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FINANCIAL INCLUSION AND DEVELOPMENT OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN INDIA

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ABSTRACT

Financial inclusion assures easy access to financial services by enabling the disadvantaged and vulnerable sections of the society to actively contribute to development of a country. 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 socio economic evils. 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 in India. The study also outlines the important role of the Financial inclusion and the growth of MSMEs. It also highlights various financing options and credit schemes by central and state governments in developing MSMEs.

KEYWORDS

economic development, financial inclusion, financing options. poverty, unemployment.

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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 leads 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.

The MSMEs are the best vehicle for inclusive growth, to create local demand and consumption and also to fight with the countries major problems like poverty and unemployment. 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 they are accorded with sufficient support in finance and capacity building by the government.

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).

IMF working paper (2019) on SME Financial Inclusion for Sustained Growth in the Middle East and Central Asia. This paper suggest that greater SME financial inclusion gives substantial benefits from both in terms of higher macroeconomic policy effectiveness and improved employment and labor productivity growth, with consistent positive impact on labor markets and aggregate economic growth in Middle East and Central Asian countries. Greater financial inclusion of small and medium enterprises (SMEs) can promote higher economic growth and employment in the country.

RBI (2015) reports that "... notwithstanding various policy support measures for MSMEs, access to adequate credit still remains elusive for the sector, calling for innovative solution". Providing long term financing opportunities such as capital market financing for growing SMES is an emerging agenda in SMEs financing. Policy and regulatory actions may be elaborated to respond to new areas such as crowd funding, asset-based finance, seed capital and early stage finance, and SME cluster financing.

Harriram Charran (2017) conducted a study on bank productivity and efficiency to lending small business in India. The study found that bank credit is the major source of financing for SMEs and banks are increasing lending rates due to current crisis in banking sector. From his analysis capital is a major constraint for SMEs due to various reasons they are not getting proper finance. From his study he revealed that bank credit efficiency is increased by lending to small business in India.

Lokhande (2015) studied financial inclusion options for micro, small and medium enterprises and concluded that MSMEs are the backbone of the country but facing problems in accessing finance in India. As of many initiatives taken by the government but still they are rely on internal finance. According to her credit is the major constraint for MSMEs.

Sonu Garg, Dr. Parul Agarwal (2014) analyzed the "Financial Inclusion in India – a Review of Initiatives and Achievements". In this paper, the researcher made an attempt to understand financial inclusion and its importance for overall development of society and Nation's economy. This study focused on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements. They suggested that to achieve targets of FIP, it's needs to empowering MSMEs through provide timely and adequate finance because MSME's are the best medium for achieving inclusive growth which generate local demand and consumption, provide employment to millions of freshers.

Srinivas K T (2013) in the study titled "Financial assistance to MSMEs with reference to Canara Bank" has studied the performance of Micro, Small and Medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian Economy with their out in various of the country like employment, manufacturing, exports and in GDP.

Nisanth P, Dr Zakkariya (2014) in the paper entitled "Barriers faced by MSMEs in raising Finance". He studies the problems faced by MSMEs in raising finance in Kozhikode District of Kerala state and revealed that there exists problem in account casing finance from banks and financial institutions and also viewed that this trouble may differ from region to region between sectors, or between individual enterprises with in a sector. Various barriers faced by these units in raising finance and also tried to identify various sources of finance other than banks.

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%).

OBJECTIVES OF THE STUDY

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

1. To examine the role of financial inclusion and the growth of MSMEs in India.
2. To examine the problems faced by MSME in accessing finance and various credit schemes to MSMEs.
3. To examine the credit flows from the banking sector MSME sector in India.

RESEARCH METHODOLOGY

The study is descriptive in nature. Available secondary data from reports issued by Reserve Bank of India, Ministry of Finance, Ministry of Micro, Small and Medium Enterprises and Government of India were extensively used for the study. Different news articles, books and authorized internet sources were used which were enumerated and recorded. Simple percentage and Simple average method has been used for analyzing the secondary data in order to show the trend and status of financial inclusion. The period under consideration for the study is five years from 2014–2015 to 2018–2019.

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 GVO (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 the economic development of the country.

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.

TABLE 3: DISTRIBUTION OF EMPLOYMENT IN RURAL & 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 enterprises providing employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small and Medium sector MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively.

