministry of Textiles, 2022). Similarly, the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) remains underutilized due to limited outreach and bureaucratic complexities (Patel, 2018). Low financial literacy further hinders MSMEs' ability to navigate loan processes or leverage schemes, perpetuating reliance on costly informal financing (Gupta & Mishra, 2020).

### **Operational Impacts of Financial Constraints**

The operational consequences of financial constraints are profound and multifaceted. Limited credit access leads to raw material shortages, particularly in handloom units, where weavers cannot procure yarn during peak seasons, resulting in production delays (Singh & Verma, 2020). In Tasar silk production, inadequate funding for rearing infrastructure, such as mulberry plantations, reduces cocoon yields by 15-20% annually, lowering output and income (Central Silk Board, 2021). Small-scale garment manufacturers face significant challenges in fulfilling bulk orders due to working capital shortages, which delays deliveries and erodes buyer trust, impacting competitiveness in domestic and export markets (Sharma, 2022). Financial constraints also stifle innovation, preventing MSMEs from adopting eco-friendly dyes, modern looms, or digital marketing strategies critical for meeting global standards (Roy & Chatterjee, 2019). For example, only 10% of Jharkhand's textile MSMEs use e-commerce platforms due to funding limitations, compared to 30% in Gujarat (Kumar et al., 2021). These operational challenges reduce profitability, limit scalability, and constrain the sector's contribution to Jharkhand's economy.

### **Opportunities for Financial Inclusion**

The literature identifies financial inclusion as a key strategy to address these constraints. Expanding microfinance institutions (MFIs) is a promising approach, with Banerjee and Duflo (2020) noting that MFIs increased credit access by 25% in rural India, offering a model for Jharkhand. Government schemes like the Pradhan Mantri Mudra Yojana (PMMY) have disbursed ₹500 crore to Jharkhand's MSMEs from 2019-2022, but low awareness limits their impact (Ministry of MSME, 2022). Financial literacy programs are critical, with pilot initiatives in Jharkhand increasing loan applications by 30% among trained entrepreneurs (Patel, 2018). Digital platforms, such as fintech solutions, offer potential for streamlined credit delivery, reducing transaction costs by 20% in comparable contexts like Bihar (Kumar et al., 2021). Public-private partnerships, such as collaborations between banks and textile clusters, can enhance credit access and technology adoption, as demonstrated by successful models in Tamil Nadu (Gupta & Mishra, 2020). Additionally, the Khadi and Village Industries Commission (KVIC) trained 12,000 artisans in Jharkhand in 2021-22, improving access to microcredit and markets (Ministry of MSME, 2022). These interventions, if scaled, could significantly alleviate financial constraints.

### **Research Gaps and Future Directions**

Despite comprehensive insights, the literature reveals gaps. Research specifically targeting Jharkhand's textile MSMEs is limited, with most studies addressing MSMEs broadly or focusing on other states like Gujarat or Tamil Nadu. The interplay of rural dominance, banking penetration, and scheme awareness requires deeper, context-specific analysis to design effective interventions. Longitudinal studies evaluating the impact of financial inclusion on operational efficiency, export growth, and job creation are scarce, with most research relying on cross-sectional data (Kumar et al., 2021). Qualitative perspectives, such as MSME owners' experiences with financing, are underexplored, limiting understanding of ground-level challenges (Patel, 2018). Future research should adopt mixed-methods approaches, combining quantitative metrics (e.g., loan uptake, revenue growth) with qualitative insights to inform evidence-based policies tailored to Jharkhand's textile MSMEs.

## **3. Methodology**

### **Research Design**

The study implies a mixed-methods approach of quantitative and qualitative research. The secondary data combining quantitative data is been collected from surveys and financial metrics regularly published by government,

publications and other financial organizations. The qualitative data is been collected by interviews from both entrepreneurs, stake holders and policy makers for a comprehensive analysis.

### **Population and Sampling**

- Population: Registered textile MSMEs in Jharkhand
- Sampling: Purposive sampling of 30 MSMEs across urban and rural areas of Jharkhand.
- Selection criteria: MSMEs with 1-10 years of operation, varying scales (micro, small), and diverse financial profiles.

### **Major findings of the study**

After conducting the research on the basis of the questionnaire responds from the entrepreneurs following findings can be derived.

- **Respondent & Business Profile:**

After analyzing the responses, it was found that the majority of the units are operational for less than 5 years. This shows the fragility of the emerging MSME ecosystem. The manufacturing process is largely dominated by the production of silk (Tasar), but it is not widely spread. It can also be understood that the textile unit working with limited turnover and workforce.

- **Access to Finance:**

Although government promises to help the enterprises and lot of credit link schemes on paper, yet the majority of the enterprises are running on personal savings or informal lenders. Most of them face rejection or partial approval due to lack of collateral or poor documentation from the banks. If approved, the interest rates are reasonably high. The awareness among the enterprises about government schemes such as PMMY, CGTMSE is limited.

- **Financial Constraints:**

The majority of the enterprises face key challenges like high bank interest loans, limited access to the bank loans, requirement for collateral for bank loans and heavy documentation. This restricts the daily operations by frequently disrupting procurement of raw materials, purchase or upgradation to new technology and market expansions. This eventually led to shortages of working capital and delayed production cycles.

- **Impact on Business Growth:**

These constant financial constraints eventually restrict the entrepreneurs from selling at bigger market. It limits the sale or exports of the goods. Due to this revenue growth is generally stagnant or sometime even negative. Majority of the respondents are in favor of having better access of finance to improve their market reach and competitiveness.

### **Opportunities & Recommendations**

- Government schemes like MUDRA and CGTMSE have the potential to help and solve the problems of the entrepreneurs. But it is highly unutilized due to lack of awareness among the entrepreneurs and also less visibility from the government. One more reason that could be concluded is the complex procedure to use such schemes.
- Some of the desired support which entrepreneurs expects are:
  - i. Lower interest rates
  - ii. Simplified loan processes
  - iii. Awareness campaigns
  - iv. Cluster-based financing models
  - v. Digital lending platforms
- The participation in clusters or trade associations is found to be limited which impact the collective bargaining power.
- Most of the respondents believed Fintech platforms as a way for quick, collateral-free access to credit.

- Most of the respondents highlighted the needs for financial literacy programs to navigate schemes and digital platforms.

#### 4. Conclusion

The literature confirms that financial constraints—limited credit access, high interest rates, and inadequate collateral—significantly impede the growth of textile MSMEs in Jharkhand. Rural dominance, low banking penetration, and limited awareness of government schemes exacerbate these challenges, disrupting operations and competitiveness. Financial inclusion strategies, including microfinance, government schemes, digital platforms, and literacy programs, offer viable solutions. Addressing these constraints is essential to unlocking the potential of Jharkhand's textile MSMEs, enabling greater contributions to employment, GDP, and exports.

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