

## ROLE OF BANKING SECTOR IN GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES IN INDIA

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### ABSTARCT

*The economy of any country totally depends on its banking sector. The banking sector of a country helps in overall development of economy of that particular country. Along with this in India MSMEs constitute a very important segment of the Indian economy. With the passage of time the MSME sector has been emerged as a dynamic and vibrant segment of economy. MSMEs not only play an important role in providing employment opportunities but also in industrialization of rural and backward areas. Time to time the central bank also issued guidelines for providing assistance to this micro, small and medium enterprises. Government of India along with RBI started so many schemes for the development and growth of MSMEs. This paper is mainly emphasizes the role of banks in the development of MSMEs in India. This also analyses the various challenges faced by MSMEs in India and factors affecting the growth of small enterprises. Various facilities and schemes started by GOI and Central banks have also been discussed later.*

### INTRODUCTION: -

MSMEs i.e. micro, small and medium enterprises which have been getting more importance for the last few decades. The term MSME is mainly used to define the small or medium businesses in private or unorganized sector. Different financial institutions and market regulators use different bases or parameters to define MSMEs such as strength of employees in a business, annual sales, growth rate, profit percentage, turnover etc. for example world bank or IBRD uses employee strength, size of assets or annual sales as the main parameters for defining MSMEs. The definition of MSMEs has been defined by Micro, Small and Medium enterprise development (MSMED) act 2006, which is as follows: - Enterprises engaged in manufacturing or production, processing or preservation of goods as specified below

<b>For Manufacturing Sector</b>	
<b><i>Enterprises</i></b>	<b><i>Investment in Plant &amp; Machinery</i></b>
Micro enterprise	Does not exceed Rs. 25 lakh
Small enterprise	More than Rs.25 lakh but less than Rs.5 crore
Medium enterprise	More than Rs.5 crore but less than Rs.10 crore
<b>For Service Sector</b>	
<b><i>Enterprises</i></b>	<b><i>Investment in Equipments</i></b>
Micro enterprise	Does not exceed Rs.10 lakh
Small enterprise	More than Rs.10 lakh but less than Rs.2 crore
Medium enterprise	More than Rs.2 crore but less than Rs.5 crore

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Micro, Small and Medium Enterprises contribute a significant share in country's GDP. This sector provides a greater share of employment in country after employment. This provides a base platform for entrepreneurship and innovations. In recent time, these industries are dispersed across the India and provide a diverse range of innovative products and services to meet the needs of regional markets as well as the global market.

This sector is like a nursery for entrepreneurs and also in recent time it has been identified as the engine of growth. As stated MSMEs have come as a new pace of development because in India most of the people are doing their own business. In last few years MSME sector has reflected a higher growth compared to overall industrial sector.

#### **LITERATURE REVIEW:-**

*Stiglit & Wais* (1981) argued that the interest rates are the most important factor which affects the loan taking capacity of MSMEs. They future stated that adverse selection of project and moral hazardness may affect the growth rate of MSMEs.

*Bhattacharya, Faiz and Zohir*(2000) identified that banks deny or do not lend to MSME because they do not consider these units as profitable because of their low capitalization and insufficient assets.

*Moris, Basant, Das, Ramachandran and Koshy*(2001) argued that the organizational structure of banks in India has taken them far from task orientation which created a biased side against small loan portfolios.

*Tucker & Lean*(2003) argued that banks have a wide variety of loan schemes for wide variety of customers for different reasons. But many a times small & medium enterprises may face or encounter difficulties while getting loans and getting working capital for their operations.

*Kohli*(1997) & *Eastwood & Kohli*(1999) have found that the firm age, size and collateral of business have a very positive effect and significant effect on the possibility of receiving loans from banks.

*Paramasivan & Gani*(2016) concluded that industrial development of a country largely depends on the availability of infrastructural and credit facilities provided by particularly commercial banks. Public sector banks control more than 80% area of market. As a result the Indian market is growing rapidly with a remarkable growth in industries such as textile, IT, Agro and service sector etc.

*Jayshree & Priya.C*(2016) studied that entrepreneurs contribute a significant role in development of small industries. They focused mainly on women entrepreneurs who are now a days coming with more innovative ideas. Government has started many innovative schemes for the upliftment of these entrepreneurs, such as mudra loan scheme, startup India programme. Banks mainly public sector banks have introduced women centric financing and loan schemes which offer financing facilities at lower interest rates to women entrepreneurs.

#### **OBJECTIVES OF STUDY:-**

The main objectives of study are to find out the current situation of micro, small and medium enterprises in India and the various facilities available for the proper development of MSMEs in India. Along with this how banking sector proved a milestone for the proper enhancement of these enterprises.

