

Financial Inclusion and the Growth of Micro Small and Medium Scale Sectors (MSMEs) in India

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ABSTRACT

Economic development of any country is directly related to the level of industrial growth. If the industrialization starts from villages, then the impact on its development will be enormous. In India, Micro Small and Medium scale Enterprises (MSMEs) have been playing an important role in the overall industrial development as less capital investors of consumer goods and employment providers, thereby helping the country in reducing the poverty and unemployment. The MSMEs are the best vehicle for inclusive growth, to create local demand and consumption and also to fight with the global meltdown. Public policy has rightly accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. A micro enterprise of today will be a big enterprise of tomorrow, and might well become a multinational enterprise eventually, if given the support in finance and capacity building

This study attempts to analyse the various schemes and new financing methods available for MSMEs and provide them with a roadmap for optimal use. The study also outlines the pivotal role of the Financial inclusion and the growth of MSMEs.. It also highlights various financing options and credit schemes by MSMEs in developing MSMEs.

1. Introduction

Economic development of any country is directly related to the level of industrial growth. If the industrialization starts from villages, then the impact on its development will be enormous. In India, Micro Small and Medium scale Enterprises (MSMEs) have been playing an important role in the overall industrial development as less capital investors of consumer goods and employment providers, thereby helping the country in reducing the poverty and unemployment. According to MSMEs Ministry, with 30 million Medium and Small units spread across the length and breadth of the country, the MSMEs sector employs about 60 million people and creates nearly 1.3 million jobs every year.

The Indian MSMEs sector has two significant characteristics, first most of the MSMEs sector in India is very small in size, with 94.67 per cent being classified as micro, while 5.05 per cent are small and a marginal 0.25 per cent are medium enterprises. They have a small capital base with investment in plant and machinery not exceeding 25 lakhs for manufacturing units and Rs 10 lakhs for service sector units. Second, the MSMEs sector still remains largely unorganized with 94 per cent of MSMEs still being unregistered because the registration of MSMEs is not mandatory under MSMEs Development Act 2006. 67 per cent of registered MSMEs are in manufacturing as compared to services. However, manufacturing itself is still dominated by unregistered enterprises with 86 per cent share. Even after sixty years of independence majority of MSMEs population still remained unregistered which leads to exclusion of population from banking and other financial services. This lead to financial instability. As a measure the RBI and the ministry of MSME

began to emphasize the idea of financial inclusion. Financial inclusion is the process of ensuring access to financial services and adequate timely credit by low income groups and weaker sections at an affordable cost.

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2. Review of Literature

Central Bank of Nigeria (CBN) is in the driving seat to achieve financial inclusion. The bank's policy recognizes the role of Microfinance in providing financial access to the MSMEs operators that are usually excluded from or inadequately served by the available financial institutions. It follows that financial exclusion would be deleterious to the growth and development of Micro, Small and Medium Enterprises (MSMEs). According to Sarma (2008), financial inclusion is a process which ensures easy access to financial services in an economy. According to the author, ease of access is measured by proxies such as number of bank branches or ATMs per 1,000 adult populations. Khan (2011) contended that promoting financial inclusion, in the wider context of economic inclusion, can improve financial conditions and uplift the living standard of the poor and the disadvantaged.

According to International Finance Corporation (2012), the supply of finance to the MSME sector is estimated to be 32.5 trillion Indian rupees (Rs). This total comprises contributions from informal finance, formal finance, and self-finance. Informal sources and self-finance contribute Rs25.5 trillion to the sector, of which informal finance accounts for Rs24.4 trillion. In other words, 78% of the finance used by MSMEs is met by informal sources and self-finance. The remaining 22% (Rs6.9 trillion) is provided by banks and NBFCs, of which banks provide the bulk (91.8%).

3. Objectives of the Study

The following objectives are framed to analyse the financial inclusion and MSMEs growth.

- To analyse the performance of MSMEs in India's economic development
- To examine the role of financial inclusion and the growth of MSMEs
- To examine the problems faced by MSME in accessing finance and various credit schemes to MSMEs

4. Financial Inclusion and the Growth of Msmes in Economic Development

The Micro Small and Medium Enterprise (MSME) sector in India is essential to achieving the targeted growth rate of our nation. This sector fosters growing entrepreneurs and incubates innovation at its most fundamental level. A growth in the MSME sector not only ensures industrialisation in backward areas, but also indicates a more equitable Gini coefficient. The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA)¹ and Gross Domestic Product (GDP)², at current prices for the last five years is as below:

Table 1: Contribution of MSMEs in Country's Economy at Current Price

Year	MSME GVA	Growth(%)	Total GVA	Share of MSME in GVA(%)	Total GDP	Share of MSMEs in GDP(%)
11-12	2583263	-	8106946	31.86	8736329	29.97
12-13	2977623	15.27	9202692	32.36	9944013	29.94
13-14	3343009	12.27	10363153	32.26	11233522	29.76
14-15	3658196	9.43	11481795	31.86	12445128	29.39
15-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

The above table indicates that the share of MSME in GDP was 29.97% in the year of 2011 -12 and it has slightly decreased to 28.77 in the year 2015-16. The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO⁴ (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years. MSMEs growth is very essential to

Table 2: Estimated Employment in MSME Sector (in lakhs)

Broad activity category	Rural	urban	Total	Share (%)in lakhs
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh

in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

Table3: Distribution of Employment in Ruran Urban areas(numbers in Lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively.

