

Role of Banks and Financial Institutions in Bringing Financial Inclusion in MSME Sector



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Abstract

The Micro, Small and Medium Enterprise (MSME) sector has occupy an important place in Indian economy, because of their employment potential and their contribution towards total industrial output and exports. This sector plays an important role in providing employment, towards economic growth, balanced regional development and reduction in poverty. After all, a majority of unit of MSME still remained unbanked which leads to exclusion from banking and other financial services. It creates financial instability in MSME sector. Therefore, to bring financial stability in MSME sector, the Reserve Bank of India and Ministry of MSME introduces idea of financial inclusion. Basically, Financial Inclusion is the process of ensuring access to appropriate banking products and other financial services needed by weaker sections and low-income groups at an affordable cost in a fair and transparent manner.

This study paper analyses the role of Banking Sector, RBI and Financial Institutions in bringing financial inclusion in MSME sector. For this purpose, data are collected from the secondary sources such as from the official websites of Government of India, government census reports etc.

Further, this paper also attempts to discuss various measures taken by the Reserve Bank of India to promote the MSME sector. The Bank as a primary lender, play an important role in bringing the excluded units within the fold formal banking.

Keywords: Introduction, Financial Inclusion, Initiatives taken by Bank & FI.

Introduction

The MSME sector had been appeared as a highly dynamic sector of the economy of India during the last four to five decades. This sector contributes significantly in the Indian economy and social development of the country by encouraging entrepreneurship and generating a large amount employment opportunity. This sector also contributes towards the industrial development of the country. The Ministry of MSME runs various schemes aimed at financial assistance, technology, assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSMEs. As part of alignment with the new taxation regime, the Union Cabinet also approved the change in criteria for classifying MSMEs from 'Investment in Plant & Machinery' to annual turnover. As per the new classification, a micro enterprise will be defined as a unit with annual turnover less than or equal to Rs 5 crore; a small enterprise with the annual turnover more than Rs 5 crore and less than Rs 75 crore and medium enterprise with annual turnover more than Rs 75 crore and less than Rs 250 crore. Hitherto, the definition of MSME was based on investments in plant and machinery.

The MSME sector appears as an important pillar of our economy. This sector is highly contributing towards the growth of Indian economy. This sector holds a network of more than sixty million units, which creates employment opportunities for 110 million people. The MSME sector contributes 8 per cent to the country's GDP. Indian Financial Institutions and the Government have a crucial contribution in development and promotion of MSME sector. The MSME sector comprises of 633.88 lakh units as per National Sample Survey 73rd Round (2015-16) and has created 11.10 crore jobs. The M/o MSME has taken a number of steps for promoting development of MSME. These include availability of credit, schemes for technological up gradation, quality improvement and

marketing support. MUDRA, stand up India, increased coverage of Credit Guarantee Fund for Micro and Small Enterprises and higher credit limits provided by the banks to MSMEs have improved credit support to them.

In the present scenario, the financial inclusion is an important aspect for inclusive growth and development of MSME sector. The concept of "financial inclusion" was first time introduced by British lexicon. At this time, it was found that approx 7.5 million people did not have their bank account to operate their financial transaction. The concept of financial inclusion does not mean that delivery of financial services to people at free of cost. It can be also described as the provision of affordable financial services, viz saving, credit, insurance services, access to payments and remittance facilities by the formal financial systems to those who are excluded. Basically, it refers to the delivery of financial services and products at affordable costs to excluded sections of population and low-income groups. It includes not only banking products but also other financial services to above people.

According to the Committee on Financial Sector Reforms headed by Dr. Raghuram G. Rajan, financial inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. According to committee on financial inclusion headed by Dr. C. Rangarajan defined financial inclusion as "It is the Process of ensuring access to appropriate financial Products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable Cost in a fair and transparent manner". It provides equal opportunities to such people to access financial services for their better life, living and better income. Thus, it provides path for inclusive growth. Therefore, it has become equally important issue for under – developed, developing and developed economies for inclusive growth. The financial inclusion plays an important role to remove away the poverty from the country.

Objective of the Study

This research paper has three main objectives:

1. To understand the financial inclusion and its importance.
2. To analyze the measures taken by the banking sector & FI to promote MSME sector.
3. To evaluate the contributions of MSME sector towards the Indian economy.

Data and Methodology

This paper is basically descriptive and analytical in nature. In this paper an attempt has been taken to analyze the role of Banks and Financial Institution in bringing financial inclusion in MSME sector. The data used in it is purely from secondary sources. The data collection includes:

1. Annual reports of Ministry of MSME and Reserve Bank of India.
2. Various Websites, Articles and journals connected with relevant topics of MSME.

Financial Inclusion and MSME Sector

In case of small enterprise, the banking sector is a major source of finance. However, these enterprises face many problems during the course of getting finance from many banks because of their inability to pledge adequate security. Generally, the people of rural areas are not able to enjoy the banking and other financial services. This indicates the importance of financial inclusions in MSME sector. In fact, bank loan is given to MSME by two ways i.e. either direct finance or indirect finance. The direct finance is given to the enterprise engaged in manufacturing activity, food and agro processing units, export credit, Khadi, Village and service industries. However, indirect finance is given to financial institutions (which will in turn reach MSME sectors) and to the person involved in the decentralized sector e.g. supply and marketing of outputs, village and cottage industries.

