



Role of the public sector banks and micro, small and medium enterprises (MSME'S) in India: An overview

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Abstract

MSME needs liberal financial assistance from commercial banks to establish and extend their business operation to meet the global competition. RBI has formulated several policies regarding financing to priority sectors particularly small industries in the country.

Keywords: infrastructural facilities, micro, small and medium enterprise (MSME'S) financial inclusion, entrepreneurial services

Introduction

Growth of industrial development in a country depends on availability of infrastructural facilities and credit facilities offered by the financial institutions particularly commercial banks. The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 per cent of the market, thereby leaving comparatively much smaller shares for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. The value of mobile banking transactions in December 2017 increased four times year-on-year and jumped by 46 per cent over the previous month to Rs 49,029 crore, as per data from the RBI.

Objectives of the study

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.

Methodology

Historical and analytical approaches shall be used to collect the relevant data, facts and materials. So far as method involved in this study is concerned data, facts and material thus collected shall be analysed through historical method.

MSME Sectors

Micro, Small and Medium Enterprise (MSME'S) are recognized as having enormous potential for employment generation and wealth creation in any economy in addition to other immeasurable virtues. Micro, Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing 45 per cent of the industrial output, 40 per cent of exports, 42 million in employment, create one million

jobs every year and produces more than 8000 quality products for the Indian and international markets. The Government of India enacted the Micro, Small and Medium Enterprises Development Act 2006 to provide a policy framework for the development of the MSMEs. The Micro, Small and Medium Enterprises Development Act 2006 groups MSME firms into manufacturing enterprises and service enterprises. A manufacturing firm with investment in plant and machinery not exceeding Rs. 25 lakhs is considered a micro enterprise. Firms with investment in plant and machinery between Rs 25 lakhs and Rs 5 crores are considered a small enterprise, and medium enterprises are those where the investment is in the range of Rs. 5 crores to Rs 10 crores. In the service group, for investment in equipment of less than Rs 10 lakhs, the firm would be in the micro category, if it is between Rs 10 lakhs to Rs 2 crores, then it would fall in the small enterprise category; if investment in equipment is in the range of Rs 2 crores to Rs 5 crores, then it would fall in the medium enterprise category. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors.

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.

1. Financial Problems

The financial problem of MSMEs is the root cause for all the other problems faced by the sector. The small and medium industrialists are generally poor and there are no facilities for cheap credit. They fall into the clutches of money lender who charges very high rates of interest, or else they borrow from the dealers of their goods, who exploit them by completing them to sell their products at very low price. After the nationalization of 14 major Indian Banks in July 1969, the Commercial banks have been providing only a small proportion of MSMEs financial requirements. Credit to the SME sector continues to be non-commensurate with its contribution to the total industrial output. As against the share of the village and MSMEs at 40 per cent in the industrial output, its share in total credit to the industrial sector is only about 30 per cent.

2. Raw Material Problem

This difficulty is experienced in a very pronounced form. The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged, higher prices by suppliers. Difficulty is also experienced in procuring semi-manufactured materials. Financial weakness stands in the way of securing raw materials in bulk in a competitive market.

3. Production Problem

MSME units suffer from inadequate workspace, power, lighting and ventilation, and safety measures etc. These shortcomings have tended endanger the health of workers and have adversely affected the rate of production. Many units are following conventional methods of production. Adoption of modern techniques is either disliked by the entrepreneurs or is not feasible. Wage rates and service conditions of small industries are not attractive to skilled labour.

4. Technological Problem

Today technology is changing at a very fast pace; it becomes difficult for MSMEs to cope up with changing technology. Technology up gradation and the frequent need to renew the equipment has emerged as a big problem.

5. Marketing problem

As marketing is not properly organized, the helpless artisans are completely at the mercy of intermediary. The potential demand for their goods remains under developed. The MSMEs have to face the competitions from large-scale units in marketing their products. It causes damage to the growth and stability of MSMEs. MSMEs cannot afford to spend lavishly for advertisement to promote their sales.

6. Managerial problem

Small-scale industries in our country have suffered from the lack of entrepreneurial ability to develop initiative and undertake risks in the unexplored industrial fields. The inefficiency of management comes first among managerial problems. The entrepreneurial ability of promoters of cottage industries and MSMEs are handicapped by technical

knowhow in the areas of production, finance, accounting and marketing management.

