

THE TRANSFORMING SCENARIO OF INDIAN BANKING IN RETROSPECT & PROSPECT

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Chapter - 8

PRO-ACTIVENESS OF BANKING SYSTEM TO MSMEs AND ENTREPRENEURSHIP DEVELOPMENT

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ABSTRACT

India has a vibrant MSME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. MSMEs in India have recorded a sustained growth during last five decades. This sector accounts for about 45 per cent of the manufacturing output and over 40 per cent of the national exports of the country. The average growth of MSMEs sector in the last few years has been 8 per cent, whereas for the other industrial sector it has been only 5 per cent. Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government departments, banking sector, financial institutions and corporate sector. Banks are playing a major role in the development of MSME sector by providing nearly 82 per cent of its total financial requirements. At an aggregate level, the banking sector has credit outstanding to MSMEs of approximately Rs.17.4 trillion as on March 31, 2019 in which SCBs account for 90% of the share. In fact, the share of public sector banks has fallen to 55.4% by December 2017 from 61.5% two years ago and the slack has been picked up by Private sector banks and non-banking financial companies (NBFCs) who are aggressively lending to MSMEs

INTRODUCTION

The MSME sector has been considered as a vibrant and dynamic sector in the industrial scenario of India and the sector acts as an engine for the economic growth of the country by means of its contribution towards employment generation, export earnings, production and assisting in satisfying the requirement of medium and large scale industries. Countries like India that are thickly populated and industrially progressive are highly depending on this sector for promotion of employment opportunities for the citizens of the country and attaining the balanced economic and regional growth. The growth of this sector also contributes significantly in the development of entrepreneurial skills among the people, decentralization of ownership, elimination of monopoly power in the market, avoidance of concentration of wealth and power and to ensure the balanced economic and social development of the country.

MSME Act

Enactment of the Micro, Small and Medium Enterprises (MSMEs) Development Act 2006, operative from October 2006 is an important landmark in the development of the sector. Under the Act, enterprises have been categorized broadly into those engaged in (i) Manufacturing, and (ii) providing services. Both the categories have been further classified into Micro, Small and Medium enterprises, based on gross investment in plant and machinery for manufacturing

enterprises, and in equipment in case of enterprises providing or rendering services. According to this act, the definitions of micro, small and medium enterprises include the following:

Table. 1. Definition of Micro, Small and Medium Enterprises

Enterprise	Manufacturing	Service
Micro Enterprise	Upto Rs.25 Lakhs	Up to Rs.10 Lakhs
Small Enterprise	Above Rs.25 Lakhs to 5 Crores	Above Rs.10,00,000 to Rs.2 Crores
Medium Enterprise	Above Rs.5 crores to 10 Crores	Above 2 crores to 5 Crores

SIGNIFICANCE OF MSME SECTOR IN INDIA

India has a vibrant MSME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. In keeping in view its importance, the promotion and development of MSMEs has been an important plan in our policy for industrial development and a well-structured programme of support has been pursued in successive five-year plans. MSMEs in India have recorded a sustained growth during last five decades. The number of MSMEs in India is estimated to be around 13 million while the estimated employment provided by this sector is over 31 million. The MSME sector accounts for about 45 per cent of the manufacturing output and over 40 per cent of the national exports of the country.

Table.2. Contribution of MSMEs in Country's Economy at Current Price
(in Rs. crore)

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
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: Annual Report Ministry of MSME 2017-18