PROBLEMS FACED BY MSMEs**ACCESS TO CREDIT**

Notwithstanding the rise in credit outstanding to the world, access to adequate and timely credit at an inexpensive cost may be a critical problem faced by this sector. The statistics compiled within 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 bulk of units i.e. 92.77% had no finance or trusted self-finance. Thus, the extent of monetary exclusion within the sector is extremely high. But, this is often not entirely unexpected because if one looks at the financial exclusion in our country generally, then MSMEs cannot remain unaffected by it.

FIRST TIME ENTREPRENEURS

The MSE borrowers, especially new generation entrepreneurs, don't have collaterals to supply to avail of bank finance. it's generally observed that collateral security provides comfort to the lenders because it ensures commitment of the borrower to the project and is additionally available to them for recovery within the event of failure of the enterprise.

ACCESS TO ALTERNATE SOURCES OF CAPITAL

The power of MSMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital must 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 may be a genuine problem. at the present, there's almost negligible flow of equity capital into this sector. Absence of equity capital may pose a significant challenge to development of knowledge-based industries, particularly people who are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. there's a requirement for a fanatical 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 govt 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 prevailing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, are strengthened. The banks are advised to sanction separate sub-limits within the general limits sanctioned to the company borrowers for meeting payment obligations in respect of purchases from MSME sector.

SICKNESS OF UNITS

Growing incidence of sickness of the world is yet one more area of concern. When the sickness prolongs it results in 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 amount 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 entire number of sick units stood at 5.22%. The causes of sickness are both internal and external. the main 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.

CREDIT FLOWS FROM BANKING SECTOR**TABLE 4: CREDIT FLOWS FROM SCHEDULE COMMERCIAL BANKS TO MSMEs SECTOR**

| Year | Number of Accounts (million) | Amount Outstanding (₹ billion) | MSE credit as per cent of ANBC |
|-----------|------------------------------|--------------------------------|--------------------------------|
| 2014-15 | 13.8 | 9,612 | 15.5 |
| 2015-16 * | 20.5 | 9,957 | 14.6 |
| 2016-17* | 23.2 | 10,698.2 | 14.3 |
| 2017-18 | 25.9 | 11,493.5 | 14.6 |
| 2018-19 | 31.8 | 13,132.3 | 15.05 |

Source: RBI annual Reports on financial inclusion and credit delivery.

From the above table it is depicted that the no of accounts increased to 13.8 to 31.8 million from the year 2014-15 to 2018-19 but the Annual Net Bank Credit percent is decreasing gradually from 2014-15 to 2018-2019. As of many initiatives taken by the government but the credit flows to MSME sector is increasing but it is not sufficient for their survival.

INITIATIVES TAKEN BY THE GOVERNMENT / MINISTRY OF MSMES TO IMPROVE MSMEs THROUGH FINANCIAL INCLUSION

1. 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.
2. 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.
3. Credit and Financial Assistances to MSMEs. 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.
4. 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.
5. 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 lakhs per borrowing unit. This scheme is major initiative taken by the government of India for the development of MSMEs sector.

CONCLUSION

MSMEs are contributing 8% of India's GDP and 70 million people are engaged with this sector. The MSME sector is that the best opportunity to the banking sector for expansion of their business with little NPA??s consistent with an estimation quite 70 percent MSMEs are accessing their funding through informal source. However most financial institutions are involved in designing processes and products appropriate for MSME??s, which are very useful to MSMEs growth and at an equivalent time profitable for commercial banks. The study also reveals that the Indian MSME sector is affected by the shortage of easy finance and proper credit instruments thus Understanding the issues faced by MSMEs in accessing credit and creating awareness about the varied MSMEs schemes will help MSMEs sectors to contribute to GDP which results in economic development. Financial inclusion plays an important role in empowering MSMEs and economic development. because the Economic Survey brings out that nearly 83% of the entire loans of Rs 26,041 billion by banks till November 2017 were appropriated by large firms, leaving only a little proportion of 17% to sizable amount of SMEs. Therefore, giant allocation in Budget 2019 for the MUDRA bank and for extra credit facility

for MSMEs to survive in competitive market earlier programs like the Prime Minister Employment Generation Program for unemployed youth and micro enterprises within the non-farm sectors, and therefore the Credit Guarantee Scheme for Micro and small Enterprises and increasing credit limit to Rs 200 lakh per borrowing unit from 2018. Thus, the banks and other Government institutions should take arrogance while servicing the MSMEs as they're playing an instrument within the formation of MNCs of tomorrow. MSMEs themselves need to get on their toes, during this competitive business environment the Government should provide influential support to MSMEs to remain beyond all the potential pitfalls that arising in their progress from small enterprises to large corporations. Thus with financial inclusion will make tremendous role within the growth of MSMEs.

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