The MSME sectors contribute prominently towards the Indian economy, it faces many problems such as lack of infrastructural base and banking support, lack of suitable technology, inefficient marketing strategies etc. All these problems arise due to insufficient capital. For these purposes RBI & Government of India has taken certain measures to ensure sufficient credit flow to MSME sector. Here are some of the initiatives taken:

Priority Sector Lending

All the domestic commercial bank should lend 40% of their Adjusted Net Bank Credit (ANBC) to MSME sector. The bank loans to MSME are eligible to be classified under priority sector lending (PSL). The PSL includes Small value loans to farmers for agriculture and allied activities, MSME, poor people for housing, students for education, other low-income groups and weaker sections. The performance of scheduled commercial banks (SCBs) in terms of their achievement on priority sector lending (PSL) targets is given in Table I:

Table I: Performance in Achievement of Priority Sector Lending Targets (Figures in billions)

End-March	Public Sector Banks	Private Sector Banks	Foreign Banks
2017	19,889	7,110	1,238
	(39.5)	(42.5)	(36.4)
2018	20,723	8,046	1,402
	(39.9)	(40.8)	(38.3)

Note: Figures in brackets are percentages to Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher, in the respective groups.

Source: Priority Sector Returns submitted by SCBs;
<https://rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1231>

The applicable loan limits of 50 million and 100 million per borrower to Micro/Small and Medium Enterprises (services), respectively have been removed, for classification under the priority sector. Accordingly, all bank loans to MSMEs, engaged in

services as defined in terms of equipment investment under the MSME Development (MSMED) Act, 2006, shall qualify under the priority sector without any credit cap.

Certified Credit Counsellors (CCCs) Scheme

On 5th April 2016, the RBI has announced a framework for accreditation of credit counsellors in its first bi-monthly monetary policy for 2016-17. After that, the RBI has provided it to SIDBI and it was subsequently launched the Certified Credit Counsellors (CCCs) Scheme in the month of July 2017. This scheme is supposed to advise the MSMEs in preparing its business proposals, financial documents and statements. This scheme would also share information to the MSME regarding suitable credit instruments available in the market. There are 512 Credit Counseling Institutions and 13 Certified Credit Counsellors registered with SIDBI as on 30th June 2018. The credit flow to MSEs is as under:

Table II: Credit Flow to MSEs

Year	Number of Accounts (million)	Amount Outstanding (billion)	MSE credit as per cent of ANBC
2016-17	23.2	10,701.3	14.3
2017-18	25.9	11,493.5	14.6

Source: Priority Sector Returns submitted by SCBs.;
<https://rbi.org.in/Scripts/AnnualReportPublicati ons.aspx?id=1231>

Composite Loan Scheme

The CLS is operated by banks and financial institutions. The SFC provide working capital loan along with term loan to new units of MSME under Single Window Scheme. It is provided to overcome the initial difficulties and delay to start - up production activity faced by such units. As per this scheme, sanction and disbursement of working capital and term loan together is made from a single agency. Under this scheme, the limit of loan is Rs.1 crore.

Empowered Committee on MSMEs

The Committee would meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It would also coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The committees may decide the need to have similar committees at cluster/district levels.

A state Level Inter Institutional Committee (SLIIC)

In order to effectively monitor the timely rehabilitation and restructuring of sick Micro, Small and Medium Enterprises (MSME) the Empowered Committee (EC) of RBI "constitute a Sub - Committee of State Level Inter Institutional Committee (SLIIC)". This committee has been formed to go into the problems and extent of sickness of Micro, Small and Medium Enterprises (MSME) and suggest measures for their rehabilitation. The State Level Rehabilitation Committee (SLRC) will have powers to permit takeover of the assets and liabilities of a sick unit by another subject to certain conditions, particularly

reopening of the closed enterprise within three months of the sanction/take over. The committee will insist on the unit taking over the sick enterprise to produce suitable arrangement with bankers for repayment of dues and arrange to settle all arrears to workmen, statutory authorities and government agencies. On its part, the SLRC may convert up to 75 per cent of the outstanding sales tax/VAT and the interest on them into a soft loan. The loan will be repayable from the start of the fourth year onwards over four years on an EMI basis at an interest of 9 per cent. No interest will be levied on the loan for the first three years.

Specialized bank branches for lending to the MSMEs

As per the policy package announced by the Government of India i.r.o. easy flow of credit to MSME sector the Public sector banks have been advised to open at least one special branch in each district. The banks are allowed to categorize such branches as specialized MSME branches if it has more than of their advances to MSME sector so that it could provide better service to the MSME sector. As reported by Scheduled Commercial Banks (SCBs), on March 2017, there are 2998 specialized MSME branches. This will enable the entrepreneurs to have easy access to bank credit to MSME sector.