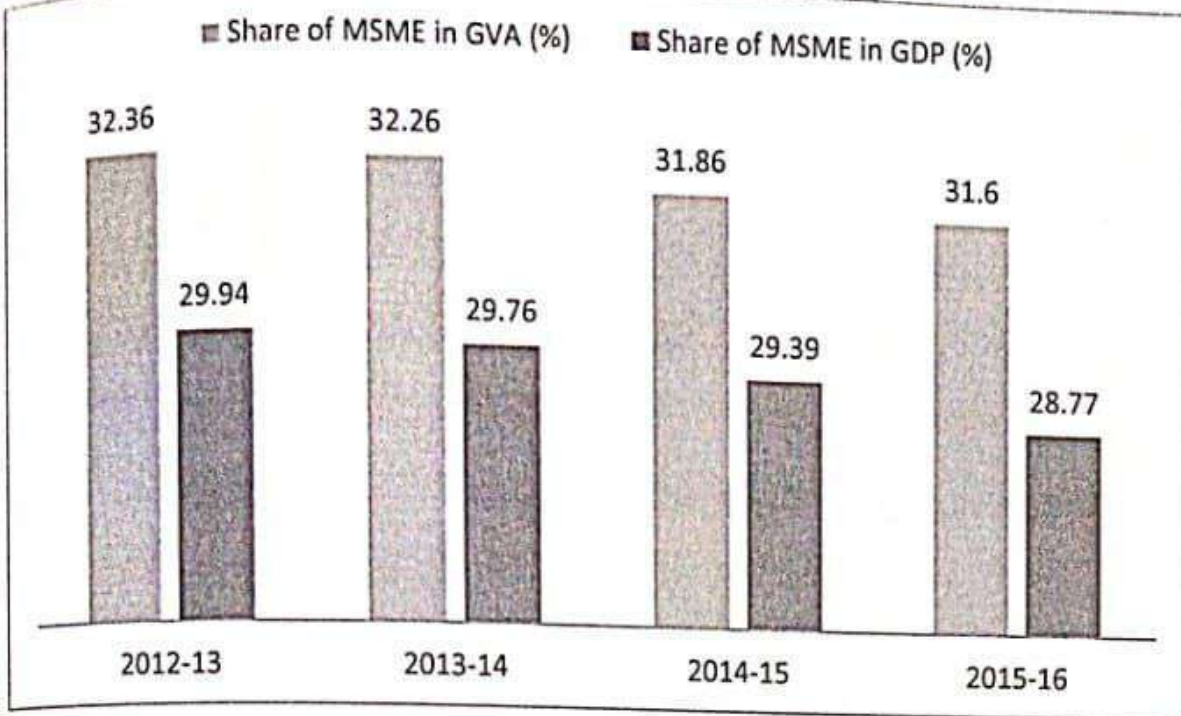


Figure.1. Share of MSMEs in GVA and GDP

The table-2 and figure-1 shows that MSMEs are significantly contributing for the growth of Indian economy. The share of MSMEs in Gross Value Added in the country is around 32 per cent in recent times and the share in countries' GDP is around 30 per cent.

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	32
Trade	108.71	121.64	230.35	35
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

Source: Annual Report of Ministry of MSME
 *Non-captive electricity generation and transmission and distribution by units not registered with the Central Electricity Authority

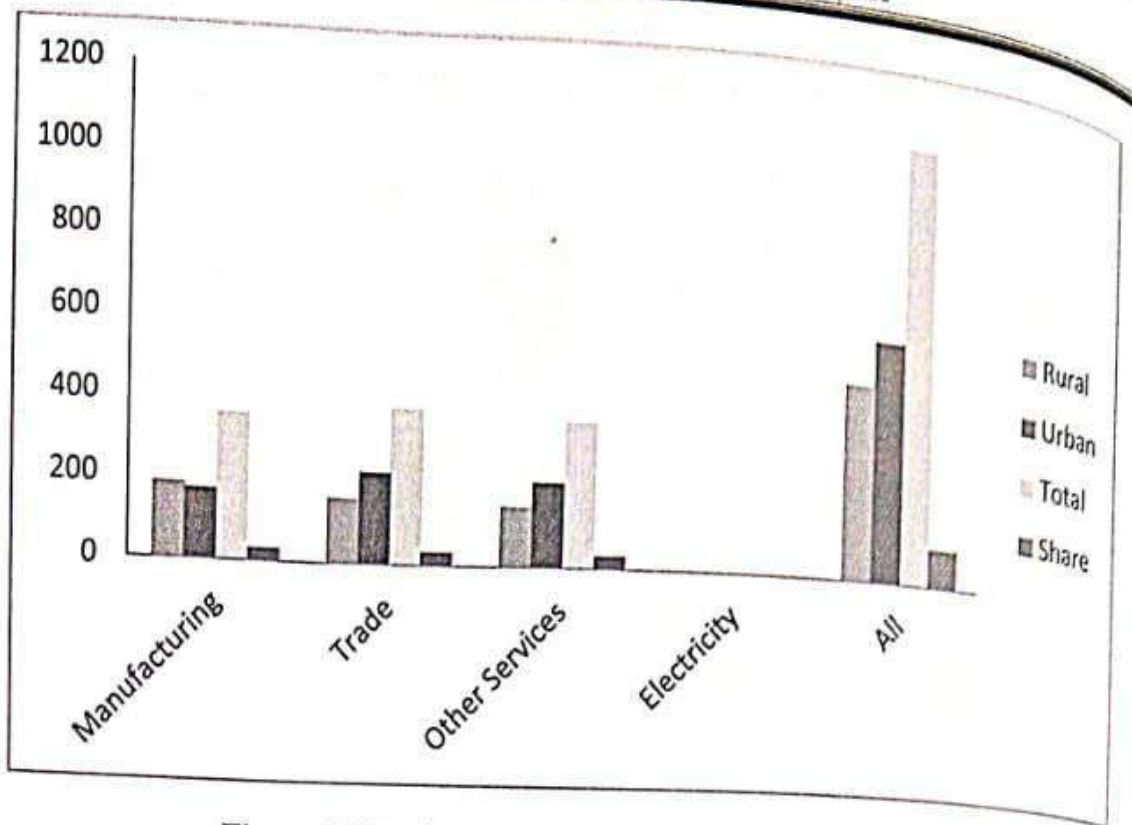


Figure.2. Number of MSMEs category wise (in Lakhs)

The information given in table-3 and figure-2 shows that total number of MSMEs in the country are around 633.88 Lakhs out of which 324.88 Lakhs are situated in rural areas where as 309.1 lakhs are situated urban areas. Out of 633.88 lakh MSME units in the country 32 per cent are involved in Manufacturing Category, 35 per cent are involved in Trade and 33 per cent are involved in Other Services.