5. Problems Faced by Msmes

Access to credit

Notwithstanding the increase in credit outstanding to the sector, access to adequate and timely credit at a reasonable cost is a critical problem faced by this sector. The statistics compiled in the Fourth Census of MSME sector September 2009, revealed that only 5.18% of the units (both registered

and unregistered) had availed of finance through institutional sources, 2.05% had finance from non-institutional sources; the majority of units i.e. 92.77% had no finance or depended on self-finance. Thus, the extent of financial exclusion in the sector is very high. But, this is not entirely unexpected because if one looks at the financial exclusion in our country in general, then MSMEs cannot remain unaffected by it.

First time entrepreneurs

The MSE borrowers, especially new generation entrepreneurs, do not have collaterals to offer to avail of bank finance. It is generally observed that collateral security provides comfort to the lenders as it ensures commitment of the borrower to the project and is also available to them for recovery in the event of failure of the enterprise.

Access to alternate sources of capital

The ability of MSMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. For this purpose, removing fiscal/regulatory impediments to use such funds by the MSMEs should be considered on priority. Access to equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector. Absence of equity capital may pose a serious challenge to development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. There is a demand for a dedicated Exchange for MSMEs.

Delayed realization of receivables

Considerable delay in settlement of dues/payment of bills by the large-scale buyers to the MSMEs units adversely affected the recycling of funds and business operation of MSME units. Though the Government has enacted the Delayed Payments Act, 1998 many of the MSME units are reluctant to pursue cases against major buyers. After the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened. The banks have been advised to sanction separate sub-limits within the overall limits sanctioned to the corporate borrowers for meeting payment obligations in respect of purchases from MSME sector.

Sickness of units

Growing incidence of sickness of the sector is yet another area of concern. When the sickness prolongs it leads to the closure of units and unemployment. The mortality of the MSE units is high. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. As on March 2011, the number of units identified as potentially viable as a percentage to total sick MSE units is around 8. The units placed under nursing as a proportion to the total number of sick units stood at 5.22%. The causes of sickness are both internal and external. The major causes are limited financial resources, lack of organisational, financial and management skills and

expertise, non-availability of power supply shortage of raw materials, marketing difficulties, delayed and inadequate credit, obsolete technology, inadequate infrastructure, etc.

Initiatives taken by the Government / Ministry of MSMEs to improve MSMEs through financial inclusion.

Given the enormous contribution of the SME sector towards the Indian economy, the government has taken some steps to give the sector a boost. Various schemes have been announced by the government that offers fiscal incentives for small businesses to grow and flourish.

Case in point is the Credit Guarantee Fund Scheme in which the goal is to make available MSME loan without collateral this is an initiative taken up by the Reserve Bank of India (RBI) to promote all-round development of the economy. Under this, commercial banks (public and private) are directed to lend at least 40% of their Net Bank Credit (NBC) and foreign banks are required to lend 32% of their NBC to the priority sectors.

Credit and Financial Assurances to MSMEs Major Schemes Chapter-IV I. Prime Minister's Employment Generation Programme (PMEGP) Description -The scheme aims to generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/ projects/ micro enterprises. Another objective is to provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural / urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas.

Credit Linked Capital Subsidy Scheme (CLCSS)-The objective of the Scheme namely "Credit Linked Capital Subsidy Scheme (CLCSS)" for Technology Upgradation of Micro and Small Enterprises is to facilitate technology up-gradation in Micro and Small Enterprises (MSEs) by providing capital subsidy of 15 % (limited to maximum of Rs.15.00 lakhs) on institutional finance availed by them for induction of well-established and improved technology. Maximum limit of eligible loan for calculation of subsidy under the Scheme is investment in approved plant & machinery up to Rs.1.00 crore for induction of well-established and improved technologies.

Credit Guarantee Trust Fund For MSEs (CGTMSE) –

Provision of collateral free credit for MSMEs Description Guarantees are provided for extending collateral free lending to Micro and Small Enterprises through banks and financial institutions (including NBFCs). The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit.

6. Conclusion

MSMEs largely informal businesses that make up eight per cent of India's GDP and employ almost 70 million people living at the base of the pyramid. This market represents an enormous opportunity for financial inclusion, an estimated 75 per cent of MSMEs access funding only through informal sources. However, most financial institutions have run into

challenges designing processes and products appropriate for MSMEs, which are often too large to qualify for microfinance loans but too small to be profitably served by commercial banks. The study also reveals that the Indian MSME sector is suffering from the dearth of easy finance and proper credit instruments thus Understanding the problems faced by MSMEs in accessing credit and creating awareness about the various MSMEs schemes will help MSMEs sectors to contribute to GDP which leads to economic development. Financial inclusion plays a pivotal role in empowering MSMEs and economic development. As the Economic Survey brings out that almost 83% of the total loans of Rs 26,041 billion by banks till November 2017 were appropriated by large firms, leaving only a small proportion of 17% to large number of SMEs. Therefore, big allocation in Budget 2018 for the MUDRA bank and for

additional credit facility for MSMEs compliment earlier programmes such as the Prime Minister Employment Generation Programme for unemployed youth and micro enterprises in the non-farm sectors; and the Credit Guarantee Scheme for Micro and Small Enterprises and extending credit limit to Rs 200 lakh per borrowing unit. Thus, the banks and other agencies should take pride while servicing the MSMEs as they are playing an instrumental role in the formation of MNCs of tomorrow. MSMEs themselves have to be on their toes, in this rapidly changing business environment, and keep evolving to stay clear of all the potential pitfalls that confront them in their progress from small enterprises to large corporations. Thus with financial inclusion will make tremendous role in the growth of MSMEs.

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