

ROLE OF MSME IN INDIA'S DEVELOPMENT

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ABSTRACT:

MSMEs, micro, Small and Medium Enterprises play an essential role in the development of our Indian economy. MSMEs are the backbone of Indian economy and acts as a engine for growth of economy. In Indian economy, MSME gained an important position by making important contribution in terms of output, exports and employment. From the beginning India has given major priority to the MSME sector and seeks to support through policies which make these enterprises feasible & dynamic. The MSMEs sector are becoming a vast sector in providing employment after agriculture, sector. **A significant role is being performed by the MSME sector in development of India which is closely analyzed by us.** In the developing economies including India the MSMEs are sometimes termed as **'engine of growth'**. MSMEs are proved to be the second largest manpower employer after agriculture and also occupy a position of eminence in Indian. MSMEs are also providing instant large-scale employment, with low investments.

Problem: MSMEs play a vital role in development of Indian Economy, even after that these enterprises are neglected & are facing problems of proper financing from Banks.

Objectives: To know the importance of MSMEs in development of Indian Economy.

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Sub-Objective: To know the limitations of bank in financing the MSME's.

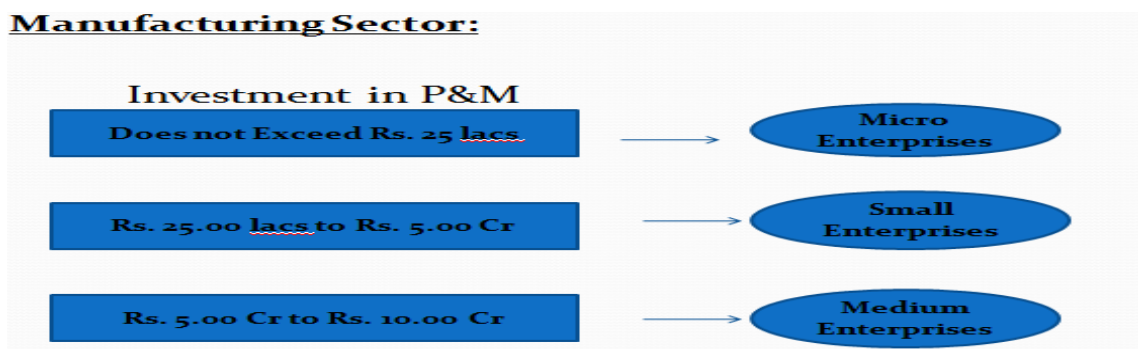
Methodology: Different forms of data are used for the analysis in this research such as primary data and secondary data. Our survey is done in the boundaries of Banasthali University Campus. We have also done the conceptual and descriptive analysis which leads to our completion of research. The primary data is collected from the banks present in the Banasthali University campus itself.

Achievements: In this study we achieved our target which is to know the "Role of MSME in development of India". As we know that our MSME sector is dependent on government for funds which is provided with the help of banks. We have observed the awareness among the bankers regarding MSME's.

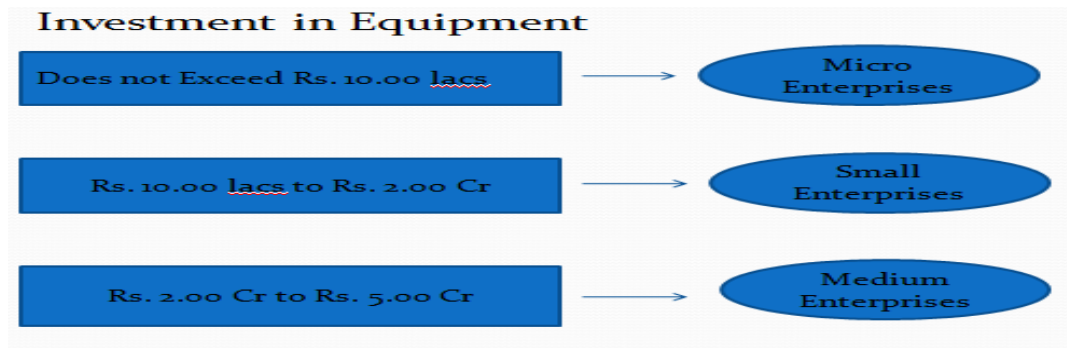
INTRODUCTION

India is a country with bulk manpower & with large number of natural resources. But still India faces the problem of lower growth rate. In capital formation India is lacking, that's why industries are adopting labour intensive rather than capital intensive.

1) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:



2) Enterprises engaged in providing or rendering of services and whose investment in equipment(original cost excluding land and building and furniture, fitting and other items not directly related to the services rendered or as may be notified under the MSMED Act,2006 are specified below:



ROLE OF MSME IN INDIA'S DEVELOPMENT:

“The Ministry of Micro, Small and Medium Enterprises (M/o MSME) promotes the development of micro and small enterprises in the country with its field MSME-Development Institutes with the objective of creating self-employment opportunities and upgrading the relevant skills of existing and potential entrepreneurs. In order to promote establishment of new enterprises and creation of new entrepreneurs, M/o MSME has been implementing various schemes and programmers’.

The Office of DC (MSME) conducts a large number of vocational and entrepreneurship development programmes. While vocational training is implemented by various Departments of the Government, the responsibility of entrepreneurship development lies largely with this office. The Entrepreneurship Development Programmes (EDPs) are conducted through MSME-DIs, with focus on entrepreneurial development coupled with specific skills relating to trades like electronics, electrical, food processing, etc, which enables the trainees to start their own ventures”.

The programmes covered include the following:

1. Management Development Programmes (MDPs)
2. Entrepreneurship Skill Development Programme (ESDPs)
3. Entrepreneurship Development Programmes (EDPs)

Some of them are described as follows:

1. **Entrepreneurship development programmes** is a course of content which is designed for entrepreneur to make them aware about the products/process design, projects profile

preparation. Manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments, marketing avenues/techniques, product/service pricing, export opportunities, infrastructure facilities, finance availability, and financial institution are also available etc.

2. **ESDPs** conduct courses such as Machine Shop Practice, Heat Treatments, Electroplating, Sheet metal, Herbal Cosmetics, Fashion Garments, Welding, Tool & Die Making, Glass & Ceramics, Industrial & Art Wares, IT, Hardware Maintenance, Hosiery, Soap, Food & Fruit Processing Industries, Detergents, Leather Products/Novelties, Electronic Gadgets, Gem Cutting & Polishing, Servicing of Household Electrical Appliances, Engineering Plastics, Beautician, Tour operators, Mobile repairing, etc.
3. **MDPs** conduct courses such as Export Management & Documentation, Industrial Management(IM), Human Resource Management(HRM), Materials Management, Financial Management(FM), Marketing Management(MM), Information Technology & Exports, ISO 9000, WTO, IPR etc.

Importance of MSME for Indian Economy:

- MSMEs contribute to the creation of wealth, employment, and income generation, both in rural and urban areas, thus, ensuring a more equitable income distribution. They also provide the economy with a continuous supply of ideas, skills, and innovations necessary to promote competition and the efficient allocation of scarce resources.
- In the last five years, the MSME sector accounted for about 99.7% of the registered businesses in the country by which 70% of the labor force earn a living. Around 30% of the total sales and value added in the manufacturing come from MSMEs as well.
- MSMEs play a major role in the country's economic development through their contribution in the following: rural industrialization; rural development and decentralization of industries; creation of employment opportunities and more equitable income distribution; use of indigenous resources; earning of foreign exchange (forex) resources; creation of backward and forward linkages with existing industries; and entrepreneurial development.

Schemes for Promotion of Small and Medium Enterprises

1) The Credit Guarantee Fund Scheme for Micro and Small Enterprises

“The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to provide collateral-free credit to Indian MSMEs. The scheme provides credit facilities in the form of term loans and working capital facility of up to Rs. 100 lakh per borrowing unit. The amount is contributed by the Government and SIDBI in the ratio of 4:1, respectively. The scheme also offers rehabilitation assistance to sick units covered under the guarantee scheme.

2) Market Development Assistance Scheme for MSMEs

To help Indian manufacturing MSMEs gain traction in the international markets, the Market Development Assistance Scheme for MSMEs offers funding for participation in international trade fairs and exhibitions under MSME India stall. It also offers funding for sector-specific market studies by industry associations, export promotion councils, and FIEO.

This scheme offers reimbursement of 75% of one-time registration fee and 75% of annual fees (recurring) paid to GSI by MSMEs for the first three years for bar code.

3) Technology and Quality Up-gradation Support to Micro, Small and Medium Enterprises:

This scheme aims at sensitizing the manufacturing MSME sector to use energy efficient technologies and manufacturing processes in order to reduce production cost and emissions of harmful gases. The scheme also aims to improve the product quality of MSMEs to encourage them towards becoming globally competitive. For this, the Government of India provides financial support to the extent of 75% of the actual expenditure to help manufacturing MSMEs buy energy efficient technologies for production.”

Challenges Faced by Indian MSME Sector

Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and

Corporate, which is a handicap in becoming more competitive in the National and International Markets. MSMEs face a number of problems –

1. Credit:-Credit is not easily available to MSMEs sector due to not having proper documents and even because of an issue of not having collateral security. But government is now, taking various measures to initiate and encourage the MSME sector.