MSMEs require low capital to start the business, but create huge employment opportunities. As per the National Sample Survey (NSS) 73rd round conducted in 2015-16 the total employment generated in MSME sector is around 1109.89 lakhs out of which 497.78 lakh employment is generated in rural areas and 612.10 lakhs are generated in urban areas (Table-4 and figure-3).

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
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: National Sample Survey (NSS) 73rd round 2015-16

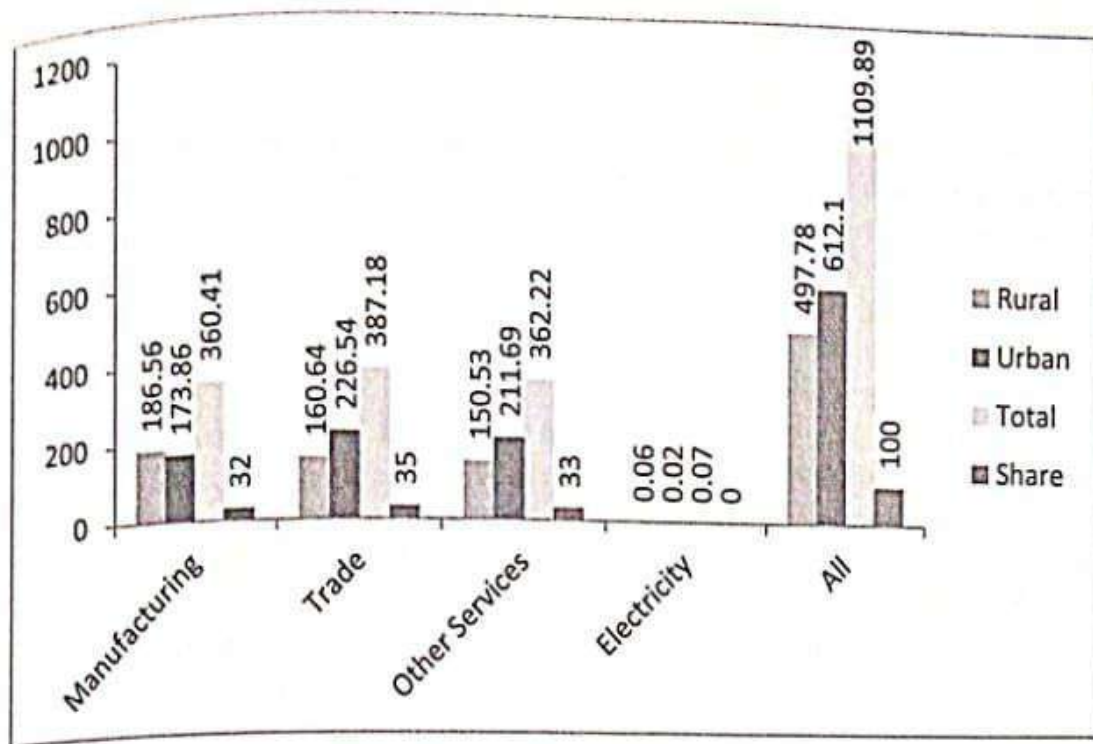


Figure.3. Estimated Employment in MSME Sector (Broad Activity Category Wise)

Trade and commerce category is generating maximum share of employment in MSME sector followed by Other Services with 33 per cent and Manufacturing with 32 per cent respectively. MSMEs sector has performed fairly well in recent times. The growth of MSMEs sector in the last eight years has been more than that of the growth of other industrial sector. The average growth of MSMEs sector in the last few years has been 8 per cent, whereas for the other industrial sector it has been only 5 per cent.

PROBLEMS OF MSMEs

Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government departments, banking sector, financial institutions and corporate sector, which is a handicap in becoming more competitive in the national and international markets and which needs to be taken up for immediate and proper redressal. MSME sector faces a number of problems - absence of adequate and timely banking finance, limited knowledge and non-availability of suitable technology, low production capacity, follow up with various agencies in solving regular activities and lack of interaction with government agencies on various matters.