#### **MSMEs- AN INDIAN PERSPECTIVE**

- The micro, small and medium enterprise sector has emerged as a highly vibrant and dynamic sector of Indian economy over the last five decades. It contributes importantly in the social and

economic development of country for fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost. The MSMEs are widening their domain across sectors of economy, producing diverse range of products and services to meet demands of domestic as well as global market. But earlier the situation of these enterprises was not as it is now. Earlier these units had to face many challenges. Challenges related to products such as introduction of better substitutes, complexities of trade documentation including packaging and labeling, lack of quality awareness, challenges related to manufacturing and distribution such as research and development shortage, improper distribution system, challenges related to technology such as limited communication networks, low level of technology, lack of accessibility to investment technology equipment and know-how etc. some other problems like government policies and infrastructure such as lack of infrastructure, logistic and marketing support, management related challenges like lack of adequate information, lack of facilities for market analysis, ineffective marketing strategies. But the most challenging factor is finance related problems such as poor or non availability of loan finance, lack of availability of adequate and timely credit, limited access to equity capital. In this segment government of India and banking sector has played an important role. Government of India launched various schemes for the development of MSMEs, such as

- Make in India programme
- Market promotion and development scheme
- Coir Vikas Yojana
- Skill Up gradation and Mutual coir Yojana
- National manufacturing competitiveness programme
- Micro and small enterprises cluster development financial institution
- Banking sector has also played a very important role in the development and growth of MSMEs in India. Indian MSMEs have proved that these units are essential or necessity for the overall economic development.
- Formal Debt Supply- within the formal financial sector banks account for near about 64% of total debt supply to MSMEs sector with commercial banks as lender in debt financing account. Over the years there has been a significant increase in credit extended to this sector by banks. Though financial institutions have a higher perception of MSME sector lending, consistently they are playing a key role in MSME financing.

#### **ROLE OF BANKING SECTOR**

The continuous growth in formal financing to MSME is a result of guidelines by RBI for priority sector lending. As per the guidelines of PSL, banks require to supply debt to priority sector. Priority sector sectors include agriculture, micro and small enterprises. Key points of PSL guidelines issued by RBI are as follows:

- Banks are required to allocate a share of their credit portfolio to micro and small enterprises. Nair committee report (on PSL) recommends that all the foreign as well as domestic banks allocate 7% of their credit portfolios for small units financing.
- This committee has also recommended that foreign banks should have priority sector commitment of 40% of annual bank credit with a target for small and medium enterprises at 15% of annual bank credit.

Increase in credit flow from financial sectors to MSMEs sector is because of government of India's initiative and some initiative of SIDBI such as;

- Credit guarantee fund scheme to enhance unsecured financing.
- Cluster development promotion
- Inclusion of Micro and small enterprise in priority sector lending
- Government various policies for technology, skill development and market linkages.

**Credit guarantee fund scheme-** the main purpose of this scheme is making available finance on credit to micro and small enterprises without collateral securities. The scheme is being operated by government of India along with SIDBI through credit guarantee fund trust for the setup of MSMEs. The main objective of the scheme is to pay attention to viability of project and credit facilities on primary security of financed asset. The Credit Guarantee scheme (CGS) assure the lender that, an MSE unit, which availed collateral - free credit facilities, failing to discharge its liabilities to the lender, the Guarantee Trust would make well the loss incurred by the lender up to 85 per cent of the outstanding amount.

The basic credit facility of Rs. 200 lakh has been extended by various institutions which provide or lend finance without any collateral security. If any institution or any businessman wants to avail the guarantee facility then an annual fees will be charged by CGTMSE.

Microfinance programme-this scheme provides microfinance to small industries. Under this scheme, the government of India provides funds to SIDBI under a 'portfolio risk fund', which will be used for security deposits requirements of loan amount the NGOs.

Credit policies for small enterprises- the government of India and Reserve Bank of India (RBI) has been instrumental in applying a multi-agency approach to extend the financial services to small enterprises. Various agencies like commercial banks, co-operative banks and developmental institutions are included in this. In particular, public sector banks have been playing a very important role in providing credit to small enterprises since the nationalization of major commercial banks in 1969 and 1980.

Formalization of MSME sector- near about 40 guidelines were issued in February 2018 to facilitate the transition of MSME into formal financial system by alleviating cash flow problems in transition. The exposure of banks and NBFCs to GST-registered MSMEs continued to be classified as standard assets subject to certain conditions, including the aggregate exposure to the borrower not exceeding Rs.250 million as on January 31, 2018 and the borrower's account being classified as standard as on August 31, 2017. In June 2018, this relaxation was extended to all MSMEs with aggregate credit facilities up to the specified limit.

Trade Receivables Discounting System (TReDS) - The objective of TReDS is to create Electronic Bill Factoring Exchanges which could electronically accept and settle bills so that MSMEs could encash their receivables without delay. This will help corporate to pay their dues before or on time as well as they will have an access to finance.

Onetime restructuring scheme for MSMEs- Reserve bank of India announced a onetime restructuring scheme for certain small borrowers, applicable on loans not exceeding Rs. 25 crore and can be implemented by banks and non bank lenders. Under this scheme small and medium enterprise which are in default but are still standard as on January 1, 2019 can be restructured again, without any

downgrade on their assets. For this all banks and non banking financial corporation need to come up with a board approved policy.

### **CONCLUSION**

Access to bank finance has been one of main challenges of MSMEs in India. Many efforts have been made by government of India and Reserve bank of India. From the above data it has been analyzed that in the last five to six decades many efforts have been put to rehabilitate this sector. Time to time various schemes have been started to remove the problems faced by different micro and small enterprises. Experts opine that the share of MSMEs in country's GDP would touch double-digits by the end of this decade. MSMEs' contribution to country's GDP is expected to increase to 22.0 percent by 2020. This can boost the country's manufacturing sectors as well as the greater role of entrepreneurial activities across sector. Clusters and associated networks enable small firms to combine the advantages of running a small unit with benefits of scale and specialization provided by large units. MSMEs act as an engine for growth of any economy and their role in development of economy cannot be overlooked.

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