

Role Played by Financial Institutions in Development of Indian Micro Small & Medium Enterprises (MSME's)

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Abstract

A major contribution in the growth of economy of all countries is of Micro Small & Medium Enterprises (MSMEs). Apparently, the same contributes to development of Indian economy significantly. Following agriculture, MSMEs have the biggest share in equitable regional development while generating employment opportunities (currently 10 million people) every year. This paper focuses on analyzing the contribution of MSMEs in Indian Economy, role of financial institutions in development of these Indian MSMEs and analyzing challenges faced by Indian MSMEs. Exploratory research design has been used for the same. It is apparent that the present MSMEs could be the MNCs of tomorrow, strengthening the economy. Hence, banks and other financing agencies must take pride for serving such performing assets thereby playing the key role in creation of corporates and MNCs of the oncoming futuristic India as the global hub of Industrial manufacturing. By addressing these challenges government can achieve best of its expectation from MSMEs performance in industrial output, export and most important GDP. MSMEs are best vehicle for inclusive growth to create local demand and consumption. The MSMEs of today will be large corporates and MNCs of tomorrow and hence will be giving strength to economy.

Key Words: MSME (Micro, Small and Medium Enterprises), Economic Growth, MNCs, Employment Opportunities & Financing Agencies.

INTRODUCTION

The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. This sector also plays very important role in socio-economic development of Indian economy on account of their inherent advantages like low capital requirement, high employment generation, and decentralization of industrial activity, utilization of locally available resources and widening of entrepreneurial base. MSMEs has performed

exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification over five decades.

Highlights of the MSME Sector

- Allocation of Rs. 350 crores for the MSMEs in the FY 2019-20 under scheme of Interest Subvention, wherein for GST registered MSMEs @ 2% Interest Subvention, be it fresh or incremental loans.
- Disbursement of loans up to Rs 1 Cr within 59 minutes to MSMEs.
- Relaxation of Local sourcing norms for FDI shall be done.
- No heavy investments needed in infrastructure, digital economy & job creation in MSMEs.

REVIEW OF LITERATURE

A study conducted in 1969 (UNIDO) on the basis of evidence retrieved from numerous developing countries indicated that enterprises with minimal investment per worker display higher productivity of invested capital rather than the more capital-intensive contemporaries.

In a research conducted by **Venkatesh and Muthiah** in 2012, it was found that Small & Medium Enterprises are rapidly increasing in terms of contribution towards the sector's growth. They emphasized that for the economic well-being of the nation, the SME sector must be nurtured.

MSME (2009-10) the main criteria that predominate to define the MSMEs sector are the number of employees, turnover and the balance sheet total.

Mali (1998) observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

METHODOLOGY

The paper focuses on analyzing the contribution of MSMEs in Indian Economy, role of financial institutions in development of Indian MSMEs and analyse various challenges of Indian MSMEs. Researcher has used exploratory research design. For arriving at certain results catering to this paper, secondary data has been collected from existing works and reports have been analyzed. The data compiled in this paper is contributed from Annual reports of MSMEs, RBI, SIDBI and Census of MSME.

MSME - SIGNIFICANT CONTRIBUTION INDIAN ECONOMY

MSMEs in India are continuously gaining importance due to their significant contribution towards key factors of Indian economy. MSME units contribute more than 90% of total industrial units in India. To promote national economy Government is taking several steps to boost manufacturing sector. By formation of heterogeneous institutes for designing of policy and fund allocation by 5-year plans, the government's intention of promoting industrialization can be analyzed. The NMC Council formation by the government suggests techniques for competitiveness enhancement in the manufacturing sector, thereby making the sector globally competitive. Government has announced National Manufacturing Policy for raising the share of manufacturing to 25% of GDP by the year 2022. Make in India announced in September 2014 by New Government aims at to make India a Global Manufacturing hub.

MSME FINANCING STRATEGY

MSMEs require timely and adequate capital infusion through term loans and working capital loans basically in the early and growth stages.

- Ancestral Capital, personal savings, loan from relatives and loan from unregulated markets
- Retained earnings, funding through sale of assets
- Institutional financing from Schedules Commercial Banks
- Venture Capital Funds / Seed Funds

ROLE OF FINANCIAL INSTITUTIONS AND DEVELOPMENT OF MSME'S IN INDIA

Indian MSMEs have proved themselves as key factor for overall economic development. Considering the role of MSMEs government has taken time to time initiatives for development and promotion of the sector. After analysis it is found that Government has made huge investments through five-year plans for product, skill and competitive development of MSME sector. In the county like India where economy is in its developing phase has to give due consideration for key success factor. The same happened to Indian MSMEs which has attracted the attention of policy makers and researchers.

TECHNOLOGICAL UP GRADATION IN MSME SECTOR

The opening up the economy has exposed the MSE sector to global and domestic competition. With a view to enhancing the competitiveness of this sector, the government has taken various measures which are as follows

- a) Assistance to Industry associations/voluntary agencies to set up testing centers.
- b) Field testing stations provide testing services and services for quality up gradation.

- c) The undertaking of 59 clusters in the Integrated Technology Upgradation and Management programme have been done which also includes the National Programme for developing toy industry, Stone industry, Lock industry, Machine Tool industry and hand tool industry, all of which have been taken in a joint effort with UNIDO..
- d) Under the scheme of promoting ISO 9000/14001 Certification, SSI units are given financial support by way of reimbursing 75 percent of their expenditure to obtain certification subject to a maximum of INR 75,000.
- e) Under the credit linked capital subsidy scheme for Technology up gradation (launch in 2000), 15 percent capital subsidy is admissible on the loans up to INR One Crore, advanced by Schedule Commercial Banks/SFCs/NSIC to SSIs for technology up gradation.
- f) Setting up of Biotech Cell in SIDO.

MAJOR CHALLENGES FACED BY MSMEs SECTOR IN INDIA ECONOMY

- Difficulties in obtaining credit, competing with imported products, identifying appropriate technology & technical assistance, investment promotion and maladjusted project preparation and evaluation.
- Inability to offer liberal credit terms in the sale of their products, obscene of management expertise, under capitalization and bureaucratic redtapism and regulations.
- Lack of industrial training & skill formation, quality control & testing facilities, proper market promotion both domestic & export, scientific & industrial research, lack of management & reorganization of small & medium scale enterprises through various schemes and productivity increase through modernization.
- According to a survey of Ministry of MSME, nearly two thirds of small business considers the lack of market information to be a very severe constraint.

CONCLUSION

For the Indian nation, the role towards development of the nation's economy shall be a continuous effort of MSME. The major challenges namely unemployment and poverty are being addressed very appropriately by these enterprises. Through provision of employment in the rural areas, the MSME sector has catered to curb down these challenges. This is resulting in regional development and better distribution of wealth. Worldwide MSMEs are considered as development engine for economy. So policy makers should give due consideration for designing good policies for the sector and equally for policy implementation. So far Financial Institutions have played an important role in support and development of MSMEs, focus should be given for more financial inclusion of MSMEs. Government should act on the recommendations of various committee reports appointed for MSME sector analysis. There are few challenges which are hindering the growth of the sector. By addressing these challenges government can achieve best of its expectation from MSMEs performance in industrial output, export and most important GDP. MSMEs are best vehicle for inclusive growth to create local demand and consumption.

The MSMEs of today will be large corporates and MNCs of tomorrow and hence will be giving strength to economy. So banks and other agencies should take pride while serving MSMEs as they are playing key role formation of such corporates and MNCs of Indian future of global industrial manufacturing hub.

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