2. Absence of adequate and timely banking finance:-Banks do not usually provide the finance to MSME sector because of high risk of business default and even of not having proper knowledge about the field the entrepreneurs are investing into. As, on now the banks have started providing the finance for new businesses but still it is a long procedure through which the MSMEs have to pass through.

3. Limited capital and knowledge:-MSMEs have limited capital even banks are not taking any initiative to provide loan to MSMEs sector due to high risk is involved in it and MSMEs sector doesn't have any proper balance sheet or collateral security so that bank can provide loan to them. MSMEs have limited knowledge about the government schemes which will help them during the set up of the business.

4. Infrastructure:-MSMEs have to face problem in building up infrastructure and getting the land papers cleared and getting it approved by the various officers. This sector is encouraged but has to face major problems in its development in which one basic problem is infrastructure which incurs huge capital and appropriate place for set up.

Limitations for Banks in Financing MSME's:

- **“Less security or no collateral with MSMEs:** Collateral is one of traditional tools to mitigate default risk in credit. As observed in preceding part of the analysis that most of the MSMEs are of entrepreneurs thus they don't have collateral to seek loans from banks which remained one of reasons for poor credit to them. Government of India introduced a noble scheme to collateralize MSME loans by extending guarantee cover to member lending institutes (MLIs) up to loan of Rs.100 lacs. The scheme is known as a Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)
- **Lengthy and inflexible documentation:** Formalities and processing of MSME loan proposals have been found lengthy, complex and inflexible. Banks should, therefore, develop

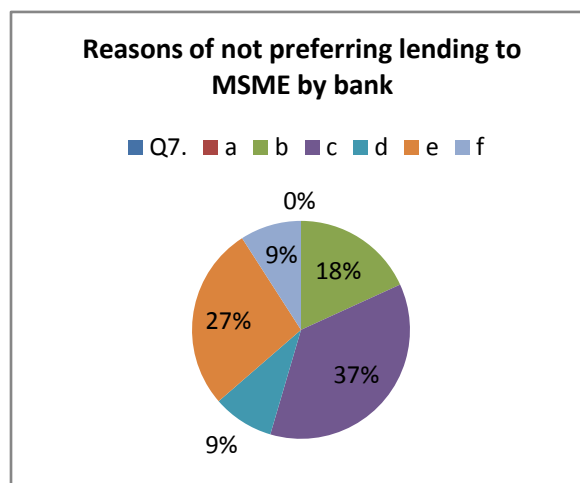
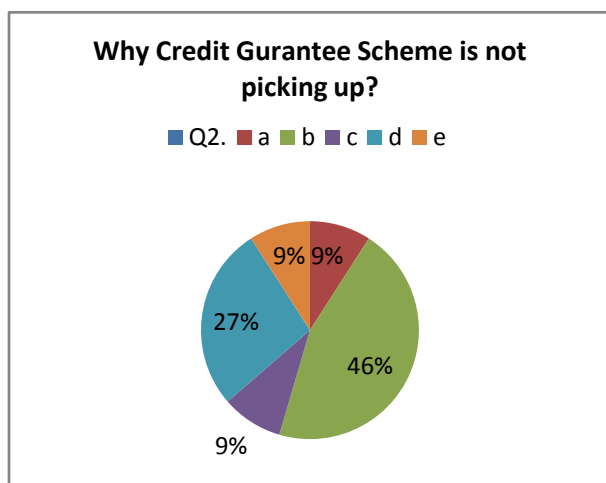
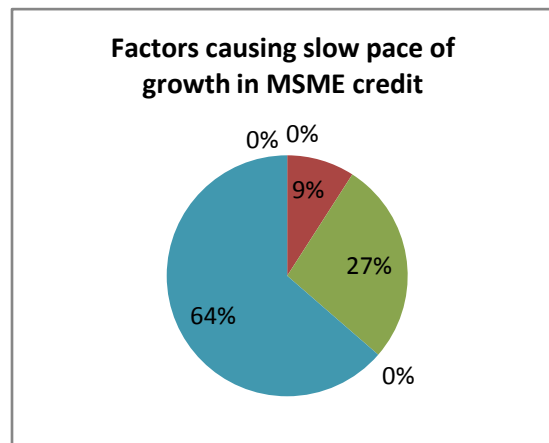
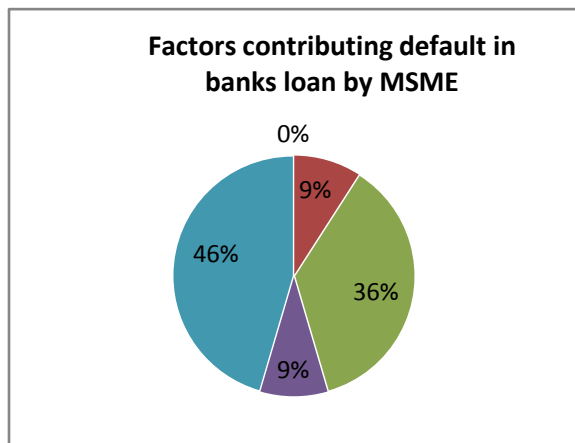
customized module of processing and documentation to make process simpler.”