Structured Mechanism for Monitoring Credit Growth to MSME Sector

Indian Banks Association (IBA) has formed a subcommittee to monitor the credit related issues raised by MSME sectors. The banks need to strengthen their monitoring mechanism and monitor their loan disposal process so as to step up credit flow to this sector and ensure timely rehabilitation of sick MSE units.

Relaxed NPA norms for MSME loans

At present, banks and NBFCs classify loan accounts as NPAs based on the 90-day and 120-day delinquency norms, respectively. As per new norms, the loans provided by banks and NBFCs to the MSME sector shall continue to be classified as a standard asset even if the dues are paid within 180 days from their respective original due dates. For the new norm to be effective, three conditions need to be satisfied: the MSMEs must be GST-registered; the aggregate exposure, including non-fund-based facilities, should not exceed Rs 25 crore on January 31, 2018; the borrower account should be standard on August 31, 2017. It would apply to loans overdue as on September 1, 2017, and for payment from the borrower due between September 1, 2017 and January 31, 2018. A provision of 5% will have to be made by the banks and NBFCs against these exposures.

Revamping the Lead Bank Scheme (LBS)

The Lead Bank Scheme, introduced towards the end of 1969, by the recommendation of Gadgil Committee. It is a concept given by Gadgil committee. In which all the districts of country have been allocated to the banks by the government to co-ordinate. The development programs run by government for welfare of weaker section of society. The lead bank acts as a leader for coordinating the

efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, MSME and other economic activities included in the priority sector in the rural and semi-urban areas. There is a strong need to revamp and revitalize the Lead Bank Scheme so as to make it an effective instrument for bringing about meaningful co-ordination among banks operating in a district.

Financial Support to MSMEs in ZED certification

The Ministry of Micro, Small & Medium Enterprises (MSME), and Government of India has launched on 18.10.2016 a new scheme 'Financial Support to MSMEs in ZED Certification Scheme', for the benefit of Micro, Small & Medium Enterprises (MSMEs). The scheme will be implemented in 22,222 MSMEs with the total Project Cost of Rs. 491.00 crore. The scheme envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification with the objectives like, developing an Ecosystem for Zero Defect manufacturing in MSMEs, promoting adaptation of Quality tools / systems and Energy

Efficient manufacturing, enabling MSMEs for manufacture of quality products and to encourage MSMEs to upgrade their quality standards in products and processes with adoption of Zero Defect production processes and without impacting the environment, etc.

Performance of MSME

Contribution of MSMEs in Country's Economy at Current Price

In 2011-12, the share of MSME in GVA (%) is 31.86 Whereas the share of MSME in GDP (%) is 29.57. However, in 2015-16 it was 31.60 and 28.77 respectively. Apart from this, in 2011-12, the MSME GVA was 2583263 whereas in the year 2015-16 it was increased to 3936788. In the year 2011-12 Total GDP was 8736329 whereas in the year 2015-16 it was increased to 13682035. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector towards Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

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

(Figures in Rs. Crores adjusted for FISIM at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263		8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

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

Source: Annual Report, 2017-18, Ministry of Micro, Small and Medium Enterprises

Growth of MSMEs

The comprehensive information in respect of growth in MSME Sector has been obtained from both Fourth all India MSME Census was held in 2006-07 and the NSS 73rd Round (2015-16). The total no. of

MSMEs was 361.76 lakhs in 2006-07 but it was increased to 633.88 lakhs in the year 2015-16. The highest Annual Compound Growth Rate is 6.56% in the parameter of services. It is given in Table IV as under:

Table IV: Growth of MSME

(Figures in lakh)

Parameter	NSS 73rd Round, 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

Source: Annual Report, 2017-18, Ministry of Micro, Small and Medium Enterprises

Conclusion

In the present scenario, the MSMEs appear as one of the most important sectors which forms the backbone of our economy. This sector contributes more in the growth of Indian economy by increasing exports and generating a large amount of employment opportunities for Skilled, Unskilled and under employed people. The MSME sector also extends the opportunities to banks for giving credit to the units of this sector. From the Annual Report, 2017-18 of Ministry of Micro, Small and Medium Enterprises we can see that total no. of MSME has increased by 272.12 Lakhs, total manufacturing unit has increased

by 81.65 Lakhs, total no. of service sector units have been increased by 190.47 Lakhs. However total employment has increased by 304.65 Lakhs. On the basis of this report, it appears that share of MSME in GDP is 28.77% whereas growth is 7.62% in 2015-16. On the other hand, credit flow to MSEs has been also increased. Total no. of accounts has increased by 2.7 Million and total amount outstanding has been increased by 792.2 Billion in 2017-18.

Therefore, we can conclude that MSME sector is being performed well and now this sector is able to resolve many problems which lead to reduce rate of financial exclusion. For this purpose, the

government should take utmost care of this sector in terms of providing more and more MSME Registration benefits through better regulations and enabling financial institutions to lend more credit at less interest rate for sustainability of this sector.

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