ROLE OF PUBLIC SECTOR BANKS (PSB) IN DEVELOPING MSMEs

Banks are playing a major role in financing MSMEs in India. Nearly 82 per cent of the total MSME financing is through banks. In addition, among them the major share is of public sector banks i.e. 57 per cent. Thus, it is clear that the most common source of finance for SMEs is Bank Financing. There is number of banks that help in assisting the SMEs for financing. The Main channel used by the MSMEs via banks is Specialized loans by various Banks. The Main

reason for choosing bank loans by SMEs compared to other sources of financing is like venture capital.

The role of Banks, in general, has become very important in the above context. The MSME sector's demands are comprehensively taken care of by the Public sector Banks through several initiatives such as

1. Single Window dispensation.
2. Quick decision with least Turnaround Time through specially constituted MSME Cells, and above all Better service.
3. Cluster-based Schemes are also on the list of the Bank's initiatives.
4. Provision of timely and adequate credit to the MSMEs.
5. Encouraging Technology Up gradation, for better quality and competitiveness of their product(s), and proactively detecting sick and viable units in time so as to nurse them back to health through appropriate re-structuring.
6. Financing of Clusters with adequate and concessional Bank finance on liberal terms in several pockets for specified activities concentrated in these pockets, which would result in reducing transaction cost and greater economies of scale.

INSTITUTIONAL ARRANGEMENT FOR FINANCING MSMEs (Credits to MSME sector from public sector banks, Private Sector banks and other institutional sources)

Access to timely and adequate credit by MSMEs at a reasonable cost is essential for growth of the sector. The institutions lending to MSMEs in India are regulated by Reserve Bank include Scheduled Commercial Banks (Public Sector Banks, Private Sector Banks including Small Finance Banks, Foreign Banks, Co-operative Banks and Regional Rural Banks) and Non-Banking Financial Companies including NBFC- MFIs. In addition to this, Securities and Exchange Board of India (SEBI) regulates the institutions engaged in providing or mediating capital to MSMEs such as SME Exchanges, Angel Investors, Venture Capital and Private Equity. Apex institutions such as SIDBI and MUDRA provide sectoral support and come within the purview of the Central Government.

Table.5. shows that at an aggregate level, the banking sector has credit outstanding to MSMEs of approximately Rs.17.4 trillion as on March 31, 2019. SCBs account for 90% of the share of this, although NBFCs have grown at a healthy rate in recent years. It is understood that it is a myth that public sector banks are the only game in town when it comes to lending to MSMEs. In fact, the share of public sector banks has fallen to 55.4% by December 2017 from 61.5% two years ago. Who has picked up the slack? Private sector banks and non-banking financial companies (NBFCs) are aggressively lending to MSMEs, and have the potential to dethrone public sector lenders as the largest source of funds.

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Table.5. Credit Flow to MSME sector

Year ended	(Amount in Rs Billion)				
	Public Sector Banks	Private Sector Banks	Foreign Banks	Scheduled Commercial Banks	Non-Banking Finance Company
	Amt. O/s	Amt. O/s	Amt. O/s	Amt. O/s	Amt. O/s
March 2014	7583.78	2471.22	344.30	10399.30	85.76
March 2015	8526.89 (12.44%)	2815.48. (13.93%)	367.87 (6.85%)	11710.26 (12.61%)	286.48 (234.05%)
March 2016	8205.48 (-3.77%)	3590.85 (27.54%)	363.73 (-1.13%)	12160.07 (3.84%)	880.13 (207.22%)
March 2017	8289.33 (1.02%)	4309.62 (20.02%)	365.02 (0.35%)	12963.98 (6.61%)	1113.10 (26.47%)
March 2018	8645.98 (4.30%)	4107.60 (-4.69%)	488.81 (33.91%)	13242.39 (2.15%)	1441.40 (29.49%)
March 2019*	9367.24 (8.34%)	5717.04 (39.18%)	691.37 (41.44%)	15775.66 (19.13%)	1622.17 (12.54%)

Source: As reported by Scheduled Commercial Banks to RBI
 Note: Figures in parenthesis indicate Y-o-Y % growth/decline
 * Data for March 2019 is provisional

CONCLUSION

It is understood that it is a myth that public sector banks are the only game in town when it comes to lending to MSMEs. In fact, Private sector banks and Non-Banking Financial Companies (NBFCs) are aggressively lending to MSMEs by passing public sector banks and have the potential to dethrone public sector lenders as the largest source of funds. In the report MSME Pulse, Small Industries Development Bank of India, which facilitates financing for such firms, has said that private sector banks are increasing their market share. According to the report, private sector lenders have a market share of 40% as of December 2017, a 6 percentage points gain in two years. NBFCs have also made big inroads into MSME lending, with some of them focused predominantly on this segment. Therefore, it is unfair to ask the regulator to dilute its norms to enable lenders with shoddy risk management practices to extend credit to MSMEs.

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