REVIEW OF LITERATURE

This study shows that the existing MSME's are playing an important/crucial role in development and upliftment of the Indian economy. MSME's are boosting the growth, employment and reducing poverty in order to develop India. Whereas **Sudan, F. K. (2005)** described the different advantages, meaning, problems and policy options of MSME sector. The policies which were preferred by Government of India were the efforts to form a huge MSME sector and a diversified economy providing expanded employment opportunities to absorb all new labor force and offer exciting career opportunities. **Rathod, C. B. (2007)** described the contribution made by MSMEs and importance of small scale industrial sector in development of world economy. **Singh et al. (2012)** focused on policy changes which have opened new opportunities for this sector and analyzed the performance of Small scale industry in India.

Steps taken by RBI to improve credit flow to MSME Sector:

Banks are fixing up the self set target for MSME as per decision of review meeting on execution of action points of third meeting of standing advisory committee held in RBI on 2nd June 2003. According to the previous year's achievement and overall trends in growth of net Bank credit Banks are required to fix of self set target for the growth of MSME advances in MSME sector. From Rs.25 lakh to Rs.50 lakh is the limit for improvement of composite loans. Banks agreed for Rs.25 lakh to Rs.50 lakh appreciation for composite loan after the inspection meeting. MSME sector in availing of higher quantum of Credit from Single window reducing the need for borrowing separately from SFCs for Term Loan and Working Capital from Banks are because of the enhancement in the composite loan limit which are facilitating the MSME finance. Banks are increasing the publicity of their various scheme/facilities like availability of collateral free/composite loan as decided in the meeting of standing advisory committee held on 1st Sep2003. 2% above and below PLR is the interest rate band. For providing advances to MSME our Hon'ble Finance Minister in Union Budget 2003-04 have made an announcement that Indian Banks association has advised the banks to adopt the interest rate band of 2% above and below their prime lending rates (PLR).

SURVEY:**Interpretation:**

According to our survey, 46% defaults in bank's loan by MSMEs are because of the Low technology innovation and cost inefficiency. Government must offer some training programmes for the new MSME entrepreneurs which will help them in moving towards the advance technology for minimizing the cost. 64% refers that most of the MSME borrowers are first generation entrepreneurs with no business experience and own contribution towards business. This is the only reason which causes slow pace of growth in MSME credit. 46% of credit guarantees scheme is not picking up because the Bank does not have any control over borrowers if it is financed without collateral. 37% of Bank's employee states that they do not prefer lending to MSMEs by bank because of less experience they failed to bring own contribution into business.

RECOMMENDATION:

Earlier due to various restrictions by RBI, banks were restricted in providing credit to the MSMEs as they do not have adequate collateral security but now RBI have introduced some credit schemes without collateral security and banks are advised not to take any collateral security for any loan upto Rs. 10.00 lacs. Formation of CGTMSE was also a step in right direction which guarantees against any loss to Bank and where banks can provide collateral free loans upto Rs. 100.00 lacs. Government and Financial Institutions should promote some courses and training which will teach the new entrepreneurs of urban and rural areas, it should also make that understand that with the help of technology they can achieve cost effectiveness which will help them in making their product more competitive in the market. Government/ RBI must also give attention towards the lengthy paper work of taking loan from the bank. Effective steps should be taken by the government to create entrepreneurial opportunities in urban and rural areas. For the development of the MSME sector several steps should be taken to develop their knowledge and skill and to motivate them by conducting various awareness programs.

CONCLUSION:

We even analyzed that the level at which we surveyed including the employees, branch manager, assistant manager, they do not have authority in sanctioning of proposals pertaining to MSME's or neither have the any formal process to help promote & provide help to MSMEs. We analyzed that these branches did not even have the paper or forms required to to provide any assistance to the enterprises. We would even like to specify that few staff members were not even aware about the various policies & their own processes pertaining to MSME. At the end we would like to say that MSME are the major part of the development and employability generating sector of our economy and there should be awareness about this sector to the economy and especially to the financial institutes and its staff so as to provide adequate & timey finance to this sector.

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Note:

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