7. Sickness

A serious problem, which is hampering Micro, Small and Medium Sector, has been sickness. Many small units have fallen sick due to one problem or the other. Sickness is caused by two sets of factors, Internal and external factors. High rate of capital gearing, inadequacy of finance, short of raw materials, out-dated plant and machinery, low labour productivity etc are major factors.

Need of the hour

The need of the hour for Indian MSMEs is to upgrade their technology, quality and adopt modern management techniques to keep pace with the changes that are taking place in the global market. Investment would be a prerequisite in these areas to bring about transformation. The availability of adequate credit at affordable cost, thus, becomes critical for Indian MSMEs. SIDBI is the national level principal financial institution for promotion, financing, and development of MSMEs. To empower the MSME Sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the MSMEs, educate and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The MSMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. MSME Chamber of India has decided to start various activities to empower and educate the MSME Sector by organizing various trade promotional activities in India and abroad.

Role of public sector banks (PSB) in developing MSMEs

The origin of banking in India can be traced back to the last decades of the 17th century. The General Bank of India and the Bank of Hindustan, which started in 1786 were the first banks in India. The Reserve Bank of India acts as a centralised body which monitoring any discrepancies and shortcomings in the system.

The central government entered the banking business with the nationalization of the Imperial Bank of India in 1955. A 60 per cent stake was taken by the Reserve Bank of India (RBI) and the new bank was named as the State Bank of India. The seven other state banks became the subsidiaries of the new bank when nationalised on 19 July 1960. The next major nationalisation of banks took place in 1969 when the government of India, nationalised an additional 14 major banks. The total deposits in the banks nationalised in 1969 amounted to 50 crores. This move increased the presence of nationalised banks in India, with 84 per cent of the total branches coming under government control. The next round of nationalisation took place in April 1980. The government nationalised six banks. The total deposits of these banks amounted to around 200 crores. This move led to a further increase in the number of branches in the market, increasing to 91 per cent of the total branch network of the country.

The objectives behind nationalisation is to separate the ownership and control of banks by a few business families, to

prevent the concentration of wealth and economic power, to mobilise savings from masses from all parts of the country and to cater to the needs of the priority sectors. PSBs had pre-conceived basket of products and services made available to the public and they were established and functioned as instruments of social change and have played a pivotal role in developing the Medium, Small scale Enterprise (MSME) sector.

During the fiscal year 2016-17, the PSBs in India achieved 22.44 per cent credit growth, witnessing 35 per cent growth in MSME credit as compared to the 20 per cent target along with robust agricultural credit of more than Rs 4,46,000 crore. The share of outstanding credit to Micro Enterprises vis-à-vis total outstanding credit to MSME sector by PSBs stood at 46.80 per cent as on March 2016 that declined marginally to 46.24 per cent in March 2017 as against the target of 50 per cent for the year 2016-17.

Entrepreneurial services of public sector banks

In recent times, public sector banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their development. They have now entered the challenging field of promoting new small-scale entrepreneurs through entrepreneurship development programmes in their new role as promoters of small-scale sector they have accepted yet another challenging task.

They are now holding Entrepreneurial Development Programme (EDP), in collaboration with specialized institutions such as District Industrial Centre (DIC), Tamil Nadu Industrial and Investment Corporation (TIIC) etc. with a view to identifying entrepreneurs, especially in backward areas and training and monitoring them to start new ventures. Banks are playing a major role in financing MSMEs in India. Nearly 82 per cent of the total SME financing 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 like venture capital.

The role of Banks, in general, has become very important in the above context The MSME sector's demands 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.

Conclusion

The banking system occupies an important place in a nation's economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in an advance country. With the effects of the globalisation, banking sectors become highly competitive and technology based with multidimensional products to the customers and public. Public sectors banks are extremely responsible to provide financial support to industrial sectors not only to generate revenue but also for the development of industries in a particular region in which the banks is located. MSME needs liberal financial assistance from commercial banks to establish and extend their business operation to meet the global competition. RBI has formulated several policies regarding financing to priority sectors particularly small industries in the country.

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